**Seller Beware!**

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*Could the offer to buy your optometry practice be too good to be true?*

**An Increase In Practice Sales**

Over the past two years many optometrists have shown an interest in selling their private practices, and during that same period of time the interest in buying optometry practices has increased as well.

Recently there has been an increased interest in buying optometry practices among entities I’ll refer to as “aggregators.” I don’t need to name them here, because you know who they are in your area.

While the “aggregators” buying optometry practices may vary by region, their business models are often very similar, if not the same. “Aggregators” buy an optometry practice, hire the selling optometrist to do what they’ve always done, in the practice they built, and they all live happily ever after. Maybe.

On the surface, these “aggregator” practice purchases may seem like a great deal, learning the details of the transaction might change your mind.

**Accepting Financial Risk**

Sellers often agree to accept a down payment in cash and finance the balance of the sale price of the practice for the “aggregator.”

In some cases the “aggregator” uses a financial instrument referred to as a “balloon note,” or in other words a loan that doesn’t fully amortize over the term of the loan, thereby leaving a large balance due at maturity. As a result, the final payment is referred to as the “balloon payment” because of its large size. The advantage of the balloon note for the “aggregator” is a deferred capital requirement for the “aggregator” as the loan requires de minimus (typically interest only) or the minimum installment payments during its term.  In fact, most of the repayment is deferred until the ultimate maturity date of the note.

The risk with the “balloon note” for the selling optometrist is that the borrower must be self-disciplined in preparing to pay the large single payment that ultimately gives the seller the bulk of their money.

And what if the “aggregator” has many “balloon notes” to pay in a relatively short period of time? In an effort to save the business, what happens if the “aggregator” must sell some assets, i.e. practices, in order to raise the cash to make the required balloon payments? What if your practice is the one being sold? Will the new owner want to continue your employment? Will you want to work for the new owner?

**Warning Sign**

In many cases, balloon notes are used prior to or following some significant cash flow event. In small businesses, the use of balloon notes may indicate a level of spending that the business cash flow can’t support. Unfortunately, many borrowers seeking balloon notes are merely delaying an inevitable failure, or setting themselves up for one.

**What if?**

And what happens if the “aggregator” buying a practice becomes insolvent and declares bankruptcy?

Here’s the bad news. The seller, that was so happy to be an employee is perhaps out of a job. The payments the “aggregator” has been making every month or quarter stop, and the balance of what they owe to the seller is settled with guidance from the bankruptcy court under the watchful eye of a court appointed trustee, many times for pennies on the dollar. Worse yet, the optometrist that sold the practice may have to buy their practice back in order to remain employed.

Even worse, it’ll all be resolved in a few years.

**It Does Happen**

It occurred as recently as June 20, 2014 when according to PRNewswire, MacKeyer Holdings, LLC and its affiliate American Optical Services, LLC (AOS) with over 80 optical retail, optometry, and ophthalmology locations in 14 states filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code in order to wind down and ultimately liquidate the company.

**Protect Yourself**

Most optometrists sell one practice in their lifetime, and nothing they’ve learned in school, or experienced in practice prepares them for the sale.

The sale of a private optometry practice is not an event, it’s a process, and the process, if completed correctly, involves more time spent planning and preparing than in execution. Most will agree that to maximize the value of a practice prior to appraisal and sale that it takes two to three years to prepare and in that time you will have time to identify a qualified buyer that will pay rather than *promise to pay*.

**Vision Source® Resources**

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