Selling a cosmetic practice or med spa is not a single handshake followed by a wire transfer. For most owners I work with, especially those who have scaled from a solo injector to a multi-room facility with lasers, a skincare line, and memberships, the last chapter includes a structured payout with strings attached. Two tools dominate that conversation: seller financing and earn-outs. Each can help you bridge a valuation gap, accelerate a deal, and align incentives. Each can also introduce new forms of risk that will keep you up at night if the terms are sloppy.

This article unpacks the mechanics, trade-offs, and edge cases I see in Cosmetic practice exit planning. The lens is practical, built around real numbers, lender behavior, and the quirks of cash-pay medicine. Whether you are preparing for market or responding to a buyer’s term sheet, you should understand how these structures actually function once the ink dries.

Why sellers meet buyers in the middle

Medical aesthetics sits in a strange pocket of healthcare. The medicine is real, but the payor is the consumer. That means banks and private equity underwriters analyze you more like a niche retail operator than a traditional

medical practice. The assets on paper rarely cover the price. Injectables drive much of the margin, device revenue depends on provider skill and marketing, and patient loyalty can shift with one injector's departure.

Here is what that looks like in practice. A single-location med spa with $3.0 million in revenue and $700,000 in seller's discretionary earnings may market for 4.0 to 5.5 times adjusted EBITDA, depending on provider stability, device mix, and growth rate. That implies a $2.8 to $3.9 million enterprise value before working capital adjustments. Few lenders will cover that fully on day one. SBA financing often caps at the lesser of 90 percent of purchase price or an amount supportable by cash flow at a 1.25 to 1.35 debt service coverage ratio. Conventional practice lenders are even more conservative with non-insurance cash businesses.

The consequence is simple. There is often a delta between what the buyer can fund and what the seller wants. Seller financing and earn-outs are the two bridges across that delta.

Seller financing, in plain terms

Seller financing is a promissory note you extend to the buyer at closing. Think of it as the buyer paying you part of the price over time, with interest. The note is typically subordinated to the senior lender, meaning the bank gets paid first and you get paid second. Interest rates float with the market. In the past year, I have seen 7.5 to 11 percent, with two to five year amortizations and interest-only periods in the first six to twelve months to protect early cash flow.

Security matters. If the senior lender allows it, you can take a junior lien on the business assets, a pledge of membership interests, or a personal guarantee from the buyer. In reality, many bank deals restrict additional liens, so you may end up with a guarantee and cure rights rather than hard collateral. Cure rights give you the ability to step in if the buyer breaches certain covenants, such as payroll tax remittance, insurance maintenance, or brand standards that affect patient safety.

Payments on a seller note come regardless of performance, unless the buyer defaults. This makes it more predictable than an earn-out, but also more exposed to buyer credit risk.

Earn-outs, in plain terms

An earn-out ties a portion of your price to the practice's future performance. Instead of fixed payments, you receive contingent consideration based on revenue, EBITDA, or a hybrid metric over a defined period, commonly 12 to 36 months. Earn-outs solve a genuine problem in cosmetics: so much value sits in relationships, talent, and marketing that buyers hesitate to pay full price up front. You are effectively saying, pay me more as the business I built keeps performing.

Mechanics vary. A straightforward structure might pay you 20 percent of revenue above a threshold, measured quarterly, with a cap of $1.2 million over two years. Another common design pays you 30 to 40 percent of EBITDA above a hurdle, with agreed add-backs for owner salary removal, non-recurring consulting costs, and certain integration expenses.

Earn-outs only work if the definitions are clean and the operating levers are respected. If a buyer can reclassify normal marketing as a one-time integration cost, your EBITDA-based earn-out becomes a mirage. If a buyer can push injector productivity into a new entity or centralize retail sales across locations, a revenue-based earn-out can get sandbagged unless the contract pins down revenue attribution.

A fast comparison for decision time

- Predictability: Seller financing provides fixed, scheduled payments. Earn-outs fluctuate with performance and may pay zero if targets are missed.
- Control risk: Seller financing exposes you to buyer default risk, mitigated by guarantees and security. Earn-outs expose you to operational decisions you may not control post-close.
- Tax timing: Seller notes often allow installment sale treatment for principal, deferring taxes. Earn-outs can be ordinary income or capital gain depending on structure, but timing is inherently uncertain.
- Lender compatibility: Banks tolerate modest seller notes. Lenders often dislike uncapped revenue-based earn-outs that could drain cash, so caps and subordination are standard.
- Cultural fit: Seller financing suits clean handoffs. Earn-outs work best when you stay engaged part-time and can influence performance levers like provider retention and marketing.

