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SELLING A MEDICAL PRACTICE: IMPROVING OUTCOMES FOR PRACTICE OWNERS



As an owner in a successful privately held medical practice, you are likely aware of colleagues in other practices merging with larger groups or being acquired by private equity buyers.

Should you consider doing the same?

Mergers and sales of medical practices can be very complex, so understanding the overall process and potential benefits are critical to answering this question. In this paper, we aim to demystify the process, providing an overview of the market and identifying key strategies to increase wealth and achieve financial goals. In the process, we address various questions that practice owners often have, including:

- Why are sales of medical practices so prevalent now?
- How are deals structured?
- Who are the buyers and how do their offers differ?
- What should you do if you receive an offer for your practice?
- How can you increase the value of your practice?
- How do you build and protect wealth beyond the practice?

WHY ARE SALES OF MEDICAL PRACTICES CURRENTLY SO PREVALENT?

| Practices | Practice Owners | Private Equity-Backed Funds |
|--|--|--|
| Seek to improve their reimbursement rates, cost structure, and efficiency through mergers and by utilizing Management Service Organizations (MSOs) and Dental Service Organizations (DSOs) | Want to focus on patient care instead of management oversight | Are aggressively developing platforms across the country to build synergies and market share |
| Wish to provide better and more comprehensive services to patients, and potentially generate additional revenue streams | Are concerned about future reimbursement rates and increasing costs of compliance | Are making attractive offers, funded by significant sums of investor capital and low-interest debt |
| Need access to greater financial capital to help grow the practice | Are looking to retire in the next few years and seeking liquidity events to capture the value of their practice in advance | Are generating scale to improve negotiated reimbursement rates |

But not all practice owners decide to sell, even after indications of interest and formal offers from suitors. Some owners prioritize control—which may be lost or eroded under new management—over the financial benefits of a sale. Others are focused on maintaining the culture of their practice, the future well-being of its employees, and the quality of patient care and services. And some believe the offer is not sufficient to fully compensate them for the practice's value, especially considering the reduction in future salary that often accompanies a deal.

Given the trade-offs often associated with a sale, the first step for a practice owner should be to outline and prioritize her objectives. What is most important to you? What do you want to accomplish through a potential transaction? Selling is not always the best route, and for some it's not an option at all. Bernstein can help you assess and clarify your options, providing insight on whether a transaction will allow you to meet your personal long-term financial goals.

HOW ARE DEALS STRUCTURED, WHO IS BUYING, AND WHAT EXACTLY ARE THEY BUYING?

Selling a medical practice differs vastly from selling other businesses. While there are many commonalities—such as succession planning, and monetizing value while reducing exposure to future business risks—medical practices must contend with a more limited pool of potential buyers, as well as numerous regulatory hurdles.

Due to the Corporate Practice of Medicine (CPOM)¹ doctrine, most states require medical practices to be owned by licensed physicians. What's more, the Stark Law² and the Anti-Kickback Statute³ limit compensation arrangements and require careful legal compliance review for any transaction.

Unlike product-based businesses, the most indispensable asset in a medical practice is usually the talent, requiring continued employment of physicians who are essential to the practice's value. That makes the question "*Who is on the other side of the transaction?*" vitally important. Whether you are considering a sale to a private equity-backed group, another medical practice or super group, hospital system, or to another physician, the type of buyer will impact the potential deal structure and the ultimate value of the deal.

TYPES OF BUYERS

PRIVATE EQUITY GROUPS

To avoid running afoul of the Corporate Practice of Medicine doctrine, when a private equity group enters a transaction to acquire a medical practice, they do so through a Management Service Organization (MSO). The MSO is structured to provide management, support, and financial services for the medical practice, but does not practice medicine itself. The clinical practice remains in the hands of the physicians, and it contracts with the MSO for its services through a management service agreement (MSA).

When a private equity group acquires a practice, it generally represents the most lucrative offer of any potential purchaser type. The offer will value the practice holistically based on many factors, with the most important metric being EBITDA. (EBITDA stands for earnings before interest, taxes, depreciation, and amortization, and is a widely recognized accounting figure that acts as a measure of profitability for the practice.) The offer typically consists of an upfront cash payment and the opportunity to buy some equity in the new ownership structure (called "rolled equity"). The private equity firm aims to significantly increase the value of these shares, and then sell the group again within the next five years. The offer may also include some future payments over the next few years that are contingent upon the financial performance of the practice or other metrics (called the "earn-out"). In addition to cash, rolled equity, and possibly earn-out, the deal will include an employment agreement and non-compete clauses. The employment agreement will typically provide for an annual pay reduction from the physician's current compensation. While this pay cut varies depending on a number of factors, it often reduces annual compensation by 20% to 35%.

PRIVATE EQUITY GROUPS



- *May be the highest offer*
- *Often come with reduction in current compensation*
- *Aim to resell the business within the next five years*

WHY ACCEPT A PAY REDUCTION?

Many owners are concerned about the reduction in compensation in private equity deals, and it rightfully deserves significant attention during negotiations. However, these deals may ultimately represent an acceleration of compensation and tax benefits.

Owners are effectively reducing future compensation (which is taxed as ordinary income, often at 37% for top marginal taxpayers) in exchange for a lump-sum payment today, which will be taxed as a long-term capital gain at 20%. Receiving future income today at a lower tax rate might make for a great trade-off.⁴ It can also mitigate the owner's financial risk, because lower future reimbursement rates—or greater regulation in the years ahead—may depress future income relative to current earnings.

By trimming the practice's compensation expense, EBITDA increases, which in turn enhances the value of the practice. Since most practices distribute 100% of income to its owners, the business does not have earnings available and the practice offers little to no value to investors. Reducing practitioners' compensation to align with fair market values allows for the group to generate EBITDA while providing earnings for a potential acquirer.

Overall, practices with current compensation exceeding fair market values tend to be more attractive, as they provide room to adjust compensation down and unlock additional value for the new entity. Importantly, the practice must be able to offer compensation that remains competitive in the market to ensure talent will stay and additional talent can be hired.

¹ The Corporate Practice of Medicine doctrine depends on state law, and ranges from strict doctrine (only physicians may own medical practices—examples include Illinois, New York, New Jersey), to states with limited exceptions (non-physicians may own jointly with physicians subject to restrictions—examples include California and Texas), to states with no CPOM doctrine (anyone may own—examples include Florida and Ohio). Source: <https://www.brydaddatto.com/banter/can-non-doctors-own-a-medical-practice-in-tx-cpom-field-guide-part-1/>

² The Stark Law, formally known as the Physician Self-Referral Law (42 U.S.C. §1395nn), prohibits physicians from referring Medicare or Medicaid patients to receive designated health services from entities in which the physician or their family has a financial relationship. Source: <https://oig.hhs.gov/compliance/physician-education/O1laws.asp>

³ The Anti-Kickback Statute (42 U.S.C § 1320a-7b(b)) prohibits physician compensation for referrals of patients for any items or services payable by Medicare or Medicaid.

⁴ Rates illustrated under current tax code; however, tax proposals may increase both the top ordinary tax rate as well as the top capital gains tax rate. If the difference between the ordinary tax rate and the long-term capital gains tax rate contracts, the tax benefit of accelerating future income would also contract or be eliminated. Source: <https://oig.hhs.gov/compliance/physician-education/O1laws.asp>

MEDICAL GROUPS/SUPER GROUPS

Purchases by other medical groups or super groups often represent the next highest bidders. As with private equity, these groups seek to grow by strategically acquiring practices to expand their patient population and geographic reach, drive down costs through shared resources, and enhance revenue through better reimbursement rates. These transactions typically range from simple cash-only deals to more complex arrangements like private equity, depending on the size of both the acquirer and the acquiree.

Many will invite the partners of the acquired practice to remain partners in the new enterprise. One of the biggest differences between medical groups and private equity is that these groups are often still owned by physicians and may not look to resell the practice again in the next few years. These attributes are important considerations for many physicians—in the end, the highest offer doesn't always make the most sense.



