

Building Your Business For Profit

Learn a simple, easy-to-understand method for reviewing your cash flow to ensure profitability.

With Mick Kling, OD & Jay Binkowitz

VISION EXPO

1

Speakers

Mick Kling, OD
Coaching / Speaking / Workshops
Practice Management and Transition Advisor,
Vision Source
Online: www.impactod.com
email: dr.kling@invisioncare.com

Jay Binkowitz
Co-Founder GPN / EDGEPro
Co-Founder & EVP Professional Relations,
Keplr Vision
Industry Coach & Consultant
email: Jay@AskJayB.com

2

Today's Objectives

- 1 The State of the Industry
- 2 Getting a Handle on your Profit and Loss Statement
- 3 What is EBITDA and why does it matter?
- 4 Managing Your Practice for Improvement

3

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The State of the Industry

4

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State of the Industry

22,800 ODs in Independent Settings
\$40 billion industry w/ steady growth of 3-4%

Practice Setting	Percentage
Independent Practices	37%
Commercial Retail	24%
Other Medical	9%
MD Practice	8%
Government	5%
Other	1%

PRACTICE SETTING OPTOMETRISTS

- Independents - 22,800
- Commercial Retail - 9,600
- MD Practice - 3,300
- Other Medical - 2,000
- Government - 1,900
- Other - 400
- **TOTAL - 40,000**

*Source - Horita, Williams & Co 2007

5

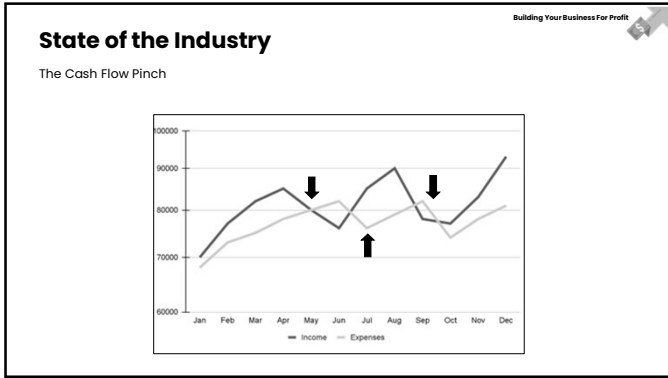
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State of the Industry

Cumulative Survival Rates for Establishments by Birth Year

Source: Bureau of Labor Statistics, Business Employment Dynamics

6



7

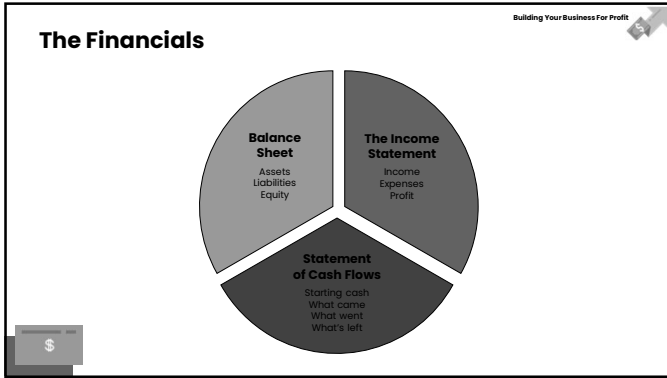
Getting a Handle on Your Profit & Loss Statement