How valuation interacts with structure

Aesthetic practice valuation is not a one-number exercise. The multiple you command should incorporate deal structure. Buyers pay a lower multiple for all-cash, all-risk transfers in fragile settings. They may stretch for a business with locked-in injectors, data-backed patient loyalty, and consistent monthly recurring revenue from memberships.

Every dollar you defer through a seller note or earn-out should, in theory, increase headline price. In reality, I see three patterns:

- A modest seller note, say 10 to 20 percent of price, smooths financing and holds the multiple steady.
- A large seller note, more than 30 percent, can maintain price but often adds a point or two of interest and stricter covenants.
- Earn-outs usually increase the headline number, sometimes by 10 to 25 percent, but only a portion is realistically collectible. If you would value the practice at $3.2 million all-cash, a $3.7 million deal with a $700,000 earn-out may actually be worth $3.3 to $3.5 million in expected value.

This is where good Aesthetic practice valuation work earns its fee. The model should incorporate downside cases on patient retention, injector turnover, and device utilization during the earn-out window.

What banks and private buyers actually approve

Med spa consulting teams often underestimate how tightly lenders police subordinate obligations. Senior lenders typically require:

- A subordination agreement for your seller note, including standstill periods before you can enforce defaults.
- Payment blocks if the borrower violates debt service coverage or liquidity covenants.
- Caps on earn-out payments per period, or permission to pay earn-outs only when pro forma coverage remains above a minimum.

Buyers without bank debt have more flexibility, but their appetite for contingent payouts still hinges on perceived risk. Individual buyers, such as senior injectors stepping into ownership, usually understand local patient behavior and will consider modest earn-outs if they plan to keep the same team, services, and pricing. Institutional buyers prefer formulaic structures and strict definitions, especially when rolling up multiple locations into a management platform.

Terms to negotiate on a seller note

Here is a simple checklist I run through when papering a seller note:

- Interest rate and amortization, including any interest-only period and prepayment rights.
- Security package, such as personal guarantees, membership interest pledges, or a junior lien if permitted.
- Default triggers and cure rights, including what constitutes a material adverse event.
- Financial reporting, specifically monthly P&L, cash balance, and covenant compliance certificates.
- Protections against asset stripping, like limits on owner distributions until the note is seasoned.

Terms to nail down on an earn-out

Earn-outs collapse when definitions are murky. Spend your energy on the following. Start by fixing the accounting basis. If the business closes the books on an accrual basis pre-sale, keep it that way. Revenue-based earn-outs need revenue attribution rules. If memberships are sold online by a parent company, specify how membership revenue is credited to your location. EBITDA-based earn-outs require an agreed add-back schedule anchored to pre-close norms. Set floors and caps to keep both sides sane.

Spell out operating boundaries. You cannot micromanage after sale, but you can preserve core assumptions. Maintain office hours, service menu, and price ranges within an agreed band, for example no more than a 10 percent deviation without mutual consent. Lock in minimum injector hours or FTE equivalents for the earn-out period. State a marketing spend floor as a percent of revenue, excluding any system-wide rebrands that should be treated as buyer costs.

Clarify integration. If retail or call center functions centralize, the earn-out should either adjust for allocation changes or credit revenue to originating locations based on historical conversion. Without this, you lose visibility and leverage.

Include reporting cadence. Quarterly statements within 30 days of close of each period, with underlying GL detail on revenue categories such as neuromodulators, fillers, energy-based devices, skincare retail, and memberships.

Add dispute mechanics. A short arbitration cycle with a neutral CPA familiar with med spa accounting helps. The Aesthetic practice valuation aestheticbrokers.com goal is not courtroom drama, it is a fast correction when the math drifts.

A blended structure that works in the field

Most balanced deals blend the two tools. For a $3.5 million sale:

- $2.5 million at close funded by a bank loan.
- $400,000 seller note at 9 percent over four years, interest-only for six months.
- $600,000 earn-out over two years, tied to 25 percent of revenue above a $3.0 million threshold, payable quarterly, capped at $300,000 per year.

This mix gets the buyer to closing, keeps the lender comfortable, and gives the seller upside if the handoff goes smoothly. The earn-out threshold should reflect seasonality. If your practice peaks from November to January with holiday events, the quarterly thresholds should weight those months appropriately rather than split the annual target evenly.

Edge cases unique to aesthetics

Memberships and prepaids. Med spa memberships and pre-sold packages can distort revenue timing. If you collect $300,000 in prepaid packages before closing, carve out the liability and define how revenue recognition flows during the earn-out. Otherwise, the buyer gets the economic benefit from sales you made, or you miss targets because revenue is recognized against liabilities.