MEDICAL GROUPS/SUPER GROUPS

- *Usually next highest offer*
- *Strategic consolidators*
- *Often still physician owned*

HOSPITAL SYSTEMS

Hospital systems are known to pay less for a practice than other large buyers, generally because they face more restrictions in terms of the amount of goodwill they are permitted to pay. However, the scale and resources that hospital groups offer still makes them an attractive outlet for many practices—especially those challenged by today's lower reimbursement rates and regulatory compliance issues.

An offer from a hospital system will generally consist of cash for the tangible assets of the practice and an employment agreement with its physicians, along with a fixed compensation arrangement at fair market value. Some physicians prefer the comfort and reliability of this kind of steady income. While transactions with hospital systems were rampant a few years ago, they have slowed somewhat, as many private physicians have grown weary of being employed by them.



HOSPITAL SYSTEMS

- *Offer likely lower due to goodwill restrictions*
- *Becoming less popular due to physician fatigue with hospital administration*
- *Fixed compensation arrangement may be attractive*

INDIVIDUAL PHYSICIANS

Independent practices searching for a succession plan for a single owner may sell the practice to an individual physician. This type of sale will generally be all cash and include values for tangible assets. In some cases, it may provide goodwill for the value of the patient base and brand recognition. The retiring physician is not usually required to stay in the practice but may have a financial incentive in the form of an earnout to help the new owner keep patients and staff.

Our research shows that these types of deals are becoming less common, as many newer physicians are wary of the entrepreneurial risk of owning a private practice or may lack the financial capacity as they prioritize paying down medical school debt. Potential buyers in this segment include former practice owners who were previously acquired by a hospital, but now wish to return to private practice.



INDIVIDUAL PHYSICIANS

- *Often succession plan for retiring physician*
- *Waning buyer pool; less appetite among newer physicians*

ASSET SALE VS. STOCK SALE

Transactions are structured as either an asset sale or a stock sale. An asset sale is by far the most common. It allows the buyer to purchase only the assets they've agreed to acquire—limiting the assumed liabilities from the practice while capturing higher depreciation on the assets purchased. There are two general categories of assets that are purchased: tangible and intangible. Tangible assets include the equipment, furnishings, supplies, inventory, cash, accounts receivable, etc., and may also extend to the building and any real estate holdings. However, the latter is atypical for

private equity buyers, who frequently prefer to arrange lease terms as part of the transaction. (See “Real Estate Opportunities” for further insights.) Intangible assets include contracts, protocols, and non-compete agreements, but largely consist of goodwill. That refers to the value of the practice attributable to its brand and reputation, its patient base, the established employee base and their skills, and everything else that instills worth beyond a practice's tangible assets. In addition to the goodwill of the practice, a deal may also establish personal goodwill reflecting the contributions of individual owners. The goodwill of a practice is often the most valuable asset in a transaction by far.

REAL ESTATE OPPORTUNITIES

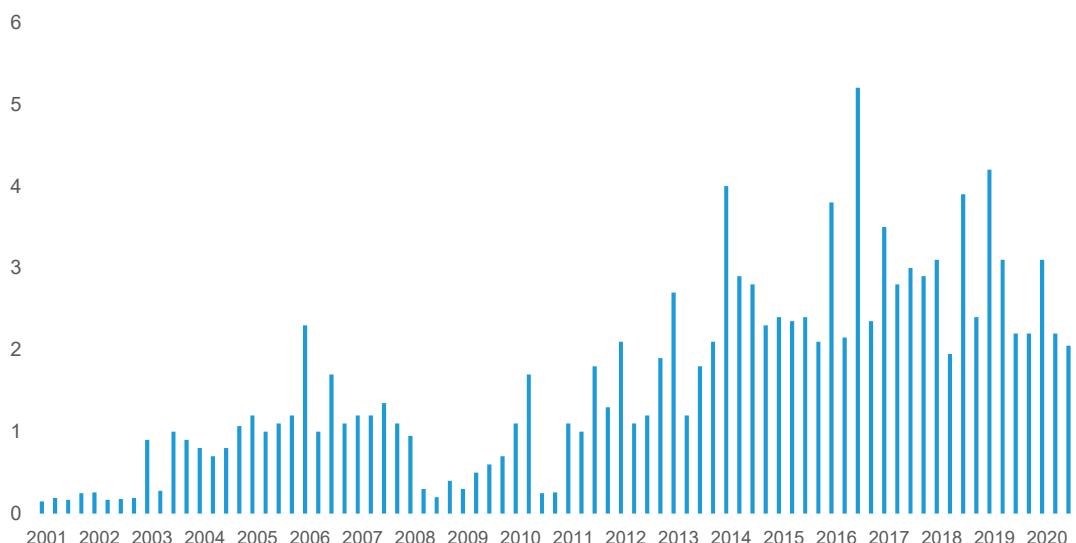
Many practices own their real estate in a separate entity from the practice, for legal and/or tax purposes. The practice pays rent to the real estate holding entity, which provides a deductible business expense back to the practice. If there is any debt on the real estate, the holding entity assumes it.

For some practices, the real estate itself may be a valuable asset to consider selling. Medical office property sales have grown tremendously over the past decade (**Display 1**). Accelerating demand has fueled significant increases in property values, and many practices now find that they are sitting on a hot commodity. Some providers are interested in capturing that value without necessarily selling their practice. There is a tremendous market available for such transactions: several real estate organizations specialize in acquiring medical practice buildings and leasing them back to their original owners.

Some of these organizations invite the medical practitioners to become owners in their real estate fund, allowing them to participate in future income and appreciation generated as the fund acquires more medical office buildings. This type of transaction offers owners the ability to liquidate the current value of their real estate and effectively diversify a portion of the proceeds into multiple medical practice buildings across the country. The cash infusion from the sale of the real estate can be utilized to expand the practice, or may be distributed to owners, allowing them to build their liquid portfolio and invest the proceeds as a key component of their future retirement plans. The real estate may also prove to be an attractive asset to transfer wealth to the next generation.

DISPLAY 1: US MEDICAL OFFICE PROPERTY SALES VOLUME

(USD Billions)



Source: Real Capital Analytics, February 2021. Based on independent reports of properties and portfolios \$2.5 million and greater.

A **stock sale** involves the direct transfer of ownership interests in the practice, often meaning the shares of the corporation. This type of transaction will transfer 100% of the assets and liabilities of the practice—and is frequently more attractive for sellers than for buyers. Sellers are generally taxed at the long-term capital gains tax rate on the net gain over their cost basis in the shares. Buyers establish a new cost basis in purchasing the shares but are not able to depreciate the business' individual assets based on the purchase price when corporate shares are involved. This can lead to higher taxes for the business going forward than would result from an asset sale. From the buyer's perspective, one of the biggest concerns with a stock sale is potential liability, since any activities in the past could lead to new claims in the future (**Display 2**).

DISPLAY 2: KEY DIFFERENCES BETWEEN ASSET PURCHASE AND STOCK SALE



ASSETS OR SHARES?—An asset purchase allows buyers to purchase only the assets they've agreed to acquire while a stock sale involves the direct transfer of ownership interests in the practice.



LIABILITIES—With a share purchase, the buyer assumes all liabilities. But with an asset purchase, buyers can choose which liabilities they want to avoid.



DEPRECIATION—Buyers of corporate shares are not able to depreciate the business' individual assets based on the purchase price.



TAX IMPLICATIONS—Sellers of assets will be taxed on most assets at the long-term capital gains rate but may be subject to recapture at ordinary income tax rates on depreciation previously taken. They will also be subject to ordinary rates on certain assets such as accounts receivable or gains on inventory.

EQUITY AND CONTINGENT PAYMENTS

Equity in a deal is common in private equity-backed transactions.

The equity (or "rolled equity") reflects an owner's potential investment in the acquiring entity. For a growing enterprise, this part of the deal represents the greatest upside—as well as the greatest risk. For instance, in a practice that sells for \$10 million, the owner may be offered the opportunity to roll 25% of their ownership into the new entity. This would entail receiving a cash payment of \$7.5 million and the remaining \$2.5 million as an ownership interest. This rolled equity is generally not taxed upon the sale but is held in anticipation of future appreciation. Taxation occurs when it is sold as part of a future transaction.

