



# VALUING YOUR PRIVATE PRACTICE

IS THE VALUE OF YOUR PRACTICE THE SAME TODAY AS IT WAS PRIOR TO COVID-19?

# Determining the value of your practice

- **The Quantitative and Qualitative Components of Your Practice's Valuation:**
  - 1. Historical EBITDA – A Quantitative Earnings Measure
  - 2. Market Multiple – A Qualitative Measure of Value
  - 3. Your Practice's Value – Bringing It All Together
- **The Impact of COVID-19 on Your Practice's Value:**
  - How Has Upstream's Valuation Methods Changed as a Result of the Pandemic?
- **Where Does Your Practice Go From Here? There's Hope in These Times of Uncertainty:**
  - A Focus on Culture and Caring
  - Does a Partnership Make Sense For You and Your Practice
  - Growth and Expansion in a Time of Uncertainty

# The Qualitative & Quantitative components of Your practice's value

- While the valuation of a practice takes into consideration many variables, it is primarily dependent on 2 major components:
  - 1. Historical EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
  - 2. Market Multiple

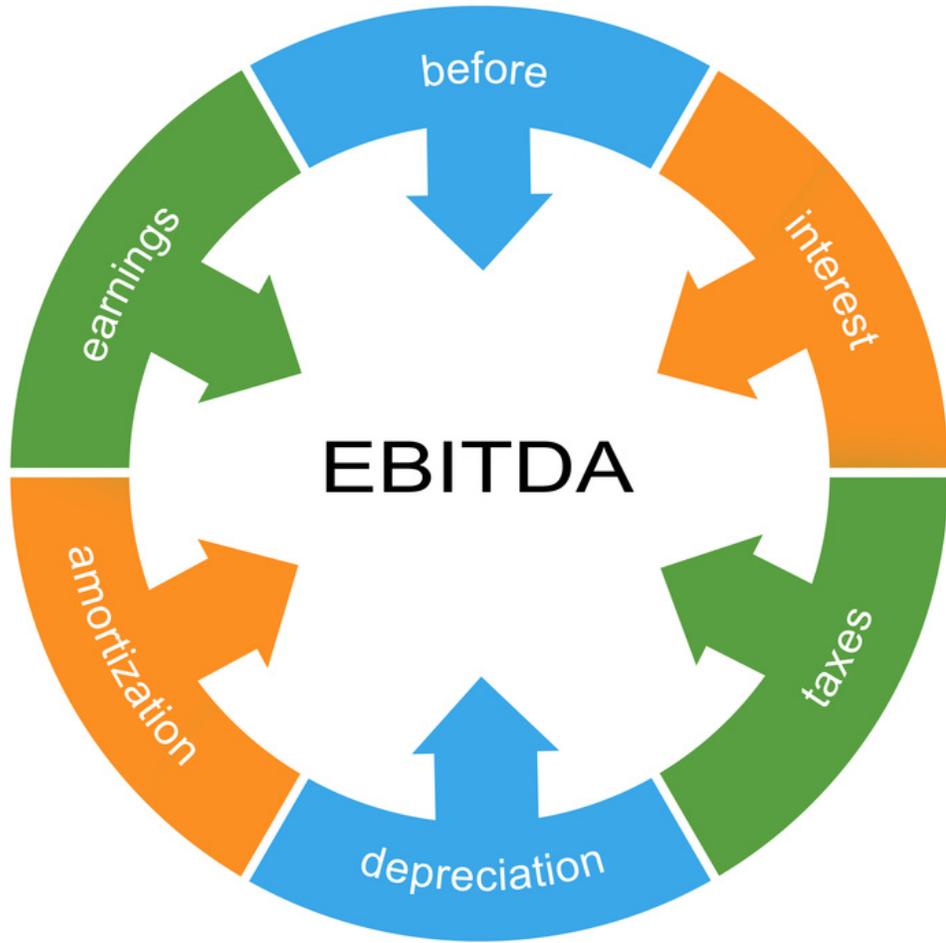
1. **EBITDA** – A Quantitative Measure



2. **Market Multiple** – A Qualitative Expression



# EBITDA: A Quantitative Measure



- **EBITDA** measures a company's financial performance before accounting for certain non-operational (i.e., interest and taxes) and non-cash (i.e., depreciation and amortization) expenses.
- For purposes of valuation, a company's financial performance (as measured by **EBITDA**) is viewed over a period of 12 months. This can be a calendar year, a fiscal year or the most recent 12-month period (also known as the "LTM").