Injector concentration. If one injector produces 40 percent of injectable revenue, your earn-out and your note both hinge on that individual staying. An employment agreement with a retention bonus tied to the earn-out window is worth more than an extra quarter point of interest.

Device upgrades. New lasers and RF devices can lift revenue but hammer EBITDA for a quarter or two with training and marketing costs. Set a rule for capital expenditures during the earn-out period. Either exclude agreed growth CapEx from EBITDA or predefine the allocation of those costs so your earn-out is not penalized for growth the buyer requested.

Multi-entity sprawl. Many owners run the medical practice and med spa through different entities for compliance. If you sell both, define cross-entity allocations for rent, shared staff, and MD oversight. If you sell one and keep the other, draw a bright line for revenue attribution and protect referrals with a service agreement.

Retail versus clinic revenue. If a buyer centralizes e-commerce, your in-clinic skincare sales can appear to drop while total brand sales rise. Tie your earn-out to clinic-originated skincare revenue or add a shadow credit for online sales to your patient cohort.

The human side of post-close performance

Earn-outs test relationships. Patients follow injectors. Injectors follow the tone at the top, scheduling flexibility, and compensation transparency. If you are sticking around part-time, the buyer's staff will take their cues from how you show up. If you say, it is not my problem anymore, your earn-out will echo that attitude within a quarter.

Set a post-close calendar that supports performance. Weekly huddles for 60 days, then biweekly for the rest of year one. Monthly marketing reviews that tie spend to lead sources and booked treatments, not vanity metrics. Device utilization reports by provider and room. Funnel conversion from consultation to treatment. These are standard in Aesthetic Practice Consulting, and the rhythm keeps the earn-out honest for both sides.

Tax and legal considerations that change the math

Seller financing usually supports installment sale treatment in the United States. You pay capital gains as principal comes in, not all at once. Interest is ordinary income. Earn-outs can be drafted to qualify as additional purchase price, usually capital gain, but the details matter. If the buyer characterizes part of the earn-out as a consulting fee or a non-compete payment, you shift into ordinary income and possibly self-employment tax. That might still make sense if you want guaranteed cash for ongoing services, but run the scenarios with your CPA.

Non-compete and non-solicit provisions need to track current state law. California's stance on non-competes has tightened. In markets like La Jolla and the greater San Diego area, I have seen buyers lean on non-solicit and trade secret protections, combined with retention bonuses for key injectors, instead of broad non-compete clauses that invite litigation.

Escrows and holdbacks sit alongside these structures. A small indemnity holdback, say 5 to 10 percent of price for 12 to 18 months, covers breaches of reps and warranties, such as HIPAA, payroll taxes, or device lease status. Do not confuse this with an earn-out. The holdback is not performance based, it is a safety net for known unknowns.

Preparing your practice so these tools work in your favor

If you want to negotiate a small seller note and a tight earn-out you can actually collect, start twelve months before you go to market. Clean financials on an accrual basis, with clear add-backs. Normalize owner compensation to market rates for clinical and administrative time. Separate spa and medical revenue cleanly if both exist. Document membership terms, breakage rates, and historical churn. Lock down device maintenance records and warranty status. Renewal-ready agreements for injectors that run through at least one year post-close. Shore up the medical director agreement if you are not the physician of record.

Marketing data matters. Track lead source, consultation conversion, and average revenue per new patient. If paid search drives your filler business, that is leverage in an earn-out discussion. You can say, keep the $18,000 monthly PPC budget, maintain this landing page and call script, and the revenue will follow. That is the level of specificity that turns a buyer’s skepticism into a signed addendum.

Operational cadence counts more than owners expect. Show that your team runs with weekly KPI dashboards: new consultations, no-show rate, treatment mix, device uptime, and retail attachment rate. Buyers pay up for businesses that look like they can run without you because the systems already do.

Two brief case snapshots

A physician-owned cosmetic surgery center with an adjacent med spa received offers at 4.5 times EBITDA with 70 percent cash at close. The seller wanted a 5.0 multiple. We accepted $2.8 million at close, a $300,000 seller note at 8.5 percent over three years, and a $400,000 EBITDA-based earn-out over 24 months with an 18 percent share above a $900,000 hurdle. The surgeon stayed on two days a week, and the lead injector signed a retention bonus tied to the earn-out period. The earn-out paid $310,000. The seller’s effective multiple landed around 4.8, which beat the all-cash alternative once taxes were modeled.