Rolled equity represents the greatest upside potential for sellers.

Many times, this equity is expected to appreciate rapidly in the subsequent three to five years; it's not uncommon for private equity firms to expect the value to double or even triple. The private equity firm will ultimately look to sell to another buyer in that time frame, creating a second liquidity event for owners. However, there are no guarantees as to the value or timing of a second transaction, and risks to the downside may be magnified if the private equity firm utilizes excessive debt to fund its acquisitions.

The potential upside is often linked to the number of practices the buyer has already acquired. If your practice is among the first, that leaves a lot of room for value creation and multiple expansion as additional practices are subsequently purchased. Such situations offer the greatest upside potential, but perhaps the greatest risk as well, if other attractive acquisitions fail to emerge. On the other hand, if your practice is the 15th to be acquired, the value of this large group is already reflected in your shares, and there may be little additional upside until the second transaction. However, the perceived risk is lower, and a second liquidity transaction may be closer at hand.

Earn-outs are another common component of certain deals.

An earn-out reflects the portion of the transaction that is contingent upon achieving certain goals post-transaction. The goals may be a preset level of revenue or profit, or perhaps employee or provider retention. The earn-out is quoted as part of the overall transaction value and helps protect the buyer by eliciting the performance that is expected. Presumably, it motivates sellers to do what they can to keep the practice performing effectively. The earn-out can span any period but is frequently set at two to three years.

Our research has found that older owners nearing retirement tend to find both comfort and opportunity in a private equity deal. They see the chance to create a current cash windfall, potentially followed by a second liquidity event by the time they retire. While the upside opportunity also appeals to younger owners, they are often concerned with future management of the practice and the changes that could unfold with multiple owners. However, they may have the most to gain financially, as they could potentially participate in three or four future transactions over their career with several potential bites at the proverbial apple.

A good fit and a productive relationship with the management of the acquiring firm is paramount.

FIRST STEPS WHEN YOU RECEIVE AN OFFER

You have received an unsolicited offer for your practice. What do you do now?

1. Advice from experienced professionals

Begin by consulting with professional advisors with expertise in medical practice transactions. An experienced accountant and a healthcare M&A attorney are essential. It's critical to find ones who are experienced in working with these types of deals. It's also a good idea to engage a practice consultant or investment banker who can shepherd you through a sale. All these professionals, along with your financial advisor, should be involved each step of the way. They will know what to look for in an offer, and how to explain its relevant parts, weigh the pros and cons, and ultimately protect your interests.

Your financial advisor can be instrumental in helping you understand what the offer means to you financially. Does it meet your personal financial goals and lifetime spending needs? What strategies should you adopt to reduce income and estate taxes? Early involvement of professional advisors means more opportunities for owners to maximize planning and increase potential after-tax proceeds. Certain strategies have finite time frames, and potential benefits can be lost if owners do not involve advisors early enough to learn about them.

2. Consider the culture

Ultimately, financial metrics are just the starting point. Deals must also be a good cultural fit for the owners, employees, and notably the patients of a practice.

- Does the deal bring more convenience or additional services to patients?
- Does the acquiring group share the owners' vision for the future of the practice?
- Will the jobs of current employees be protected?

In our discussions with owners who have sold, time and again they've pointed to having a good fit—and a productive relationship—with the management of the acquiring firm as their paramount need.

3. Does the deal provide enough financially?

Here, there are many angles to explore:

- Does the offer represent a fair value for the practice?
- Are the terms of the deal reasonable?
- Do the financial and qualitative benefits outweigh relinquishing control?

These are reasonable questions that must be individually evaluated with each deal. From the personal financial side, one approach is to measure the extent to which the deal helps secure your future spending needs over your lifetime. Bernstein calls this amount your "core capital," which fluctuates depending on multiple variables:

- Your assets
- Desired spending
- Future income
- Investment returns and volatility
- Life expectancy

You likely have a sense of your assets, income, and spending projections. But how do you plan for investment returns and volatility, the impact of future inflation on your spending, and how long you might live? Bernstein develops personalized financial forecasts—intertwining what you already know with what you don't—into our modeling.

Using Bernstein's proprietary research, we predict a range of probable future returns and volatility levels, along with inflation and likely life expectancies. The results allow you to pre-experience your financial future. You'll be able to visualize how much wealth you're likely to have over time given choices you've made based on factors within your control: investment options, how long you'll work, how much you'll save, and which tax-efficient strategies you'll utilize to minimize your income taxes.

The following case study, "Practice Owner in Transition," provides an example of how Bernstein's planning helped one client prepare for a sale.

CASE STUDY

PRACTICE OWNER IN TRANSITION

Dr. Melissa Feelgood has engaged Bernstein for planning and investment advice as her medical group begins discussions to sell their practice to a private equity group. Melissa and her husband Mark are both 60. Melissa is a urologist at Diamond Medical Group, which she owns with five partners. The Feelgoods have accumulated a \$10.5 million portfolio—including \$2 million in their Cash Balance Plan and 401(k)/profit-sharing plans—and own a home valued at \$3.5 million.

Melissa's practice expects to fetch \$30 million from a private equity group. Melissa will personally receive \$5 million in pretax proceeds, including \$3.75 million of cash up front and \$1.25 million of rolled equity. The private equity group expects to significantly expand the organization through other acquisitions and efficiencies, and then sell the group again in five years for triple its current value. If all goes as planned, this could potentially provide Melissa with an additional \$3.75 million (three times her initial \$1.25 million value on the rolled equity). As part of the sale agreement, she will continue working for five years with a 25% reduction in future compensation, earning \$600,000 pretax annually.

Melissa and Mark's primary concern is whether the proceeds from the sale will ultimately allow them to retire, despite the reduction in future compensation. They wish to maintain their current spending of \$435,000 per year while feeling confident that their portfolio will support this lifestyle in the future. In addition to Melissa's income, Mark earns \$250,000 per

year, and they receive pretax annual income of \$100,000 from their shares in Diamond Surgery Center. Upon Melissa's retirement, they plan to liquidate their \$100,000 initial investment in the center.

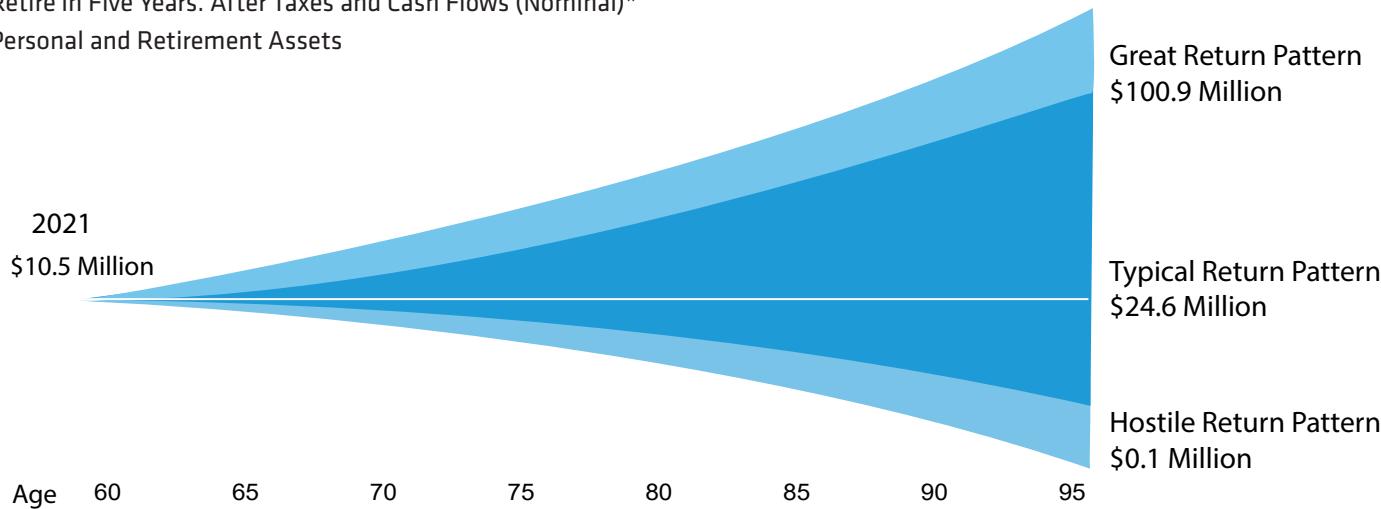
Was there a way to reduce future estate taxes—especially considering potential changes on the horizon?

