

EBITDA multiples for autism treatment practices and pediatric therapy practices (OT, PT, ST)



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We are frequently asked by sellers what are the EBITDA multiples for autism practices and for pediatric therapy practices. In this article we explain how to use this metric and provide some information about the multiples we see today in the marketplace. Finally, we argue that EBITDA multiples are only one indicator to value a pediatric therapy business. There is a more precise method.

In this article, a pediatric therapy business is meant to be a professional practice that provides treatment for several children diagnoses such as autism spectrum disorders, developmental delays, prematurity, Down Syndrome, sensory processing disorders, cerebral palsy, language delays/articulation delays among others. These practices provide services such as applied behavior analysis – ABA, occupational therapy (OT), speech therapy (ST), and physical therapy (PT).

What is an EBITDA multiple and how it is calculated?

The EBITDA multiple is an indicator used to value businesses. It is calculated as the average of the ratio of Enterprise Value to EBITDA.

What is Enterprise Value?

Enterprise Value is defined as the market value of equity (e.g. stock or membership interests) plus market value of financial debt.

What is EBITDA?

EBITDA means Earnings Before Interest, Taxes, Depreciation, and Amortizations. It is a financial measure calculated with information found in the Income Statement of any pediatric therapy business. It is widely used because it is a rough approximation to the cash flow generated by the practice in a period of time.

What taxes are included in the "T" of EBITDA? What interest is included in the "I" of EBITDA?

The taxes refer only to income taxes (state and federal).

Typically, the interest is related to any loan from banks, other financial institutions, and even loans from shareholders.

What EBITDA to calculate?

Typically, the EBITDA multiple is calculated for the trailing last twelve months of operations at the date of the valuation.

In the case of autism practices and other pediatric therapy practices, to apply this methodology correctly, the EBITDA should be adjusted by non-recurrent income and expense items, possibly by the owner's salaries and benefits, leases, among others.

Firm Overview

Mergium Advisors specializes in selling behavioral practices. We also do capital raising, and related advisory services (including business valuations) in healthcare services and other sectors.

Focus

- Behavioral Health Companies - Applied Behavioral Analysis practices
- Physical Therapy, Occupational Therapy, and Speech Therapy practices
- Others

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What are the EBITDA multiples of pediatric therapy practices and ABA practices today?

There is no simple answer for this. Multiples depend on the practice specifics such as cash flow margins and therefore cost structure (particularly payroll), size, infrastructure, buyer “appetite” for the practice, management quality, the quality of clinical care, strength of back office, quality of staff, brand recognition, contracts in place, staff turnaround, mix of different therapies, etc.

Today, for very small ST, PT, and OT practices we see EBITDA multiples as low as 3x and as high as 6x. EBITDA for very small ABA practices can be as low as 6x with the multiple extending with the size of the practice. Multiples for larger ABA practices and platform practices extend into the teens.

What are the main pitfalls of using EBITDA multiples to value autism practices or other pediatric therapy practices?

First, inconsistencies might result from the set of companies used to calculate the multiple because these companies might have different risks (and different debt levels) and rates of growth in their cash flows. Also, multiples reflect the “mood” of the market and the “appetite” of buyers to acquire those practices. This might lead to multiples that are too high or too low.

Particularly, the issue of growth is crucial. Autism practices growing more than others in terms of revenue and cash flows should command higher multiples.

Therefore, EBITDA multiples should be only one of the valuation methodologies to be used.

Is there a more precise method than EBITDA multiples to calculate the value of a pediatric therapy practice?

Yes. The method that captures the equity value is the Discounted Cash Flow method. It is based on the yearly projection of the practice’s future cash flows, balance sheets, and income statements for the next few years. It is critical in this methodology, to accurately estimate the discount rates used to calculate the present value of the future cash flows. These discount rates will depend on the financing aspects of the practice (bank debt and shareholders debt), changes of debt levels through time, the practice size (size premium) and the required rate of return on the owner’s equity capital. This method captures all the strengths and weaknesses of the practice, as well as all of its intangible assets (brand, patients list, payors contracts, branding, etc.). This present value of cash flows is adjusted by excess cash flows (cash flows above the normal levels for the practice’s operation), the market value of non-operational assets, financial debt, and hidden liabilities, among others.

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Mergium specializes in the sale of autism treatment practices and pediatric therapy practices in general to large national and regional practices, strategic buyers, and platform companies of private equity forms.