

The Dental Transition

N E W S L E T T E R

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Keys to Maximizing Practice Value

It's Never Too Early to Start Planning Your Transition

As practice brokers, we are frequently contacted by dentists who have an immediate need to sell their practices due to retirement, disability, etc. After meeting with the doctor and reviewing the practice financials, we often find that practice revenue and profitability have declined over the past few years due to various reasons such as the dentist cutting back his work schedule to pursue other interests, not actively marketing the practice or pursuing new patients, or referring out more procedures. We also often find that the selling doctor has not updated the office appearance or equipment in 10-20 years. Unfortunately, the decline in revenue/profitability and dated décor and equipment typically results in a substantial decrease in the value and marketability of the practice that could have been avoided with prior planning.

To prevent this mistake, it is imperative for dentists to understand the keys to maximizing practice value:

Start planning your practice transition 3-5 years in advance:

By planning in advance, you can choose a transition strategy that best meets your individual situation, make changes to enhance practice value, and avoid mistakes that can reduce practice value and marketability.

Maintain/Increase Revenue:

Practice value is heavily influenced by the most recent year's revenue level, so it is crucial to maintain or increase practice production in the years leading up to the sale. Regardless of the explanation, declining or erratic revenue trends will cause concern for buyers and their lenders regarding the future viability of your office. Therefore, you should do everything possible to maintain or increase revenue in your final years as the practice owner. If you are considering

cutting back your work schedule, hire a part-time associate to maintain production or consider selling the practice and working as an associate following the sale.

Control/Reduce Overhead:

Profit is truly a prerequisite for value ... Most buyers are looking for offices that generate sufficient cash flow to cover practice overhead expenses (including the debt service associated with their practice loan) and their personal living expense needs. Therefore, ensuring that your major expense categories (staff payroll, dental supplies, and lab fees) are within industry standards will ensure that your practice is an attractive option for potential buyers. Additionally, the ability for a buyer to obtain financing for the practice purchase is heavily tied to the historical cash flow of the practice.

Increase # of Active Patients and New Patient Flow:

Active patient count and new patient flow are extremely important to buyers in evaluating the health and goodwill of a practice. We have often heard that, on average, patients switch dentists every seven years. Therefore, an easy way to determine if your patient base is growing or declining is to divide your number of active patients (seen in the past 24 months) by seven and compare the result to the number of new patients you have seen in the past year. If the number of active patients leaving your practice each year is larger than the number of annual new patients, then your patient base is shrinking and may be cause for concern.

We recommend conducting a periodic analysis of your active and new patient counts to evaluate the health of your practice and identify trends that may need to be corrected. Enhancing the patient experience and maintaining an effective recall system can

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ensure maximize patient retention, while implementing an internal marketing strategy (asking for referrals from existing patients) and an effective external marketing strategy (such as a website or direct mail) can improve new patient flow.

Consider updating office equipment & decor equipment:

Most buyers prefer to utilize newer equipment and digital technologies in their practices. Therefore, practices that have digital radiography and chair-side computers tend to sell quicker and at a higher price than their counterparts. Also, first impressions are important, so practices that do not have a positive “curb appeal” when buyers walk in the door for the first time can lose value and take longer to sell. It is imperative to have a long-term plan for keeping your equipment and facility up to date. The more time you have until the practice sale, the easier it will be to garner a sufficient return on investment from purchasing new equipment and updating office decor. We recommend that you upgrade your equipment and decor 3 to 5 years prior to selling your practice. Keep in mind that you don’t have to do a complete overhaul of the office but simply make investments in the practice to keep it up to date. Your local equipment sales representative can assist you with an assessment of your office and offer advice regarding equipment and facility upgrades.

Work with a local, reputable practice broker:

Dentists who work with a practice broker can expect to receive a higher value for their office, have a more amicable relationship with the buyer following the sale, and experience much less stress and anxiety during the transition process than their counterparts who attempt to sell a practice on their own. It is also important to work with a broker who has a good reputation, is involved in the local dental community, and is solely representing your interest in the sale.

Evaluate and raise your fee schedule as needed:

We often work with sellers who have realized consistent annual revenue over the years leading up to the sale but experienced a decline in profitability over the same period of time. In some cases, this can be attributed to the fact that their fee schedule has not been increased in years, resulting in a reduction in net income. Considering that practice value is most heavily influenced by revenue level and cash flow, practice owners should evaluate their fee schedule on an annual basis and make increases to keep up with inflation and rising overhead costs.