To help the Feelgoods think through their options, we start by quantifying their core capital—the amount they need to sustain their lifestyle throughout their retirement, despite the possibilities of poor capital market returns, high inflation, and a long life—based on an asset allocation of 70% stocks and 30% bonds. To stress-test their financial picture, we initially exclude any return on the \$1.25 million rolled equity. We found that the cash proceeds from the transaction, added to their current \$10.5 million liquid portfolio, would secure their projected core capital by their retirement at 65 (**Display 3**). They will meet lifetime spending needs even in the event of the most hostile capital market investment returns modeled, combined with high inflation and long lifespans. Reassured that their primary goals would be met with the upfront cash from the transaction, the Feelgoods turned their attention to estate planning. They wondered if there was any way to reduce the potential impact of future estate taxes on their family's wealth—especially considering potential changes to the estate tax.

DISPLAY 3: PROJECTED RANGE OF PORTFOLIO VALUES

Retire in Five Years. After Taxes and Cash Flows (Nominal)*

Personal and Retirement Assets



*There is no guarantee that any estimates or forecasts will be realized.

Source: Bernstein

CASE STUDY (continued)

Using our Wealth Forecasting System, our median projections showed the Feelgoods could face a potential estate tax bill of over \$3 million, reducing the amount of wealth passed down to their children. If the second sale generates \$3.75 million, the Feelgoods could face an even higher estate tax liability of \$7.9 million. However, as demonstrated by our core analysis, the rolled equity represents surplus assets, or assets that they will not need to meet their own spending needs. If the rolled equity grows as expected to \$3.75 million, it could represent a tremendous opportunity to transfer wealth outside of their estate.

We introduced Melissa and Mark to the benefits of proactive planning prior to realizing future wealth. In partnering with their estate planning attorney, we identified a compelling strategy that entailed giving their rolled equity to a new Spousal Lifetime Access Trust (SLAT), an irrevocable trust created by Melissa for the benefit of Mark, with their two adult children as additional beneficiaries.

The rolled equity transferred to the SLAT, along with any subsequent growth and income generated, should be excluded in Melissa or Mark's estate for estate tax purposes. However, the trustee may make distributions to Mark, if needed. This way, the SLAT allows the Feelgoods

to reduce future estate taxes without completely forgoing access to the transferred assets.

Assuming the 3x sale, the trust would receive \$3.75 million in proceeds. The Feelgoods would pay the trust's taxes (capital gains tax upon the sale and taxes on future investment returns) from their personal portfolio, further reducing their taxable estate and maximizing growth of the trust assets for their children. With these assets growing outside of their estate, we project that the trust could grow to \$17.4 million in the median case over the next 35 years and could ultimately save the Feelgoods \$6.9 million of federal estate tax, leaving their children with 20% more liquid wealth (**Display 4**).

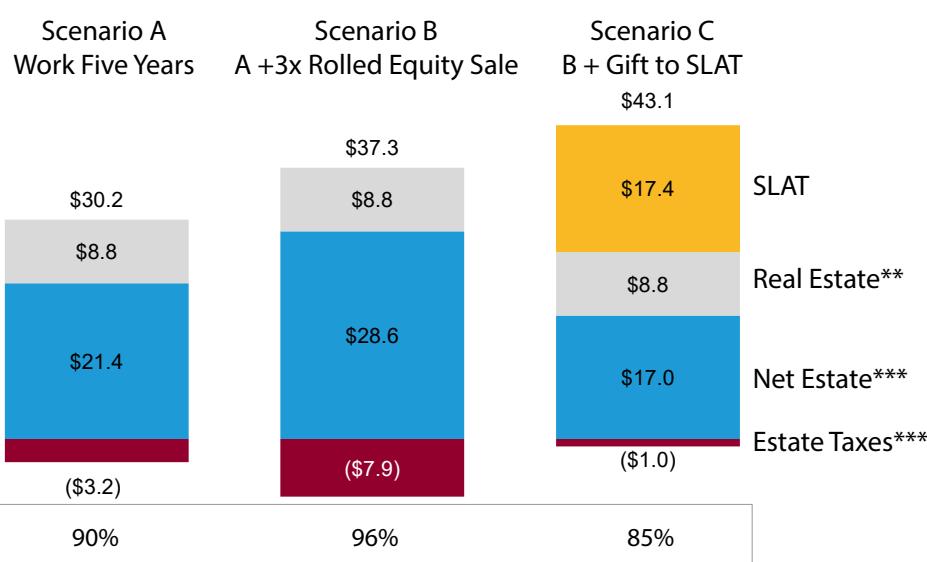
TYING IT ALL TOGETHER

The Feelgoods are now equipped to navigate the transition of Melissa's practice, knowing that their retirement goals can be achieved even if the practice doesn't realize the anticipated proceeds from the second transaction. Contributing their rolled equity shares to the SLAT provides flexibility for their lifestyle spending while maximizing the wealth transferred to their children if they successfully reach the 3x second sale, which has given them the confidence to move forward with their plan.

DISPLAY 4: POTENTIAL ESTATE TAX

Typical Markets* (Year 35)

After Estate Taxes and Cash Flows (\$ Millions, Nominal)



*"Typical Markets" means 50th percentile results of 10,000 trials in our Wealth Forecasting System. Based on AB's estimates of the range of returns for the applicable capital market (as of 12/31/20) over 35 years.

**Assumes current real estate value of \$3.5 million, adjusted with headline inflation over 35 years.

***Assumes federal lifetime exclusion of \$5.85 million, adjusted with chained inflation over 35 years. We assumed you used \$1 million of your lifetime exclusion in Scenario C. Assumes marginal federal estate tax rate of 40% on assets in excess of the remaining exclusion amount.

Data does not represent past performance and is not a promise of actual or range of actual future results. See Assumptions and Notes on Wealth Forecasting System in Appendix for further details.

Source: AllianceBernstein

HOW TO INCREASE THE VALUE OF YOUR PRACTICE

Many practice owners are not ready to sell, for any number of reasons. Yet they can proactively position their practice for greater appeal to future buyers, which will simultaneously increase its value. To enhance your practice's appeal, put the shoe on the other foot—what will a prospective purchaser be looking for? Based on our experience, buyers are typically focused on the following:

1. Revenue and EBITDA—When valuing a business, these are the two most important financial figures, particularly EBITDA, which measures profitability. Offers for businesses are generally based on a multiple of this metric: for example, four times EBITDA or 10 times EBITDA. Given this multiplier effect, increasing EBITDA by just \$10,000 could increase the value of your practice by 10 times that amount, or \$100,000.

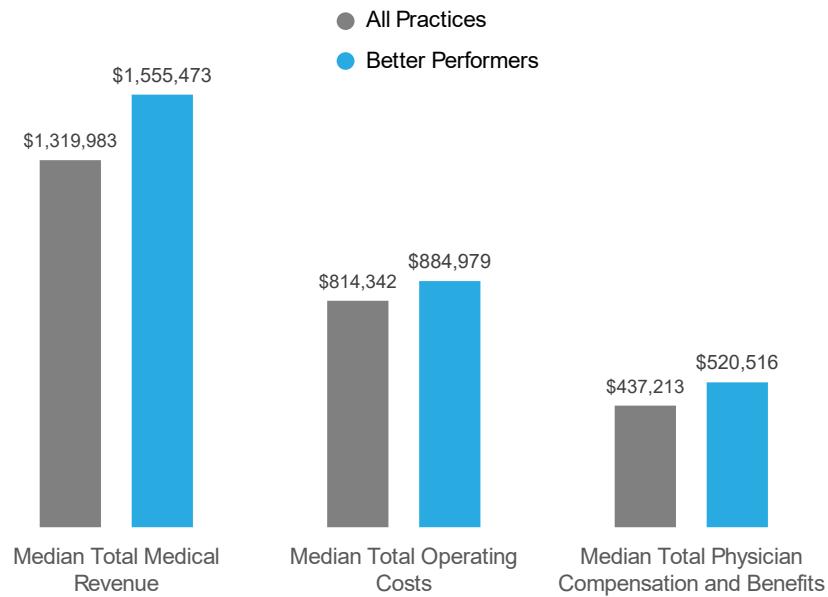
Why do some practices command a lower or higher multiplier? That is determined by the relative attractiveness of your practice. For instance, with both revenue and EBITDA, size matters: the larger the revenue and the EBITDA, generally the more attractive the business and the higher the multiple. A practice that generates \$1 million of profits may be valued at

three times (\$3 million), while a larger group with \$25 million of EBITDA may be valued at 12 times (\$300 million). In addition, EBITDA as a percentage of revenue should compare favorably to the industry.