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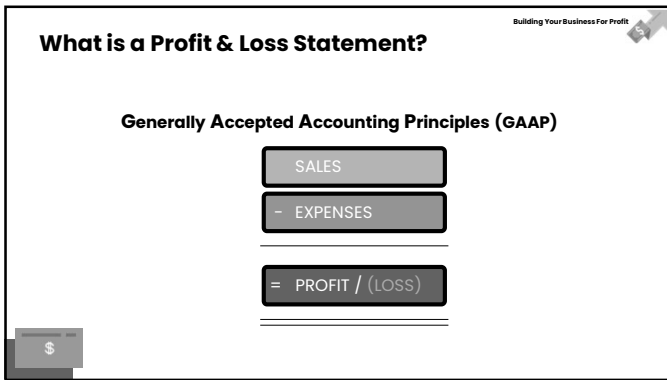
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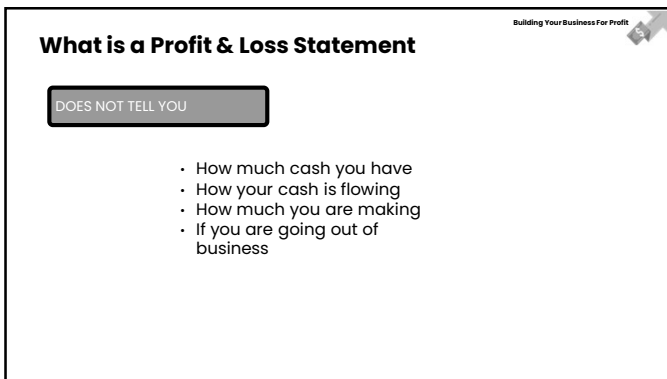
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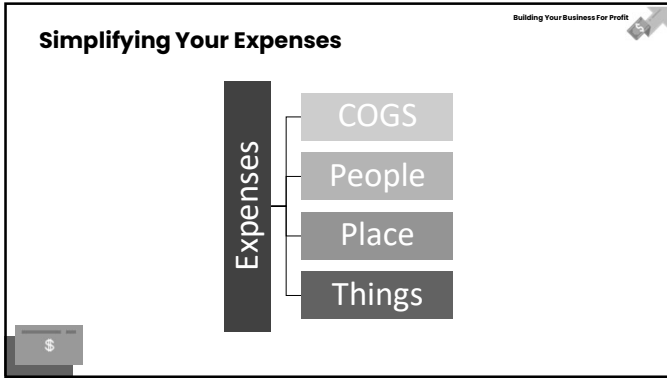
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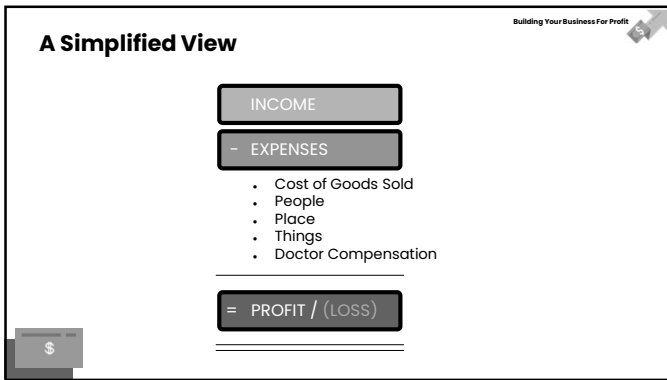
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12



13



14

Profit & Loss Sample

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INCOME		\$1,000,000
- EXPENSES		
Cost of Goods Sold	\$280,000	
GROSS INCOME (Gross Profit)		\$720,000
People	\$250,000	
Place	\$80,000	
Things	\$100,000	
		\$430,000
NET OPERATING INCOME		\$290,000
Doctor Compensation		\$150,000
= PRACTICE NET		\$140,000

← "Optometric Net"?

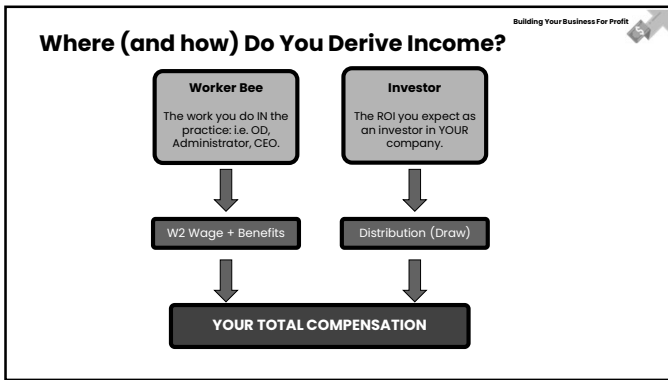
15

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Profit & Loss Sample (continued)

PRACTICE NET	\$140,000
Interest	\$34,000
Depreciation	\$52,000
Amortization	\$8,000
	<u>\$94,000</u>
NET INCOME (TAXABLE)	\$ 46,000