Clean up accounts receivable & credit balances:

It is relatively common to see practices with high > 90 days accounts receivable balances due to the fact that the practice owner has not written off uncollectable accounts in years. While this may be an easy explanation, buyers and lenders may relate a high accounts receivable balance to an issue with the office’s collection rates/policy. Therefore, it is a smart move to clean up accounts receivable prior to beginning the transition process to alleviate any undue concern from potential buyers. It is also important to mention that the seller is typically required to refund any credit balances or write a check to the buyer for the amount of the credit balances at closing, so these balances should also be cleaned up prior to a practice sale.

Reduce discretionary write-offs on practice tax returns:

As we previously discussed, cash flow is one of the primary components of practice value. Since buyers and their advisors will utilize your practice financials to evaluate the cash flow of your office, you will want to make it as easy as possible for them to dial in on the true overhead expenses of your practice. While buyers understand that you may be writing off personal or discretionary expenses such as travel, country club memberships, and meals and entertainment through your business, it is wise to minimize these write-offs in the years leading up to a practice transition. If you choose not to do so, be prepared to provide potential buyers and lenders with documentation regarding any personal or discretionary expenses that are being run through the practice.

Have a contingency plan for death & disability:

Practice value can deteriorate rapidly upon the death or disability of the practice owner. Therefore, it is crucial to have a contingency plan in place should an unfortunate event occur. First and foremost, contact an estate attorney to draft a will. Secondly, notify your spouse, heirs, and/or attorney of the time sensitivity associated with a practice sale upon your death or disability. Third, ensure your family knows who to contact to facilitate the sale of the practice. Lastly, make sure that all practice financials and management reports are easily accessible.

By planning ahead and focusing on these key factors, you can rest easy knowing that you will be in the position to maximize the value you receive when it’s time to sell your most valuable asset.

Is Now a Good Time to Sell a Dental Practice?

As practice transition specialists, we are often asked “Is now a good time to sell a dental practice?” While there are many factors involved in making the decision to transition your practice, the short answer is YES. The current practice transition environment features several attributes that are helping to enhance practice value and make it an ideal time to consider a practice sale:

1. High Demand – The substantial increase in the profitability of dental practices and the poor economic outlook in medicine have caused a significant increase in dental school applicants over the past 10 years. With 61 dental schools currently operating in the United States and Puerto Rico and several more in the works, the number of dental school graduates will likely top 5,000 in the

coming years. As a result, the pool of potential buyers has increased dramatically over the past few years and this trend is expected to continue in the near future. With a surge in the number of potential buyers comes an increase in the demand for quality practice acquisition opportunities.

2. Shortage of Practices Available for Purchase – Many doctors who are well within retirement age have delayed the sale of their practices due to the recession. As a result, there have been a relatively fixed number of practice acquisition opportunities available over the past few years. The increase in demand coupled with a limited supply of quality opportunities has resulted in an increase in the value and marketability of dental practices.



It is important to mention, as the baby boomer generation reaches retirement age and the economy and stock market continue their recovery, more and more sellers will enter the marketplace. Therefore, it is expected that supply and demand will eventually reach equilibrium and the current window of opportunity to maximize the value of your practice could begin to close.

3. High Cost of Practice Start-Ups – Another contributing factor to the increase in practice values is the rising cost of establishing a new dental practice. The prices of dental equipment, technology, and leasehold improvements have increased dramatically over the past decade, resulting in an average cost of approximately \$400,000+ to start a practice from scratch. Combined with the significant living expense needs of most dental school graduates (due in large part to a high level of student loan debt) and the time and cost required to start a practice and generate a profit, many doctors are focusing on purchasing an established practice rather than pursuing a start-up. Real estate agents who focus on dental office space have also commented that private practices are struggling to compete with large corporate practices for prime dental locations.

4. Low Interest Rates. Due to the fact that most buyers rely on third party financing to fund practice purchases, interest rates and

the availability of capital play a major role in practice value and transitions. Interest rates are currently at an all-time low and numerous lenders are offering 100% financing plus working capital to qualified buyers. The current availability and low cost of capital is allowing buyers to comfortably afford to purchase practices and fueling the increased demand for quality practice purchase opportunities.