Put the shoe on the other foot— what will a prospective purchaser look for?

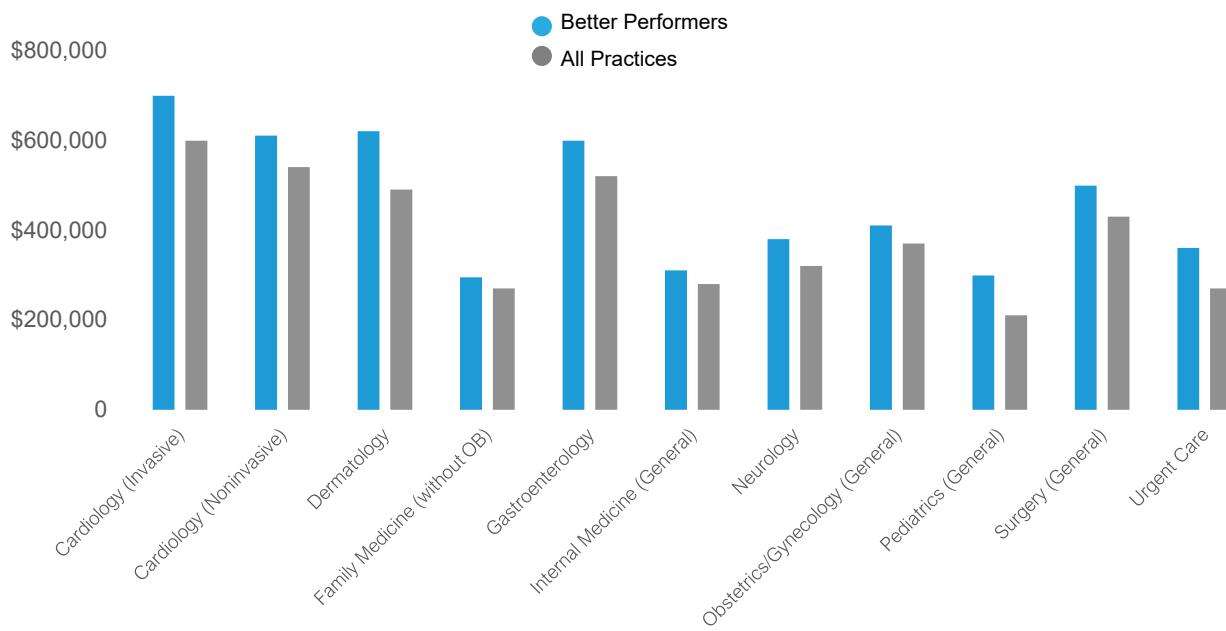
According to the Medical Group Management Association (MGMA), better-performing multispecialty groups have 18% greater revenue than the average, and 19% greater physician compensation and benefits. That's despite slightly higher expenses than the typical practice, reflecting investments that improve efficiency and productivity (**Display 5**). MGMA also arrays compensation levels across specialty groups for average and above-average practices, highlighting the disparate benchmarks for each practice area (**Display 6, next page**). While standards vary per specialty group, more attractive practices often generate EBITDA exceeding 30% of revenue.

DISPLAY 5: REVENUE AND EXPENSES PER FTE PHYSICIAN FOR PHYSICIAN-OWNED MULTISPECIALTY GROUPS BY BETTER PERFORMER STATUS



Source: 2020 MGMA DataDive Cost & Revenue

DISPLAY 6: DIFFERENCE IN MEDIAN TOTAL COMPENSATION



Source: 2020 MGMA DataDive Cost & Revenue

However, it's not just size that matters. Revenue and EBITDA are most compelling when growth consistently trends over multiple years, with recurring, stable revenues. These practice profiles tend to drive higher valuation multiples than stable or low-growth practices without recurring revenue streams. Medical practices should be prepared to exhibit such growth patterns over the trailing three-year period, if possible. One mistake that practices often make is to slow down or coast as they prepare to exit, which can decrease the value for potential buyers.

Coasting as you prepare to exit is a mistake; it decreases the value of your practice.

2. Intangible assets—What makes your practice uniquely attractive that would be difficult for another practice to build or buy? This may include a specialized skill set, attractive patient base, superior brand recognition and reputation, advanced technology or cutting-edge procedures (including any patents) or offering an exceptional patient experience. These intangible assets often become the largest contributors to value creation.

3. PPE—In this case, not personal protective equipment, but rather people, processes, and equipment. You must have the right ones in place.

- People—have you hired skilled practitioners who are sought after by patients? Do you have quality staff who are friendly and welcoming to patients? Is the staff satisfied in their workplace, reflected by a low turnover rate coupled with high employee morale? Do you employ any Advanced Practice Providers (APPs) that allow your practice to leverage revenue?
- Processes—are procedures and manuals updated regularly, and do your systems and workflow allow staff to operate efficiently?
- Equipment and Office—is equipment current or does it need to be updated or replaced? Is the office environment modern and welcoming, or does it need renovations? Is your technology state-of-the-art, and do you have the appropriate hardware and software (including required seat licenses for every user)? Any “required” outlays by a potential buyer may reduce the value of your practice.

We have found through our research that many practice owners don't know their EBITDA—or any of their financial metrics, in some cases. Practice owners seeking to increase the value of their business must know their EBITDA, track it, and intentionally grow it. This means not only finding ways to increase revenue, but also reducing unnecessary costs, a combination that can often significantly accelerate EBITDA. Every dollar of revenue should be carefully tracked. Put simply, revenue should cover necessary business expenses or end up as compensation and profits.

At the same time, some buyers will replace and upgrade systems or other items regardless—seek professional advice as to the most value-added purchases prior to committing. As you continuously aim to maximize EBITDA, limit purchases to what is absolutely necessary to add value.

4. Transferable—Can the practice generate attractive returns without you? A lack of transferability limits the value of many sole practitioner practices. Preparing the practice for a future that may not include the current owner(s) often requires talent development and hiring additional practitioners who will continue generating revenue even if one or more current owners ultimately retire.

5. Risk management—Buyers not only target attractive financials, they want to avoid unnecessary liabilities, too. Therefore, practices with thorough, current regulatory compliance procedures, meticulous recordkeeping, sound liability management, and updated management succession plans will attract more interest.

Based on our discussions, medical coding compliance remains one of today's top concerns.⁵ Many practice owners who believe they're following proper procedures inadvertently fall out of step. To ensure you're adhering to the latest guidance, hire a third party to regularly review your coding. Complete and detailed recordkeeping helps ensure compliance, while providing a trail for prospective owners and informing appropriate actions for the future.

Legal review of the organization's documents and contracts should be undertaken with an eye toward the voting requirements needed for an ownership change. Such review should also cover the practice's contracts and business relationships to confirm compliance with regulations. A document review can also reaffirm the shared understanding of buyout formulas associated with owner succession planning and reveal whether any changes are warranted given the practice's recent growth and future expected value.

BUILDING AND PROTECTING WEALTH BEYOND THE PRACTICE

Doctors derive their personal wealth not only from what they earn from the practice, but what they do with those earnings and how they invest.