16



17

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Suggested P&L Format

INCOME	INVESTOR COMP.
1000 Revenue	2126 Misc Charges
1010 Professional Services	7100 Credit Card Income
1020 Interest	7160 Knowledge Services
1030 Licenses	7190 IT Network Solutions
1040 Contract Leases	7200 Investments
1050 Other Retail Products	7400 Dues & Licenses
1060 Franchise	7440 Seminars & Education
1070 Insurance	7500 Insurance
4000 COST OF MATERIALS	7520 Insurance - General Liability
4010 Freight	7528 Insurance - Professional Liability
4015 Licenses	7530 Insurance - Disability
4040 Contract Leases	7538 Insurance - Life
4050 Other Retail Products	7539 Meals & Entertainment
4060 Cost of Materials/Purchase	7560 Fuel and Vehicle Supplies
PEOPLE	7568 Office Supplies
5000 Non-Owner Employee Payroll	7640 Outside Services
5100 Employee Salaries	7660 Postage
5105 Employee Profit Sharing	7670 Legal & Accounting
5110 Employee Health Plans	7680 Rent
5120 Worker's Compensation	7688 Internet & Telephone Services
5130 Health & Dental Insurance	7690 Travel & Lodging
5132 Single RA Employee Contribution	7698 Uniforms
5150 Payroll Processing	7700 Misc. Profit/Fees
PLANT	OTHER INCOME
6000 Total Occupancy	8000 Interest Income
6100 Rent	8020 Dividend Income
6150 Property Tax - Real Estate	OWNER'S COMP.
6170 Repairs & Maintenance	8100 Owner's Salary
6190 Security	8130 Owner's Payroll (Inc. D)
6195 Storage	8138 Owner's Salary
6198 Utilities & Essential Services	8139 Owner's Payroll Taxes
THINGS	8139 Health & Dental Insurance
7000 Marketing	8139 Single RA Employee Contribution
7020 Printing	8200 Owner's Owner Payroll
7220 Automobile Expenses	8205 Basic Salary
7240 Automobile Leases	8220 Production Costs/Revol
	8250 Associate Payroll Taxes

18

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<p>INCOME</p> <ul style="list-style-type: none"> 3000 Revenue 3100 Prof Services 3350 Frames 3360 Lenses 3400 Contact Lenses 3500 Other Retail Prod 3600 Refunds 	<p>COST OF GOODS SOLD</p> <ul style="list-style-type: none"> 4000 Cost Of Materials 4031 Prof Services 4032 Frames 4040 Lenses 4050 Contact Lenses 4060 Other Retail Prod 4070 VT & LV Aides 4100 Rebates (?) 	<p>PEOPLE</p> <ul style="list-style-type: none"> 5000 Non-OD Payroll 5100 Salaries 5105 Payroll Taxes 5180 Profit Sharing 5500 Health Benefits 5505 Workers Comp 5520 Simple IRA Contrib 5560 Payroll Processing 	<p>PLACE</p> <ul style="list-style-type: none"> 6000 Occupancy 6680 Rent 6685 Property Taxes 6720 Repair & Maint 6750 Security 6770 Storage 6780 Utilities/Eas. Svcs
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19

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THINGS

<ul style="list-style-type: none"> 7000 Operational Expenses 7200 Marketing 7250 Printing 7260 Automobile Expense 7270 Bank Charges 7330 CC Fees 7340 Technology Services 7345 IT Network Support 7350 Donations 7400 Dues & Licenses 7440 Seminars & Education 7500 Insurance 7510 Insurance Liability 7515 Insurance Disability 7520 Insurance Life 	<ul style="list-style-type: none"> 7550 Meals & Entertainment 7560 Medical / Optical Supplies 7600 Office Supplies 7640 Outside Services 7660 Postage 7670 Legal & Accounting 7810 Taxes 7900 Internet & Phone Services 7910 Travel and Lodging 7940 Uniforms 7950 Alliance Royalty/ Fees
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20

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Suggested P&L Format

<p>OWNERS COMPENSATION</p> <ul style="list-style-type: none"> 8100 Owner OD Payroll (w2) 8101 Salary 8110 Payroll Taxes 8115 Health Benefits 8120 Simple IRA Contribution 	<p>ASSOCIATE DOCTOR COMP</p> <ul style="list-style-type: none"> 8200 Associate OD Payroll 8210 Base Salary 8220 Production Bonus 8230 Payroll Taxes 8240 Health Benefits 8250 Simple IRA Contribution
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21

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What is EBITDA?

