Dentaltown Magazine is pleased to present the second part of a three-part series on transitions. Last month we examined the buy/sell process and provided advice for dentists contemplating a career change. For this edition we have included three case studies of actual transactions along with our transition-specialist contributors’ top tips for buying and selling a practice. Imtiaz Manji, co-owner and CEO of Mercer Advisors, Mastery and Transitions; Fred Heppner and Jeffrey J. Tonner, JD, of Tonner-Heppner Transitions, LLC; and Larry M. Chatterly of CTC Associates took the time to answer many questions and provide case studies for this feature.

Case Studies

The following case studies are representations of actual transactions. Names have been changed out of respect for privacy.

Dr. Smith’s Transaction Woes

by Larry M. Chatterly

Dr. Smith owns a well-established practice in a highly desirable neighborhood of a good-sized metropolitan area. He has practiced for 25 years and feels like it might be time to consider selling the practice. The practice is collecting about $460,000 annually with very little discount insurance participation. The office is older and dated.

Dr. Smith hires Dr. Jones as an associate with the intent of selling him the practice in six to 12 months. Dr. Smith feels confident in his abilities to bring about a successful sale on his own without the help of a practice broker, so he reads an article in a dental magazine on how to value a practice and determines an asking price of $370,000. He has no written employment agreement with Dr. Jones, and the two of them do not talk about price and terms until several months after Dr. Jones begins working in the office.

Dr. Jones had initially agreed to purchase the practice but is now forced to weigh what he knows about the practice against the asking price. Ultimately he decides the practice is overvalued by as much as $70,000. He communicates his feelings to Dr. Smith. Emotions and ego eventually lead to a breakdown of communication and ill will develops between them. Without a non-solicitation or non-compete agreement in place, Dr. Smith watches almost 30 percent of his patients follow Dr. Jones to his start-up practice just down the street.

At this point, Dr. Smith decides he needs some professional assistance. He consults with two different practice brokers. The first tells him his practice has been damaged by the loss of patients and is now worth between $220,000 and $250,000. This broker agrees to sell the practice for a flat fee commission of $15,000. The sec-
ond broker tells Dr. Smith exactly what he wants to hear, i.e. that the practice is worth the $370,000 he has been asking for it. This broker agrees to sell it for the customary 10 percent commission. Dr. Smith signs a listing agreement with the second broker.

Time goes by. Each potential buyer decides the asking price – now reduced to $340,000 – is too high. Some of the buyers offer to purchase his practice. One prospective purchaser even offers as much as $320,000 for it, but Dr. Smith will not accept anything less than the original asking price.

Two-and-a-half years go by. Dr. Smith would like to be retired by now, so he spends less and less time in the office and revenues decline. He becomes frustrated and disenchanted. He finally agrees to sell the practice to the highest bidder. It sells for $190,000, of which the broker takes 10 percent.

Things to do before selling a practice

1. Pay off any outstanding debt and do not incur any additional practice-related debt. Resist purchasing a lot of new equipment with the false expectation that it will enhance your practice value dollar for dollar.

2. Objectively evaluate your staff situation. You might want to conduct a staff performance analysis to see what can be done to make the practice run more effectively. A truly excellent staff will make the practice much more valuable and attractive to a young purchaser.

3. Take positive yet conservative steps to increase practice collections and improve new patient flow. Generally speaking, practices with greater collections from fee-for-service patients will sell for more; however, canceling your participation in PPO-type insurance programs shortly before a sale will result in greater risk of patient attrition and, subsequently, a lower perceived value by the buyer.

4. Check to see if the practice facility needs a face-lift. This includes items such as painting the walls, re-carpeting, re-upholstering dental chairs, etc.

Tips for buying a dental practice

1. Think possibilities, not just price. When you’re buying a dental practice what you’re really buying is an economic engine and a dental home, so your greatest concerns should be how well the practice can optimize your production and how well it fits into your long-term vision.

The Future Looks Bright for Dr. X

by Imtiaz Manji

A few years ago, Dr. X, a dentist in his 50s with a family practice in suburban Atlanta, decided it was time to dissolve a facility-sharing arrangement he had with another dentist. The two had fundamentally different visions for the future. Dr. X was eager to update and expand the five-operator facility, bring in a young, energetic partner and grow his practice. His facility-sharing “roommate,” however, who was leasing from Dr. X, was a comfortable mid-career dentist who was content to “ride things out” into retirement.