Many doctors receive near-daily calls outlining interesting-sounding ventures that promise outsized returns. At the same time, doctors frequently tell us that they feel cash poor because their money is tied up in numerous illiquid investments and real estate that cannot be tapped for many years.

While high-returning private investments have a place in many portfolios, they must be carefully considered both in terms of risk and liquidity. Many private investments don't turn out as expected (sometimes they lose value, or even the entire principal), and they generally constrain access to your invested capital for years to come. Conduct due diligence (or hire a qualified professional to do so) on the inherent risks, manager's experience and qualifications, and your risk exposure. Preserve liquidity by sizing these types of investments appropriately relative to your overall investment portfolio.

While appropriate amounts vary by individual goals and circumstances, for many doctors, exposure to private and alternative investments should not exceed 30% of an overall portfolio. The remaining should be the safer, more liquid core portfolio, which should generally consist of publicly traded securities—such as diversified global stocks and bonds—in percentages aligned with goals for both return and risk. A portfolio of well-diversified publicly traded securities is safer than private investments and offers

Many doctors feel cash poor because their money is tied up in illiquid investments that can't be tapped for many years.

liquidity, allowing investors to convert investments to cash almost immediately if needed.

Keep More, Save More with Qualified Plans

Medical groups frequently work with Bernstein to explore ways to lower their taxes. To keep more of what they earn after-tax, many practices establish a 401(k) and profit-sharing plans, assuming they aren't already in place. These plans allow owners to defer income into their retirement years, avoiding current income taxes.

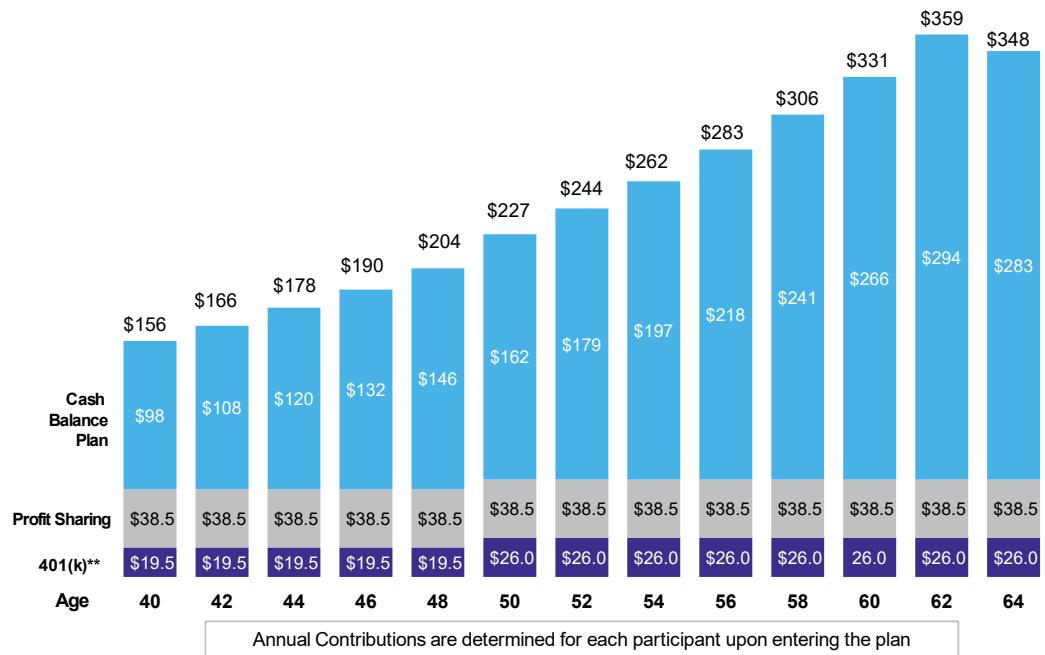
Currently, employees under age 50 can contribute up to \$19,500 pretax to a 401(k), or \$26,000 if they are over 50. However, the overall contribution limit to a 401(k)/Profit-Sharing Plan—including employer contributions—stands at \$58,000 (for participants under age 50) or \$64,500 (for over age 50). This tax deferral alone can save a doctor owner up to \$24,000 of federal taxes per year, not to mention additional state and local taxes.

Assuming owners have both the desire and ability to save more, a Cash Balance Plan (CBP) may prove advantageous. Cash Balance Plans are a type of qualified retirement plan that enables owners to set aside considerably more in tax-deferred accounts, with annual contribution limits that could reach four times that of a 401(k)/Profit-Sharing Plan alone,

⁵ Medical coding translates a patient's diagnosis, treatment, services, and supplies into universal medical alphanumeric codes that create claims paid by insurance carriers to the medical practice. Coding compliance requires that proper codes are consistently entered to avoid delays in payment or rejected claims.

DISPLAY 7: DEFERRAL POSSIBILITIES: CASH BALANCE PLANS

Annual Real Contributions, Legal Maximums (\$ Thousands)



*Includes "catch-up" contributions for participants age 50 and older.

Source: IRS and Kravitz

depending on a variety of factors. The age of the owner(s) represents a key variable: older owners enjoy higher contribution limits (**Display 7**).

For instance, a owner with a \$200,000 CBP contribution, who also maxes out her 401(k)/Profit-Sharing Plan, may be able to save nearly \$100,000 on federal taxes in a single year. Once these plans are in place, many participating doctors find that they not only save money on income taxes but have effectively created a disciplined saving and investing plan.

Since these plans fall under The Employee Retirement Income Security Act of 1974 (ERISA), they also protect assets from potential litigation—a notable benefit for doctors. Yet despite these advantages, the plans are not free, as all qualifying employees in the practice are entitled to the benefits. Depending on the practice, the cost to the owners may sometimes exceed the benefits, making them better suited to some over others. The number of owners relative to the number of qualifying employees is a key ratio. Cash Balance Plans are generally more attractive when there are fewer than 10 employees per owner, which is often the case for medical practices. Bernstein can help you determine if they are right for your group.

Additional Tax Saving and Asset Protection Opportunities

There are other ways to invest in a tax-sensitive manner while legally protecting the assets you've accumulated. Private placement variable annuities (PPVA) are among the more popular vehicles today, available to qualified investors (>\$5 million in assets) that offer both tax-deferred investing and potential asset protection, depending on the state of residence.⁶

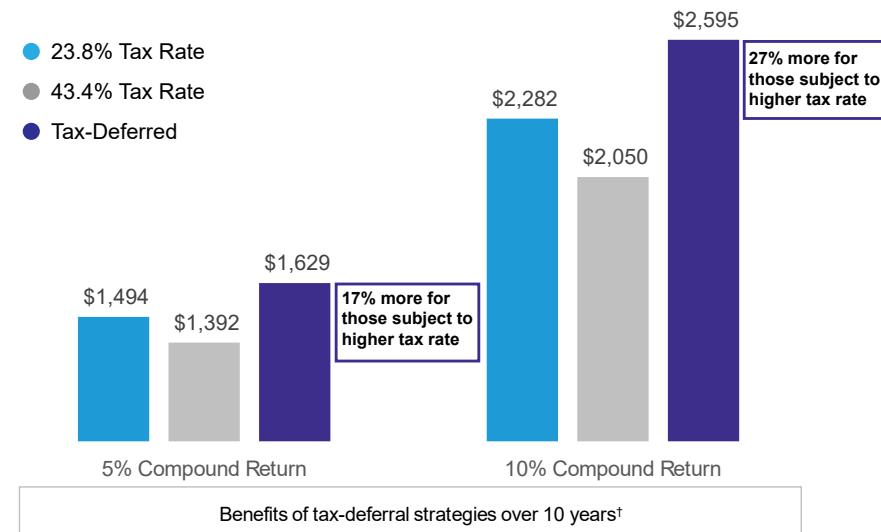
These strategies provide a wide range of investment opportunities, including high-return-potential private/alternative investments where the highest marginal tax rate would normally apply. However, inside the PPVA, all the tax is deferred—a benefit that is becoming even more salient as higher tax rates loom (**Display 8, next page**). Plus, reporting requirements are eliminated while you own the investment; in other words, unlike other private investments, no K-1s are generated. And unlike many retail annuities, private placement annuities generally have very low fees and no surrender charges.⁷

⁶ Asset protection features of private placement annuities can vary by state, consult your legal advisor as to the specific asset protection features available to you.