22

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What is EBITDA?

EBITDA is a measure of a company's **overall financial performance**

Earnings
Before
Interest
Taxes
Depreciation
Amortization

\$


23

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Calculating EBITDA: Sample Practice


\$1,000,000	Collections <i>(in the bank)</i>
(-) \$280,000	Cost of Goods
(-) \$590,000	Operating Expenses <i>(including all payroll)</i>
(+) \$50,000	Owner Add Backs*
\$180,000	Base EBITDA

24

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Add Backs and Adjustments

25


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- 1 What is an Add Back?
- 2 How much is an Add Back worth?
- 3 Why Add Backs are part of calculating EBITDA
- 4 All Add Backs are not created equal
- 5 Adjustments for salary and FMV (Fair Market Value) rent

Add Backs and Adjustments




26

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What Are Add Backs?

Expenses that the buyer will not have moving forward



Discretionary Expenses:


- > Family on the payroll that checks in once a year
- > Furniture from Costco in your living room
- > Shrimp platters on Sunday
- > Your boat to evaluate vision in motion
- > etc, etc, etc

27

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What Are Add Backs?

- Auto expenses
- Donations
- Continuing Education
- Personal cell phone
- One-time repairs
- Travel and meals
- Depreciation/Amortization
- Interest
- Personal Taxes
- Excessive owner compensation
- Adjustment to staff wages
- Certain legal fees
- Non-recurring income and expenses




28

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How Much is an Add Back Worth?

\$addbacks x multiplier = Value of an addback



29

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Adjustments for Salary

Your own production	\$1,000,000
Fair Market Compensation Rate (15%)	\$150,000
W2 Salary	<u>\$120,000</u>
IMPACT ON EBITDA (Negative)	(\$30,000)

30

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Adjustments for FMV Real Estate

You own your building

Your annual rent payment	\$95,000
Fair Market Value	<u>\$80,000</u>
IMPACT ON EBITDA (Positive)	\$15,000

\$

31

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Putting it All Together

\$180,000	Base EBITDA Calculation
-\$30,000	Salary Adjustment
+\$15,000	FMV Rent Adjustment
<hr/> \$165,000	Final Adjusted EBITDA

National Average Multiple of EBITDA = 6.1

Final Valuation = 6.1 x \$1,006,500

*Average EBITDA nationally from 17% to 21%

32

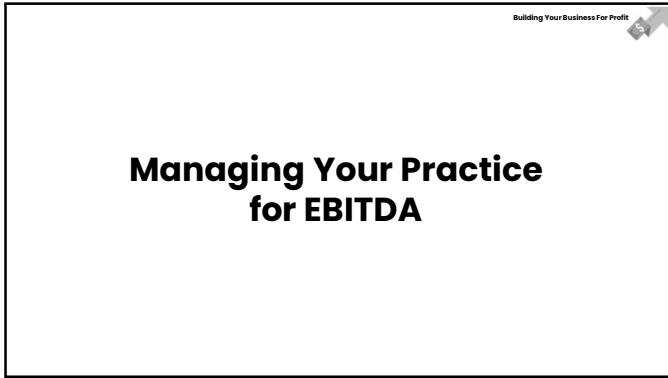
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Why Does the Multiple Matter?