While the current banking and interest rate environment make it a great time to be buying or selling a practice, interest rates are expected to increase substantially within the next 5 years. Combined with an increase in the amount of practices available for purchase, this could negatively impact the value and marketability of dental practices across the country.

The factors we have discussed in this article make NOW an ideal time to consider a practice transition. If you are considering a practice transition, don't go it alone. A practice broker will help you formulate a transition strategy to meet your individual needs, confidentially market your practice to find a buyer who is the right fit for your office, provide a structured closing process to facilitate a smooth and timely transition, and maximize the value you receive for your practice.

The Role of a Dental Practice Broker

Planning to sell a dental practice? Don't go at it alone

FACT: A dental practice is typically the doctor's most valuable and prized possession.

FACT: A dentist will typically sell a dental practice only once during his or her professional career.

Considering these facts, many dentists will make a wise choice and entrust the responsibility of selling their practices to a professional who has the knowledge and experience to facilitate a successful transition ... a dental practice broker. In my experience as a practice broker, these dentists typically receive a higher value for their practices, have a more amicable relationship with their buyers following the sale, and experience much less stress and anxiety during the closing process than their counterparts who try the "do it yourself" approach.

Selling a dental practice is not like selling a vehicle... it is a complicated process which extends far beyond simply finding a buyer and closing on the sale. While some practice owners may be able to identify a buyer who is interested in purchasing their practice with little difficulty, getting from that point to the closing table is the most challenging component of a practice sale. Determining the market value of the practice, finding the right buyer, negotiating the purchase price, drafting the asset purchase agreement, formulating the transition plan, negotiating the lease assignment, and obtaining practice financing are just a few of the key areas where a potential practice sale can be derailed and the experience, expertise, and guidance of a practice broker can prove to be invaluable.

Doctors who are preparing to sell a dental practice often ask us what our role in the process will entail. Here are the primary responsibilities of a practice broker:

- Identify and accomplish the seller's goals for the transition. Every doctor and practice is unique so it is imperative for the practice broker to spend the time to understand the seller's individual situation and goals and formulate a transition strategy to meet their needs.
- Solely represent the seller's interest throughout the process. While the practice broker should be focused on putting together a win-win transaction for all parties involved, their responsibility is to solely represent the seller's best interest during the transition process. Beware of practice brokers who offer "dual representation", as it is difficult to represent the best interests of both the buyer and seller simultaneously.
- Determine a fair market value for the practice, maximize the value the seller receives at closing, and be able to support and articulate the value to interested buyers and their advisors.
- Construct a detailed marketing profile and cash flow analysis for the seller's practice. The marketing profile should be organized and include all pertinent information that potential buyers and their advisors will need in order to evaluate the office.
- Confidentially market the practice to qualified buyers and advertise the practice on a local, state, and national level via the web, print ads, seminars, trade shows, etc. It is critical that all potential buyers are required to sign a Confidentiality Agreement prior to receiving any information on the seller's practice.
- Handle all inquiries from potential buyers and their advisors regarding the practice, including conversations, email correspondence, and showing the office after business hours.



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The Role of a Dental Practice Broker

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- Work with the seller to identify the right buyer for the practice so that the staff and patients will be in good hands following the transition.
- Serve as a buffer between the buyer and seller throughout the process (particularly during price and contract negotiations) to preserve the goodwill of the practice and relationship between the parties.
- Provide an organized process so the practice sale and transition go smoothly, including managing all correspondence between both parties and all of their advisors (attorneys, accountants, consultants, lenders, etc.)
- Refer the seller to an experienced dental attorney and accountant to assist with drafting/reviewing the Letter of Intent, Asset Purchase Agreement, Office Lease, and any other necessary documents.
- Assist the buyer with building an experienced team of dental advisors so that he/she is positioned for long term success following the transition.
- Assist the buyer with securing practice financing.

As you can see, a practice broker plays a vital role in the transition process. When you consider all of the responsibilities associated with owning/operating a dental practice along with the expertise and time necessary to fulfill the practice broker's responsibilities, it is easy to understand why doctors who attempt to sell a dental practice on their own are often overwhelmed by stress and anxiety.

Therefore, I encourage you to contact a local, reputable practice broker when it is time to start planning the sale of your practice.

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Contact us TODAY to schedule a free consultation!