⁷ A surrender charge is a fee charged upon exiting many retail annuities within a certain number of years.

DISPLAY 8: TAX DEFERRAL IS WORTH MORE WITH HIGHER TAX RATES AND HIGHER RETURNS

Value of \$1 Million Portfolio after 10 Years (USD Thousands)*



*Assumes \$1 million portfolio grown for 10 years, subject to either 23.8% long-term capital gains tax rate or 43.4% tax rate or tax-deferred, with either a 5% or 10% compound rate of return. Model assumes 15% annual turnover. After-tax results based on Bernstein's Wealth Forecasting Analysis. Data do not represent past performance and are not a promise of actual future results or a range of future results. Asset values represent the estimated market value; if the assets were liquidated, additional taxes would be realized that are not reflected here. See Assumptions and Notes on the Wealth Forecasting System in the Appendix for further details.

†Illustrated benefit represents a comparison of the pretax value of the tax-deferred account relative to the taxable account subject to 23.8% long-term capital gains tax rate or 43.4% tax rate. The tax-deferred account will recognize taxes upon liquidation or distribution of the assets that are not reflected in this comparison.

While any appreciation will ultimately be subject to ordinary income tax rates (instead of capital gains rates), the annuity owner can defer the gains for many years and time the liquidation to what's most favorable, such as post-retirement or after moving to a lower tax state. As an alternative to PPVA, many owners consider a Private Placement Life Insurance (PPLI) policy. This offers many of the same benefits but gives beneficiaries the opportunity to capture proceeds income tax-free and possibly estate-tax free.

Other tax mitigation techniques are available to those with charitable interests. One of the most popular strategies among doctors in recent years is a donor-advised fund (DAF). A donor-advised fund is essentially a tax-free charitable investment account that allows donors to receive a charitable deduction upon making a contribution, while indefinitely growing assets tax-free for distribution to the public charities of their choice in the future.

One of the most popular charitable strategies is a donor-advised fund (DAF)

DAFs are ideal for individuals who currently experience a large taxable event—such as a high earning year or the sale of a practice—and wish to give to cherished charities down the road. For instance, a physician in the top marginal tax bracket contributing \$100,000 to a donor-advised fund may save as much as \$37,000 of federal income taxes, plus state and local taxes. A variety of other tax-saving charitable strategies exist; your financial, tax, and legal advisors can help you determine which ones may be best suited to your circumstances.

KEY TAKEAWAYS TO BUILD WEALTH AND PREPARE FOR A TRANSITION

- Before considering a sale, assess your current personal financial plan. Determine your core capital: how much do you need? How long do you intend to work, and how much can you save? Are you saving in the most tax-efficient manner? How much do you need to extract from a liquidity event? The answers to these questions will better equip you to narrow your options and evaluate whether a given deal will help achieve your objectives.
- Prior to negotiating, engage with a qualified healthcare M&A attorney and an accountant experienced in medical practice transactions. Also consider engaging a practice consultant or an investment banker. Connecting early will prepare the practice for a successful transaction and likely increase its value.
- Gauge the appeal of your practice to potential buyers. Know its EBITDA and growth rates and avoid the temptation to reduce your patient load prior to a sale. The more attractive the numbers, the more valuable the practice will appear to prospective acquirers.
- Consider real estate as an attractive asset for sales or planning opportunities—even if you don't sell your practice.
- Maximize tax deferrals by introducing a Cash Balance Plan or vehicles such as a Private Placement Variable Annuities. They can help you save meaningfully on taxes while creating an automatic savings plan and potentially conferring significant asset protection.
- Ensure you've established a well-diversified portfolio that includes generally no more than 30% exposure to alternatives or private investments. Balance it with public stocks and bonds, for a well-rounded mix of return, safety, and liquidity.
- Explore a Donor-Advised Fund or other charitable planning strategies, if you are inclined—they'll help you save considerably on taxes. Such contributions are most effective in the year of a sale transaction, or in a high-income year.
- Enlist Bernstein to help you evaluate the impact of a potential transaction. We can forecast the financial trade-offs while providing guidance on investing the proceeds, allocating annual savings, and exploring ways to save on both income and estate taxes as you build wealth.

DESIGNING YOUR FUTURE BEYOND MEDICINE

Throughout our 50+ years of managing wealth for successful individuals and families, we've served as a sounding board for questions concerning family unity and cohesion, effective stewardship of assets, empowerment of the rising generation, and lasting impact through philanthropy.

Common Questions

- How do I ensure that my heirs have the necessary skills and experience to successfully steward our family's wealth?
- What is the "right way" to begin talking to family about the extent of our fortune? Our values?
- How do we make collective decisions about our family business, prosperity, and philanthropic efforts?
- How do we navigate and prepare for transitions (death, business succession or sale, marriage)?
- What are other successful, multigenerational families doing to set the stage for success?

THE TOTAL PRACTICE APPROACH

Selling a medical practice can be a significant milestone in a distinguished medical career. It can monetize the value of the practice while better positioning it to serve patients in an increasingly complex and competitive marketplace. It also allows doctors to focus on the practice of medicine.

Through a sale, the practice owner can shorten the timeframe to meeting her financial goals. Yet, success is much likelier with a team of experts by your side. Bernstein can help practice owners assemble key players while also playing a vital role in advising, guiding, and coordinating your strategy. Having partnered with other doctors on deals worth hundreds of millions in practice value, we have clients who have already navigated the process. With Bernstein's financial counsel, owners can make more informed decisions each step of the way—as well as in the years that follow.

NOTES ON WEALTH FORECASTING SYSTEM

1. Purpose and Description of Wealth Forecasting System

AB's Wealth Forecasting Analysis is designed to assist investors in making their long-term investment decisions as to their allocation of investments among categories of financial assets. Our planning tool consists of a four-step process: (1) Client-Profile Input: the client's asset allocation, income, expenses, cash withdrawals, tax rate, risk-tolerance level, goals and other factors; (2) Client Scenarios: in effect, questions the client would like our guidance on, which may touch on issues such as when to retire, what his/her cash-flow stream is likely to be, whether his/her portfolio can beat inflation long-term, and how different asset allocations might impact his/her long-term security; (3) The Capital-Markets Engine: our proprietary model that uses our research and historical data to create a vast range of hypothetical market returns, which takes into account the linkages within and among the capital markets, as well as their unpredictability; and finally (4) A Probability Distribution of Outcomes: based on the assets invested pursuant to the stated asset allocation, 90% of the estimated ranges of probable returns and asset values the client could experience are represented within the range established by the 5th and 95th percentiles on "box-and-whiskers" graphs. However, outcomes outside this range are expected to occur 10% of the time; thus, the range does not guarantee results or establish the boundaries for all outcomes. Estimated market returns on bonds are derived taking into account yield and other criteria. An important assumption is that stocks will, over time, outperform long bonds by a reasonable amount, although this is in no way a certainty. Moreover, actual future results may not meet AB's estimates of the range of market returns, as these results are subject to a variety of economic, market and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results or the actual probability that these results will be realized. The information provided here is not intended for public use or distribution beyond our private meeting. Of course, no investment strategy or allocation can eliminate risk or guarantee returns.

2. Retirement Vehicles

Each retirement plan is modeled as one of the following vehicles: Traditional IRA, 401(k), 403(b), Keogh, or Roth IRA/401(k). One of the significant differences among these vehicle types is the date at which mandatory distributions commence. For traditional IRA vehicles, mandatory distributions are assumed to commence during the year in which the investor reaches the age of 70.5. For 401(k), 403(b), and Keogh vehicles, mandatory distributions are assumed to commence at the later of (i) the year in which the investor reaches the age of 70.5 or (ii) the year in which the investor retires. In the case of a married couple, these dates are based on the date of birth of the older spouse. The minimum mandatory withdrawal is estimated using the Minimum Distribution Incidental Benefit tables as published on www.irs.gov. For Roth IRA/401(k) vehicles, there are no mandatory distributions. Distributions from Roth IRA/401(k) that exceed principal will be taxed and/or penalized if the distributed assets are less than five years old and the contributor is less than 59.5 years old. All Roth 401(k) plans will be rolled into a Roth IRA plan when the investor turns 59.5 years old to avoid Minimum Distribution requirements.