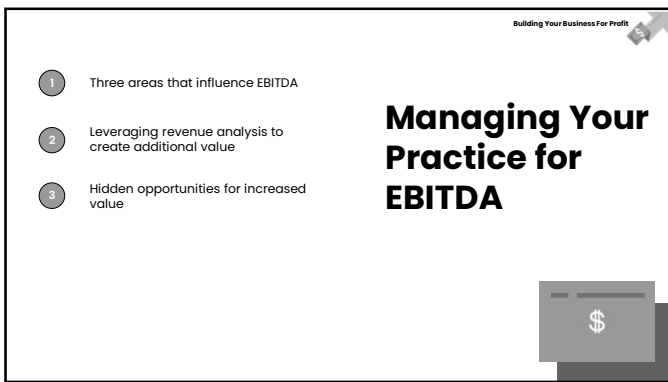
Multiple	Expected ROI	Years to Break Even*
2X	50%	2
3X	33%	3
4X	25%	4
5X	20%	5
6X	16.7%	6
7X	14.3%	7
8X	12.5%	8
9X	11%	9

* Assumes no growth in revenue/profit

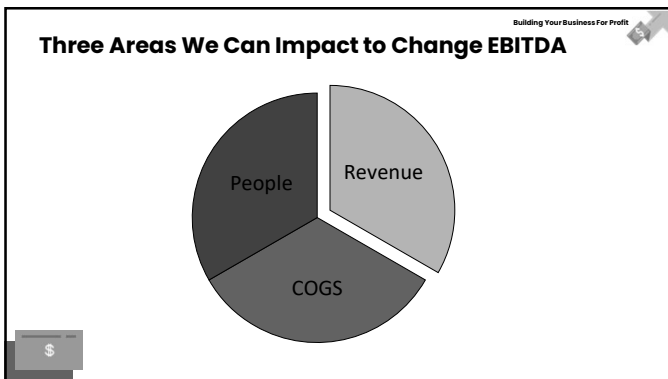
33



34



35



36

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EBITDA Example

INCOME / COLLECTIONS		\$1,000,000	
- EXPENSES			
Cost of Goods Sold	\$280,000		
GROSS INCOME (Gross Profit)		\$720,000	
People (25%)	\$250,000		
Place (8%)	\$80,000		
Things (14%)	<u>\$140,000</u>		
		\$470,000	
NET OPERATING INCOME		\$250,000	
Doctor Compensation		<u>\$120,000</u>	
= NET INCOME		\$130,000	

37

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EBITDA Example (continued)

NET INCOME		\$130,000	
Owner Add Backs	+\$50,000		
BASE EBITDA		\$180,000	
Salary + FM Rent Adjustment	-\$15,000		
FINAL ADJUSTED EBITDA		\$165,000	
		x 6.1	
		<u>\$1,006,500</u>	practice value

38

		Increase Revenue (10%)	Reduce COGS (25%)	Reduce People (22%)	Do All Three
INCOME/COLLECTIONS	\$1,000,000	\$1,100,000	\$1,000,000	\$1,000,000	\$1,100,000
COGS	\$280,000	\$308,000	\$250,000	\$280,000	\$275,000
People	\$250,000	\$250,000	\$250,000	\$220,000	\$242,000
Place	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
Things	\$140,000	\$140,000	\$140,000	\$140,000	\$140,000
OD Compensation	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000
NET INCOME	\$130,000	\$202,000	\$160,000	\$160,000	\$243,000
Add Backs	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
BASE EBITDA	\$180,000	\$252,000	\$210,000	\$210,000	\$293,000
Salary Adjustment	-\$30,000	-\$30,000	-\$30,000	-\$30,000	-\$30,000
Rent Adjustment	+\$15,000	+\$15,000	+\$15,000	+\$15,000	+\$15,000
FINAL ADJUSTED EBITDA	\$165,000	\$237,000	\$195,000	\$195,000	\$278,000
Multiple	6.1	6.1	6.1	6.1	6.1
VALUE*	\$1,006,500	\$1,445,700	\$1,189,500	\$1,189,500	\$1,695,800

* For illustration purposes only. Practice value based on many factors not considered here.

39

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Speakers



Jay Binkowitz
Co-Founder GPH / EDGEPro
Co-Founder & EVP Professional Relations,
Kegle Vision
Industry Coach & Consultant
email: Jay@AskJayB.com



Mick Kling, OD
Coaching / Speaking / Workshops
Practice Management and Transition Advisor,
Vision Source
Online: www.impactod.com
email: dr.kling@invisioncare.com