# EBITDA: A Quantitative Measure

There are two (2) forms of EBITDA:  
“Reported” vs. “Adjusted”

- **Reported EBITDA** is simply the reported earnings of the financial statements before interest, taxes, depreciation and amortization.
- **Adjusted EBITDA** is essentially “Reported EBITDA” adjusted to account for any and all non-recurring and/or unusual revenue and/or expense items flowing through the financial statements.

**Adjusted EBITDA** is the earnings measure to which a market multiple is applied when determining the Enterprise Value of a company.

- Enterprise Value (EV) is the measure of a company’s entire market value...not just its equity value. EV is the effective cost of purchasing a company.



# Market Multiple: A Qualitative EXPRESSION

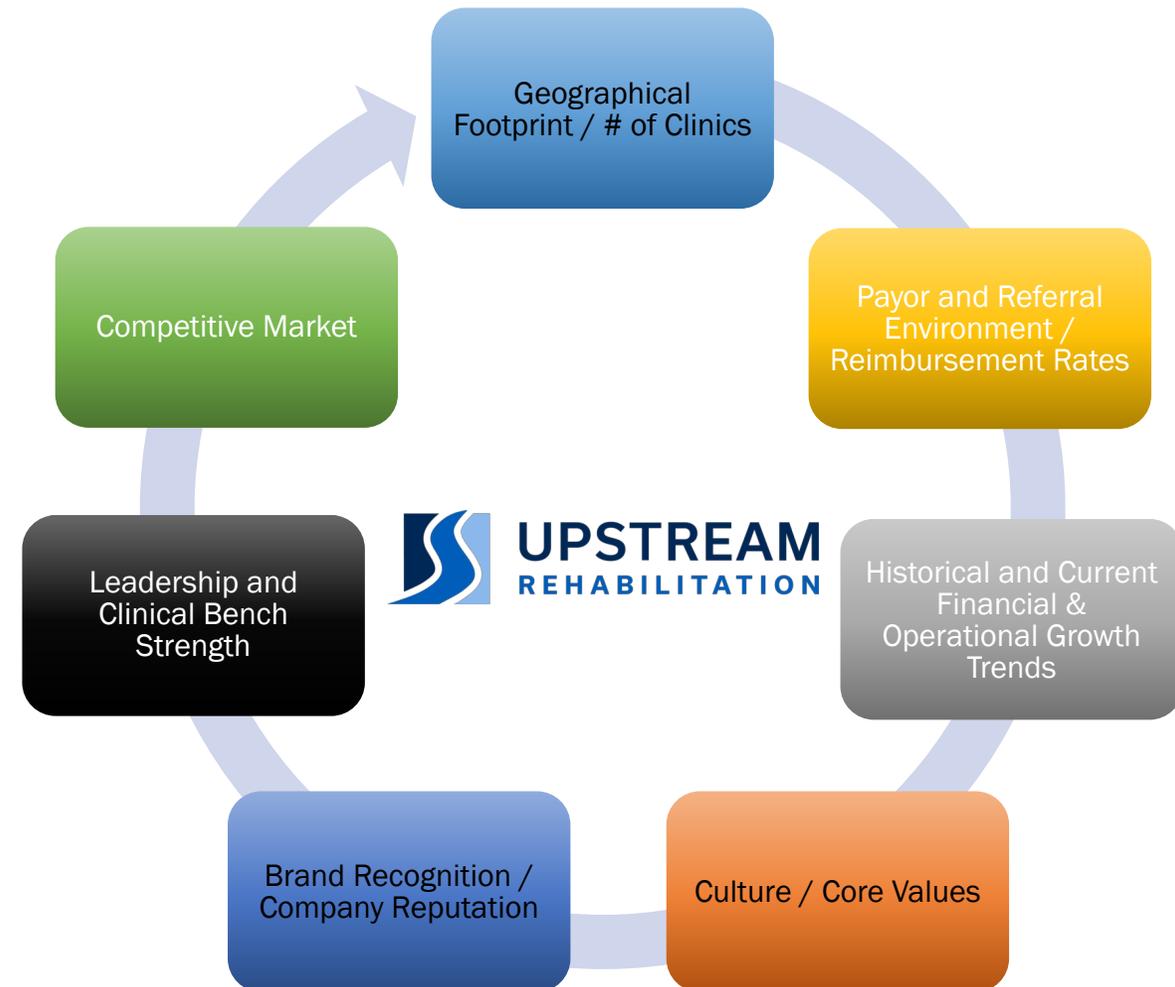


- A **Market Multiple** (or, “**Multiple**”) is a qualitative indicator (or expression) of value. Ultimately, the **Multiple** is a subjective measure that accounts for the buyer’s perceptions of the target company and the environment in which it operates.
- The **Multiple’s** primary role in valuation is to account for the intangible components of the company and its environment that are not readily captured in the financial statements and/or operational metrics of the practice.
  - The practice’s perceived strengths are recognized as “premiums” to the **Multiple** whereas perceived weaknesses are recognized as “discounts”.

# Market Multiple: A Qualitative EXPRESSION

## Components of the **Market Multiple**

- **Geographical footprint and number of clinics.** How wide/expansive is the practice's footprint? What expansion opportunities exist?
- **Payor and referral environment.** Does the practice have a diversified payor mix? A diversified referral mix? Is the average reimbursement rate attractive?
- **Culture and core values.** Are the practice's core values in line with Upstream's?
- **Leadership and clinical bench strength.** Do the owners/leadership team of the company work and communicate well with each other and the rest of practice's clinical and administrative associates?
- **Brand recognition and company reputation.** What do patients, referral sources and employees say about the company and its brand?
- **Market competition.** How concentrated/fragmented is the practice's market?



# YOUR practice's value: Bringing it all together

- Upon considering the tangible (Financial) and intangible (Market) components of the practice, the **Market Multiple** (as developed by the buyer) is applied to the company's **Adjusted EBITDA** to determine the practice's **Enterprise Value (EV)**, or the total value of the business:

