

FOR PLASTIC SURGEONS

TREAT YOUR MEDICAL AND SPA BUSINESS TO A FINANCIAL FACELIFT

A MULTI-DIMENSIONAL APPROACH TO BUILDING PRACTICE VALUE





A Paper addressing the reasons why Plastic Surgeons should consider separating their Clinical Practice from Spa Services and the value it creates.

Engaging an innovative team of financial professionals allows our clients to reduce their tax burden, cut costs, retain more earnings, address the exit and succession concerns of the practice, and provide for the retirement plans of the partners and employees. The arrangement and leverage of a dedicated health care centric multi-specialty advisory team, provides not only a financial return, but also a return on efficiency, best practices, and morale.

For most of our Plastic Surgeons and their businesses, revenue typically comes from four sources: clinical patient care, an ambulatory surgery center (ASC), spa services, and real estate income.

When we see a large aggregate amount of revenue being generated from multiple profit centers, there are a number of possible planning strategies that can be incorporated to create better measurement and greater operating efficiencies.

The primary goals are to increase brand loyalty, revenue, and profitability; while at the same time, assess the areas that most commonly lead to an erosion of wealth of the partners. So, what are the common areas that need to be addressed? Furthermore, how are these related to the topic of this paper?

Spa Services

We define spa services as any non-surgical services. Some spa services may not even be considered health care services and in many states can be delivered via non-MD professionals such as Nurse Practitioners (APRN's), Registered Nurses (RN), Physician Assistants (PA's), Aesthetic Specialists or Medical Assistants. Treatments can include Age Management, Body Treatments, Botox, Chemical Peels, Coolsculpting, Dermal Fillers, Dysport, hCG Weight Loss, IPL Photofacial, Kybella, Laser Tattoo Removal, Laser Hair Removal, Make-up Treatments, Massage Treatments, Microblading, Microdermabrasion, Microneedling, Spider Veins, Skin Rejuvenation and Peels, vIva Hydration, and Waxing Treatments.

Your Spa is a business with a brand name. It has revenue and more importantly, recurring revenue. Much of which may be generated by non-physicians. Therefore, it more closely resembles passive income than typical surgical income directly related to the efforts of the practice physicians. Despite the clear difference between surgical services and spa services, many practices treat both types of services the same.

Accounting and Tax Planning

When we mention accounting, we focus on measurement. Without measurement there can be no management. There are two different forms of measurement. Profit & Loss measurement (current practice financial health) and Balance Sheet (historical practice financial health) measurement. The Spa as a separate profit center can be measured differently from your Clinic and your ASC and accordingly builds its own value proposition.

The Spa has its own set of specific expenses, personnel, and items that correlate to a particular origin of revenue (examples: Sculpting, Botox, Laser, Facials, etc.). Measurement is key for employee incentive pay and pay for performance programs. Spas are also more inventory specific and can use an accrual methodology of accounting. Medical/Clinical services typically use a cash basis method. We consistently see the Spa commingled with Clinical on a Cash Methodology, which may be less than optimal for tracking the profitability of spa services. Tracking spa services on a cash basis will likely lead to a false sense of the profitability of the practice, which, in turn may lead to faulty decision-making in terms of investing in new equipment and technology as well as staffing.

Banking and Financing

Here we are looking at primarily investors and banking relationships. With a separate Spa Business, one can secure investors or private equity from a third party (in many states, owners of a Spa need not be a licensed Physician). By separating your Spa Business from your other entities, it can be treated like any other business-sourcing capital or planning expansion. We often see firsthand that lending institutions are seeking out these types of investments. Traditional debt financing is always popular and a Spa Business opens another door. Private Equity and Private Investors can now be offered ownership interests without debt service as an alternative. A separate and independent Spa Business is subject to less restrictions of ownership, banking, and financing. These lower restrictions increase the number of potential



investors/purchasers, making the Spa Business more valuable on a dollar-for-dollar EBITDA basis than many traditional surgical practices.

Asset Protection

For starters, we assume all our readers and clients have Medical Malpractice coverages and proper liability coverages either via third party, self-insurance or a captive insurance arrangement. What is important here is the separation of liability. For example, if a plaintiff sues the practice for damage to a facial nerve during a surgical procedure, the Spa Business, inclusive of its revenues, is exposed to the aggregate liability if the business is commingled with the surgical practice. By splitting and dividing the two services (Surgical and Spa) a judgment against the more vulnerable surgical practice generally will not affect the Spa Business and vice versa. If our Physician clients have and own multiple revenue streams that don't constitute the business of medicine, we have them move those services to unrelated entities. Think Real Estate. Why have you been advised to own your income producing Real Estate in an unrelated LLC from your primary clinical business? The reason is primarily to detach the real estate from the liability of the practice.

Estate and Succession Planning

It is possible to sell your clinic vs your ASC vs your commercial real estate vs ... your Spa. For those approaching retirement from a clinical practice, which assets have the highest multiple and potential return? Those that produce recurring revenue such as Real Estate, ASC, and Spa Business. And for those considering purchasing a practice or buying-into a partnership, we promote the idea of knowing exactly what you are purchasing and why. Physicians both experienced and new can negotiate each aspect of their partnership and possibly choose appropriately to their style. Matching a buyer and seller to a Spa Business may be easier than finding a physician to purchase an existing clinical practice.

Financial Planning and Practice Management

In business, a financial forecasting of annual income and expenses is common-place. From here, capital budgets and personal budgets are created. Revenue cycle management is a term frequently used in health care to include all the administrative and clinical functions that contribute to the capture, management, and collection of patient service revenue. MSO's (Management Service Organizations) exist to facilitate and expedite this service. Separating Clinical revenue management from Ambulatory Surgical Center revenue management, from Spa Service revenue management can simplify your life and lower operating expenses. Some of our clients prefer to keep clinical management in house and outsource the Spa, or vice versa - all lifestyle preference. The details of these options are beyond the scope of this paper. The take away is choice and options for your management aptitude.

There may be additional wealth accumulation, retirement planning, tax reduction, buy-sell, and employee benefits available via a multiple entity structure. Work with your Board of Advisors and inform them of your particular fact pattern. It is best if they are experienced in the business of medicine. Navigating fraud and abuse compliance and other health care law nuances, accounting and tax, and financial products specific to the health care space, is of particular relevance.

Conclusion

Multi-dimensional approach. Spa LLC offers liability protection, ownership opportunity, creative finance, wealth efficiency, and exit and succession planning strategy to name just a few benefits. There are many moving parts that require professionals with health care experience. For those of you creating a "Board of Advisors," and for those seeking a second opinion, contact any of the authors for a complimentary consultation, or greater details on any of the content present.



FOR MORE INFORMATION CONTACT:



MARC LION CPA, CFP

PARTNER

ENTREPRENEURIAL SERVICES GROUP

MAZARS USA LLP

60 CROSSWAYS PARK DR. WEST

WOODBURY, NY 11797

+1 516.620.8722

MARC.LION@MAZARSUSA.COM

WWW.MAZARSUSA.COM



MICHAEL BERRY, CHFC

MANAGING MEMBER

MSF COMPANIES

154 BRUSHY HILL ROAD

NEWTON, CT 06470

+1 855.449.7100

MBERRY@MSF-ADVISORS.COM

WWW.MSF-ADVISORS.COM



DANIEL B. FRIER, ESQ.

FOUNDING MEMBER

FRIER & LEVITT, LLC

84 BLOOMFIELD AVENUE

PINE BROOK, NJ 07058

+1 973.852.8352

DBFRIER@FRIERLEVITT.COM

WWW.FRIERLEVITT.COM

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