After attending a workshop and consulting with a transition specialist who confirmed the possibilities that existed, Dr. X took action. With the help of his adviser he negotiated an exit from his facility-sharing arrangement and began to make his vision a reality. He made extensive renovations to the practice, updating the equipment and technology and expanding to nine operatories. Meanwhile, he listed his practice on a national Web site and began searching for a young career-minded dentist to join him in the next phase of the practice’s development.

He found that person in Dr. Y, a talented, energetic young dentist who shared Dr. X’s vision, and who was looking for an opportunity to get in to a thriving prac-
tice where he could work his way into ownership. Dr. Y joined the practice as a trial associate in January, 2005, with an understanding that if both doctors were satisfied with the arrangement, Dr. Y would begin the process of buying a 50 percent interest over a three-year equity period.

That trial period went well. Dr. X and Dr. Y were working well together and the practice was growing. In July 2006, they had the practice appraised with a view to beginning the equity process. Dr. X and Dr. Y signed the agreements to have Dr. Y’s equity period begin on June 1, 2007.

Now, a year into the official transition period, both doctors are thriving under the current arrangement and enthusiastic about their future together. Their estimated total production for 2008 is $2 million, and they see opportunities for further growth. Dr. X’s only regret is that he didn’t do this sooner – it’s obvious now that the potential for growth was there for a long time, and he feels re-energized about his career, working in a refreshed environment with an infusion of young talent. Dr. Y is happy to be in a practice that he knows he probably couldn’t have bought outright in a brokered sale.

**Things to do before selling a practice**

1. **Consider selling part of the practice.** One of the biggest mistakes dentists make when it comes to selling their practice is waiting until it’s time to retire to make their move. Capture that value early by transitioning in an associate and selling part of the practice and you’ll compound the value that’s in the practice. The return you get on exiting could be several times what you would get from a one-time sale.

2. **Keep your facility current.** Buyers today have high expectations in terms of what they are looking for in technology and a contemporary environment, so if you want to attract quality buyers you must ensure that your facility looks and feels like a dynamic profitable practice lives there.

3. **Look beyond the quick brokered sale.** The structured three-to-five-year transition approach doesn’t just favor the buyer. In many cases this kind of arrangement can yield two to three times the return of the traditional brokered sale for the exiting doctor. If you’re not in a hurry to retire, a measured “equity transition” can provide far greater opportunities for everyone involved.

4. **Don’t wait for the right offer, search for the right buyer.** Selling a practice that you have invested a good portion of your life in – a practice that others will continue to depend on after you leave – calls for more than just placing a listing and waiting. You don’t just want a buyer, you want the right buyer, so use the resources you have to support your search for that person.

5. **The rules are different for high-end practices.** For dentists who own practices that are among the top performers in their area, the brokered approach simply doesn’t work. They don’t even get market value for what is, on paper, a high-value practice. If you’re the owner of a premium practice, you must take a well-planned, carefully executed transitioned approach to transferring ownership, where you find the right person and provide over-the-shoulder guidance and mentorship so they can grow with the practice, become comfortable with patients and the team, and develop their skills and productivity to the point where they are fully able – and economically prepared – to take over the practice.

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2. **Look beyond the quick ownership opportunities.** While the turnkey brokered approach is the fastest route to ownership, it can also be a high-risk, high-pressure approach. That’s because you have to produce at top levels right away to have any hope of matching the previous owner’s rate of return, even though you don’t have that doctor’s level of experience, the patients don’t know you, and you are likely servicing higher levels of debt than the outgoing doctor had to contend with. Three to five years is not too long if it means getting into the ideal practice.

3. **Investigate the intangible assets.** A comprehensive review of the equipment and technology is an obvious must-do when evaluating a practice, but don’t forget to do an assessment of the intangibles as well, such as: retention strategies, methods of case presentation, and the current doctor’s insurance and treatment philosophy.

4. **Hire someone to oversee the process.** A transition has a lot of moving parts, and to do it right you need the help of a number of experts, such as CPAs and attorneys – many of whom have competing agendas and can give conflicting advice. That’s why it pays to have one person – an experienced “transition architect” – who oversees the whole project and coordinates the work of the other people on the team.