A multi-provider med spa in coastal San Diego with strong memberships faced heavy seasonality. A buyer offered $3.0 million total with $2.4 million at close. We negotiated a $350,000 seller note at 9.75 percent and a revenue-based earn-out capped at $450,000 across eight quarters, paying 22 percent of revenue above $3.2 million annually, weighted 35 percent to Q4 and Q1 to reflect holiday and new year demand. The marketing floor was set at 7 percent of revenue. Despite a device failure that took one room offline for three weeks, the earn-out fully paid. Weighting the quarters prevented a technical miss during the slower spring months.

Common pitfalls that erode value

Ambiguous EBITDA. If you do not define integration costs, buyers can sinc-bomb the P&L with training, rebranding, and system rollouts while you miss targets.

Provider churn. A retention bonus that pays 10 to 15 percent of an injector’s projected gross profit across the earn-out period is cheaper than missing your earn-out by a quarter million dollars.

Membership cannibalization. Slashing membership prices to juice signups can starve treatment revenue in the short term. If the buyer pushes aggressive discounts, the earn-out should either exclude the delta or set a floor on average realized price per syringe or per treatment.

Cash skimming myths. Buyers sometimes suspect under-reported revenue in cash-pay businesses. If your culture has any off-book habits, clean it up a year before sale. An earn-out can serve as a compromise for a skeptical buyer, but only if the baseline is trustworthy.

SBA conflicts. SBA lenders cap how much subordinate debt can be paid in the first two years. If your seller note terms violate that, you will be renegotiating during underwriting. Get your banker and your Aesthetic Practice Consulting advisor aligned before you trade redlines.

Are you a good candidate for an earn-out or a seller note?

Owners who plan to retire immediately, with a bench of stable injectors and managers, usually favor a larger seller note and a small or no earn-out. Owners who intend to consult for one to two years, keep a clinical day, and directly influence revenue often extract more value with a meaningful earn-out. If you are in a premium market like La Jolla with loyal out-of-town patients who book around events, your ability to shape the calendar and maintain service standards gives you leverage to negotiate earn-out definitions that reflect reality. For many of my Aesthetic Practice Consulting La Jolla clients, a blended structure maximizes certainty and upside without pushing the buyer or lender past their comfort zone.

Integrating advisory help without overcomplicating the deal

There is a line between helpful advisors and deal fatigue. Good Med spa consulting does not flood the room with templated demands. It focuses on a few leverage points: clean definitions, right-sized caps and floors, and a reporting cadence both sides can operationalize. Your attorney should be comfortable with healthcare compliance and cash-pay models. Your CPA should model tax timing on each component and run scenario *Aesthetic Practice Consulting* analyses on the earn-out. Your broker or consultant should benchmark multiples and terms against current deal flow, not two-year-old comps.

A steady hand on timeline and communication

Deals derail as much from silence as from disagreement. Publish a timeline at LOI: 45 days for diligence, two weeks for loan finalization, and a target close date. Define who is responsible for device service transfers, vendor notifications, and membership communications. Patients do not need a long letter, they need continuity. A short note explaining that the team and services remain the same, contact info unchanged, and any rebrand will occur gradually is enough. Day one should feel like a normal clinic day. If your earn-out depends on momentum, protect it.

Final thought

Seller financing and earn-outs are not tricks, they are tools. Used well, they solve real constraints in this market and reward sellers for performance that can be sustained beyond their daily presence. Used carelessly, they shift risk onto whoever understood the details least. If you strip the jargon away, the question is simple. What must stay true for the practice to perform, and how do we write that into the deal so both sides can live with it?

If you focus on that question, apply disciplined Aesthetic practice valuation, and let experienced voices guide the structure, Cosmetic practice exit planning becomes a series of choices you can make with clear eyes rather than a leap of faith.

Aesthetic Brokers
Address: 800 Silverado St #301A, La Jolla, CA 92037

Phone number: +16197420310

FAQ About Aesthetic Practice Consulting

What does an aesthetics consultant do?

An Aesthetic Consultant provides guidance to clients on cosmetic treatments and procedures, helping them achieve their desired aesthetic goals. They work in med spas, plastic surgery clinics, or dermatology offices, educating patients on options like injectables, laser treatments, and skincare.

What are the issues in aesthetics?

The four central issues in aesthetics—identity, ontological status, interpretation, and evaluation—are interdependent.

What is an aesthetic practice?

Aesthetic Medicine comprises all medical procedures that are aimed at improving the physical appearance and satisfaction of the patient, using non-invasive to minimally invasive cosmetic procedures.