3. Rebalancing

Another important planning assumption is how the asset allocation varies over time. We attempt to model how the portfolio would actually be managed. Cash flows and cash generated from portfolio turnover are used to maintain the selected asset allocation between cash, bonds, stocks, REITs and hedge funds over the period of the analysis. Where this is not sufficient, an optimization program is run to trade off the mismatch between the actual allocation and targets against the cost of trading to rebalance. In general, the portfolio allocation will be maintained reasonably close to its target. In addition, in later years, there may be contention between the total relationship's allocation and those of the separate portfolios. For example, suppose an investor (in the top marginal federal tax bracket) begins with an asset mix consisting entirely of municipal bonds in his/her personal portfolio and entirely of stocks in his/her retirement portfolio. If personal assets are spent, the mix between stocks and bonds will be pulled away from targets. We put primary weight on maintaining the overall allocation near target, which may result in an allocation to taxable bonds in the retirement portfolio as the personal assets decrease in value relative to the retirement portfolio's value.

4. Expenses and Spending Plans (Withdrawals)

All results are generally shown after applicable taxes and after anticipated withdrawals and/or additions, unless otherwise noted. Liquidations may result in realized gains or losses, which will have capital-gains tax implications.

5. Modeled Asset Classes

The following assets or indexes were used in this analysis to represent the various model classes:

| Asset Class | Modeled as: | Annual Turnover Rate |
|--|---|----------------------|
| Municipal Cash | Municipal money-market securities | 100% |
| Cash Equivalents | 3-month Treasury bills | 100% |
| Intermediate-Term Diversified Municipals | AA-rated diversified municipal bonds of 7-year maturity | 30% |
| Intermediate-Term Taxables | Taxable bonds with maturity of 7 years | 30% |
| US Diversified | S&P 500 Index | 15% |
| US Value | S&P/Barra Value Index | 15% |
| US Growth | S&P/Barra Growth Index | 15% |
| US Low Vol Equity | MSCI US Minimum Volatility Index | 15% |
| Developed International | MSCI EAFE Unhedged | 15% |
| Emerging Markets | MSCI Emerging Markets Index | 20% |
| US SMID | Russell 2500 | 15% |
| High-Risk Intl | Country Fund | 15% |
| Global Intermediate Taxable Bonds Hedged | 7-year 50% Sovereign and 50% Investment Grade Corporate Debt of Developed Countries | 30% |

6. Volatility

Volatility is a measure of dispersion of expected returns around the average. The greater the volatility, the more likely it is that returns in any one period will be substantially above or below the expected result. The volatility for each asset class used in this analysis is listed on the Capital-Market Projections page at the end of these Notes. In general, two-thirds of the returns will be within one standard deviation. For example, assuming that stocks are expected to return 8.0% on a compounded basis and the volatility of returns on stocks is 17.0%, in any one year it is likely that two-thirds of the projected returns will be between (8.9)% and 28.8%. With intermediate government bonds, if the expected compound return is assumed to be 5.0% and the volatility is assumed to be 6.0%, two-thirds of the outcomes will typically be between (1.1)% and 11.5%. AB's forecast of volatility is based on historical data and incorporates AB's judgment that the volatility of fixed-income assets is different for different time periods.

7. Technical Assumptions

AB's Wealth Forecasting System is based on a number of technical assumptions regarding the future behavior of financial markets. AB's Capital Markets Engine is the module responsible for creating simulations of returns in the capital markets. These simulations are based on inputs that summarize the current condition of the capital markets as of December 31, 2020. Therefore, the first 12-month period of simulated returns represents the period from December 31, 2020, through December 31, 2021, and not necessarily the calendar year of 2020. A description of these technical assumptions is available on request.

8. Tax Implication

Before making any asset allocation decisions, an investor should review with his/her tax advisor the tax liabilities incurred by the different investment alternatives presented herein including any capital gains that would be incurred as a result of liquidating all or part of his/her portfolio, retirement-plan distributions, investments in municipal or taxable bonds, etc. AB does not provide tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

9. Tax Rates

The federal income tax rate represents AB's estimate of either the top marginal tax bracket or an "average" rate calculated based upon the marginal rate schedule. The federal capital gains tax rate is represented by the lesser of the top marginal income tax bracket or the current cap on capital gains for an individual or corporation, as applicable. Federal tax rates are blended with applicable state tax rates by including, among other things, federal deductions for state income and capital gains taxes. The state income tax rate represents AB's estimate of the 'average' rate calculated based upon the applicable state's marginal tax schedule. Where an applicable state tax code permits the exclusion of a portion of capital gain income from gross income for purposes of calculating state income tax such exclusions have been included in the calculation.

10. Intentionally Defective Grantor Trusts (IDGTs)

The Intentionally Defective Grantor Trust (IDGT) is modeled as an irrevocable trust whose assets are treated as the grantor's for income tax purposes, but not for gift or estate tax purposes. Some income and transfer-tax consequences associated with transfers to and the operation of an IDGT remain uncertain, and the strategy may be subject to challenge by the IRS. Hence, this technique requires substantial guidance from tax and legal advisors. The grantor may give assets to the trust, which will require using gift tax exemptions or exclusions, or paying gift taxes. The IDGT is modeled with one or more current beneficiaries, and one or more remainder beneficiaries. Distributions to the current beneficiaries are not required, but the system permits the user to structure annual distributions in a number of different ways, including 1) an amount or a percentage of fiduciary accounting income (FAI) (which may be defined to include some or all realized capital gains); 2) FAI plus some principal, expressed either as a percentage of trust assets or as a dollar amount; 3) An annuity, or fixed-dollar amount, which may be increased annually by inflation, or by a fixed percentage; 4) A unitrust, or annual payment of a percentage of trust assets, based on the trust's value at the beginning of the year, or average over multiple years; or 5) any combination of the above four payout methods. Because the IDGT is modeled as a grantor trust, the system calculates all taxes on income and realized capital gains that occur in the IDGT portfolio each year, based on the grantor's tax rates and other income, and pays them from the grantor's personal portfolio. The IDGT may continue for the duration of the analysis, or the trust assets may be distributed in cash or in kind at a specific point in time or periodically to (1) a non-modeled recipient, (2) a taxable trust, or (3) a taxable portfolio for someone other than the grantor. If applicable, an installment sale to an IDGT may be modeled as a user-entered initial "seed" gift followed by a sale of additional assets to the trust. The system will use one of two methods to repay the value of the sale assets plus interest (less any user-specified discount to the grantor): 1) user-defined payback schedule, or 2) annual interest-only payments at the applicable federal rate (AFR) appropriate for the month of sale and the term of the installment note, with a balloon payment of principal plus any unpaid interest at the end of the specified term.

This document is for informational purposes only and does not constitute investment advice. There is no guarantee that any projection, forecast, or opinion in this material will be realized. The views expressed herein may change at any time after the date of this publication. Bernstein does not provide tax, legal, or accounting advice. In considering this material, you should discuss your individual circumstances with professionals in those areas before making any decisions.

The Bernstein Wealth Forecasting SystemSM uses a Monte Carlo model that simulates 10,000 plausible paths of return for each asset class and inflation and produces a probability distribution of outcomes. The model does not draw randomly from a set of historical returns to produce estimates for the future. Instead, the forecasts: (1) are based on the building blocks of asset returns, such as inflation, yields, yield spreads, stock earnings, and price multiples; (2) incorporate the linkages that exist among the returns of various asset classes; (3) take into account current market conditions at the beginning of the analysis; and (4) factor in a reasonable degree of randomness and unpredictability. Moreover, actual future results may not meet Bernstein's estimates of the range of market returns, as these results are subject to a variety of economic, market, and other variables. Accordingly, the analysis should not be construed as a promise of actual future results, the actual range of future results, or the actual probability that these results will be realized.

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