5. **Maximize your value.** Once you have made your decision and invested in a practice, invest in yourself as well. Get the continuing education and the right coaching to develop the skills and the systems that drive the value of your time to the highest level.
Tips for buying a dental practice

1. Retain professionals who will represent only you and not the seller. Hire a dental CPA who will analyze the practice’s financial statements and help answer the question, “Will this practice provide enough net income for me to pay the loan on the practice, pay my personal debt, and pay a reasonable salary for me to live?”

2. Examine the office’s production by dental procedure code and category/class so that you can answer the question, “Can I do the dentistry in order to sustain the practice’s productivity?”

3. Examine patient charts and determine how many patients have had a visit within the past 18-24 months, so that you are comfortable that the patients exist.

4. Obtain financial pre-qualification with a recognized dental lender, private bank, or obtain private funds for the purchase.

5. Negotiate a favorable lease, and read all of the fine print.

The Successful Dr. Smart

by Fred Heppner and Jeffrey J. Tonner, JD

Dr. Smart had been in practice for 30 years. His practice was one half of a space sharing/partnership arrangement with Dr. Smartee, who had 27 years experience. They resided in the same office under the partnership for 23 years. The seller’s desire was to retire after selling his practice. The remaining partner hoped the buyer coming in would be a candidate to purchase his practice in three to five years. The seller demonstrated a steady flow of income and profit over recent years and this continuity of success was a positive factor in transitioning the office. The office was located in a professional complex with other healthcare providers.

The partnership agreement was not in writing; a verbal arrangement was constructed so that each doctor shared common expenses. The common expenses were rent, front-office salary, depreciation, laundry and uniforms, office supplies, dental supplies, advertising, telephone, equipment rent, partnership accounting and legal, maintenance and repairs, utilities, software, meals and entertainment for the practice, and collections expense. Individuals had their own non-shared expenses, such as special equipment purchases, salaries and payroll taxes for dental assistants and hygienists who treated their patients, personal lab expenses, cars, CE, interest, professional services, meals and entertainment, and travel.

Doctors received compensation after the shared expenses were paid, and the non-shared expenses were handled. Dr. Smart collected $870,000 in a year, paid out his shared and non-shared expenses and earned $234,000 before taxes, interest depreciation, amortization and retirement contribution. Dr. Smartee collected $1,072,406 in a year, and earned $444,140 before taxes, interest, depreciation, amortization and retirement contribution.

Accounting for each individual partner was done in such a way that all income and expenses were clearly defined, as well as the value of the hard assets for each partner. Separate tax returns were available for each practitioner as a separate corporation. The practice had a common trade name.

In order to compensate the staff fairly, each doctor paid their personal dental assistants directly, they shared the front-office staff’s salaries, and pay was determined for the hygienists by assigning each hygienist with two provider numbers, each one relating to the doctor’s patient. Compensation, therefore, is paid by each doctor relative to the number of hours spent treating his patients by the hygienist designated by the provider number.

Transferring the assets in this transaction was made easier due to the bookkeeping and specific separation of patients within the practice. If need be, each doctor covered for the other during vacations or personal leave, but did not perform extensive treatment for the other partner’s patients.

The buyer who successfully completed the transaction was a dentist with 10 years experience, a demeanor that matched the seller very well, and experience sufficient to take over the practice and continue the previous levels of productivity. He purchased the practice outright. Dr. Smart, stayed on for about a day a month to complete his cases. The practice sale took place in 123 days from the signing of the listing contract to the transfer of assets. The practice continues to be a productive and enjoyable place for patients, staff and both remaining doctors.
Things to do before selling a practice

1. Have the business appraised by an independent certified business appraiser – independent of a selling broker; or allow a professional accountant and/or broker to analyze all pertinent financial documents and determine discretionary earnings to assist in helping formulate a possible sales price.

2. Discuss with a trusted and knowledgeable professional with a proven track record of successful transactions the practicality of the sale of a practice like yours.

3. Enlist a CPA to forecast proceeds from the sale, in particular any tax consequences.

4. Maintain a steady, healthy income; don’t let the practice drop in productivity. Make sure all equipment is in good working order and keep a clean, well-presented office.

5. Make sure the broker you retain is one who will represent only you in the transaction, not both buyer and seller.

Next month, join us for the third and final part of our practice transitions series as Larry Chatterly, Imtiaz Manji and Fred Heppner and Jeffrey Tonner answer questions and share tips about hiring an associate.