1. **Adjusted EBITDA** – A Quantitative Measure



2. **Market Multiple** – A Qualitative Expression



3. **EV** – Enterprise Value



*An economic measure reflecting the market value of a business.*



# UPSTREAM'S Valuation methodology:

## THE IMPACT OF COVID-19

*The negative impact the pandemic continues to have on the Physical Therapy industry (albeit less today than earlier in the year) has forced many private practice owners to adopt new (and, at times, unpleasant) business strategies in an effort to survive in this new environment. Like these private practices, Upstream was forced to adapt as well. Our own experiences through this crisis have led to a shift in how we examine the current operations of outpatient rehabilitation practices across the country and our approach to valuing them.*



While it's important to understand what kind of impact the pandemic has had on a practice's financial and operational performances, our valuation efforts have been restructured to place more weight on a practice's pre-COVID performance.



In markets where recovery is slower, we've adopted supplemental "incentive" and "earn-out" opportunities to ensure practice owners receive full value and are not penalized by the continuing effects of the pandemic.



A greater emphasis is being placed on the intangible qualities of a practice, including: effective and engaged leadership, clinical bench strength and team-oriented culture.



In addition to the intangible qualities of the practice, we're also taking a closer look at the leadership team's recent efforts and ability to get the practice back to its pre-COVID performance.

# Where Does Your Practice Go From Here?

## Upstream's **DEVELOPMENT FOCUS:**

Upstream is looking for partners who have a desire to grow and expand their existing footprint.

Upstream is looking to partner with owners who have cultivated a similar culture in their practice.

Upstream is looking for partners with strong patient and referral relationships and brand recognition.

## Upstream's **PARTNERSHIP/ACQUISITION MODEL:**

### Partnership

- Practice owners who want to expand their business but find themselves constrained by the administrative burdens associated with the daily operations of the practice - can monetize a portion of your equity while maintaining an ownership position to capitalize on future growth.

### 100% Acquisition

- Practice owners who wish to exit and monetize 100% of their ownership position in the business, whatever the reason may be.

**\*Upstream's commitment is to work with you to find a solution that fits your unique clinical and business needs\***



# PRACTICE VALUATION

What is the value of your practice?