



# Practice Transitions: 2008

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*Bentson Clark & Copple, LLC is a company that provides orthodontic valuation and transition services exclusively to the orthodontic profession. Orthotown Magazine recently interviewed Bentson Clark & Copple, LLC, Founder Jerry Clark, DDS, MS; President Chris Bentson and Doug Copple, CPA, CVA, on the state of orthodontic practice transitions in 2008.*

## Tell me a little about Bentson Clark.

**Bentson:** We exist solely to serve the orthodontic market for valuation, transition, consulting and, at times, we provide recruiting services for practices that are having a hard time finding a doctor.

**Clark:** We have done more than 700 practice valuations and many multiple transitions. We have kept to our original vision, which provides excellence in orthodontic valuation and practice transition. We provide these services exclusively for the orthodontic profession and only for independent practices.

## Do you find buyers and sellers and then match them up together?

**Bentson:** We have two different markets. We have typically the older generation orthodontist who is transitioning out of his practice or bringing a partner in. We also represent buyers. We're also in touch with the residents from the schools. The services that we typically begin with are valuations of a practice. That puts a stake in the ground about what the assets that the doctor/owner has are worth.

A lot of times, two doctors will have found each other through various methods. Sometimes this is predicated on location. Somebody might ask us to help find a buyer for them. Then we'll act as a recruiter and introduce the practice to a buyer and deliver our valuation. As part of our valuation process we typically visit the practice, which is very important. We think that's very important. Then Doug [Copple] will provide cash flow performance to both sides. He will also construct a term sheet, which is a high-level outline of the transaction.

## What does the transition market look like today?

**Bentson:** For the past several years we've seen an aging orthodontic profession. In the United States, the average orthodontist is around 51 years old. Today, doctors are working longer than they typically did 10 or 15 years ago. It's a very competitive national market regarding transitions. There are very few under-served areas across the country.

There is also a lot of pressure for new patients coming from general dentists who provide services for some easier ortho cases, plus a lot of Invisalign for adult cases. We are also, cyclically, in an economic environment where we aren't necessarily seeing fewer new-patient exams, but fewer of those new-patient exams are converting to new-patient starts.

When you look at the population base of orthodontic-age children, it is fairly flat over the next several years but there is a slight millennium boom. A lot of children were born in 2000 who are coming into orthodontic age, so that is going to help matters some.

Last year there were about 270 new-grad orthodontists in the United States. Most of those got out of their residency programs and into practice. As we query the resident market, anywhere there is sunshine and water are pretty attractive sites to

residents. The standard is to be within an hour of water or within an hour of a major metropolitan area with more than one million people. This means that the core area of the United States offers more growth opportunities, but it is harder to attract doctors there.

## Of those graduates, how many start looking for a place to practice either on their own or with another doctor?

**Bentson:** We estimate about five to eight percent go in with a legacy situation – a family member. Probably less a two percent go into the military. Probably less than two percent either continue their education or go into teaching or academics. There are two to three percent who return to their country of origin. I'd say about 70 percent of the doctors we see are looking to transition into an already existing practice. Maybe 10 to 15 percent are looking to start-up on their own.

## If a young orthodontist is going to buy a practice, what are the key things that he/she needs to know?

**Copple:** One of the most important things for a buyer is to have a cash flow analysis prepared that illustrates to him or her the financial position after buy-in or buy-out occurs. We have seen several situations where the seller proposes a transaction to the buyer and the buyer thinks it is a good deal. But then when the actual cash flows are prepared the buyer realizes that the transaction as structured is not financially viable. They don't have enough money to live on, they can't get out of debt or service their school loans. So that is a really important piece of the puzzle that needs to be done before the transaction is considered.

**Bentson:** There are other key items that we think the buyers really need to focus on after the cash flow issue. One is the issue of location. The buyer needs to be very comfortable with the city and the location of the practice within that city. We tell residents right out of school that those are probably the two most important business decisions they are going to make.

Buyers also need to decide whether they want to be sole practitioners or if they want to be in a partnership. That will put some fences around what they want to look at, practice-wise. Buyers should also use the associateship as an opportunity to learn from the senior doctor and not go into a practice and want to change everything quickly. Lastly, we really try to stress during this whole process the confidentiality that is required to respect the senior doctor.

## From beginning to end, how long does it take one of these transitions to take place?

**Copple:** There are three to six months as far as getting the valuation done and most of the paperwork done to actually have

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a transaction. Then after you do that, there might be a three to 12 month association period (the transition period) and then the transaction happens. If it is a partnership arrangement, this has to be discussed and understood by both doctors and that process can be a little longer.

### **Is there a critical step in this process like a deal maker or breaker?**

**Bentson:** The critical step is to start early enough to not have to rush this process. The transition of an orthodontic practice does not yield to be rushed. It starts with a valuation.

The next step is the structure and cash flows. That is where the decision will be made on whether the deal will go forward or not. The last piece is the definitive documents – where most of the negotiation has been done. It is very important that about 95 percent of these transitions have an associateship period of some length. They can be as short as 90 days or as long as a couple of years, but they are on average six to 12 months.

### **So, a trial period is always recommended?**

**Bentson:** Yes, it is. I think it is an important learning period. Both buyer and seller usually know fairly quickly if this is going to work.

**Copple:** We also suggest that the buyer get everything in writing before starting in the practice to ensure he or she does not enter into the deal on a handshake with the seller who says, "I'm going to sell you my practice in six or 12 months after we see how it goes." Then six or 12 months goes on and nothing really happens. Then the buyer asks, "What are we going to do with this?" and the seller says, "Why don't you pay me X amount for practice," which may be higher than fair market value.

A buyer should have everything in writing before he or she steps into the practice. Most of our buyers' attitudes are, "I want to buy a practice. I want to be an associate for six to 12 months and then I am ready to buy this practice." They need to talk to the senior doctor about that and the senior doctor needs to say, "Yes, I am ready to sell," or "No, I am not ready to sell."

### **You said the average age of orthodontists is 51. How many older orthodontists are not considering transitioning out and saying, "I need to stay in this a little longer and maybe just change the way I work and not necessarily bring a young doctor in?"**

**Clark:** Orthodontists are working longer. Some of them should be looking at retirement but they think that it is easy to work and still have a pretty good income if they only work part time. Many times it is doctors who are not financially prepared for retirement. They can't afford to retire, so they need to con-

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— *Bentson Clark President Chris Bentson*

tinue working and a lot of them still enjoy orthodontics. So when it comes time to retire, they aren't ready.

The bottom line is, at some time or another, you should be selling your practice. You don't want it to just trickle down to nothing. It is a decision that you need to make and you should have some strategic planning and a transition plan in place. Whether you're 45 or 65, you should still plan for what you are going to do and how you are going to transition the practice.

### **How many orthodontic residents coming out of school are actually just going out and starting their own practice?**

**Clark:** If I had to guess I'd say around 15 percent or maybe less. There just aren't that many places to go because orthodontists aren't retiring. We have about 9,000 practicing orthodontists in the country and there aren't that many good locations.

**Copple:** I think that is a good point. A lot of the practices that are setting up from scratch are doing so because they have a strong desire to be in a specific location and there is not a transition opportunity available for that location.

### **So you would say that today, based on what we talked about, for a young doctor coming out the best opportunity for him would be to transition into another practice?**

**Clark:** The numbers aren't even close. Plus there is the opportunity for mentoring and many other side benefits like a well-trained staff. There are many benefits coming into an organization that is already set-up. The systems are in place, it is well staffed, the cash flow is in place, and there are a lot fewer questions to be answered. Just from a dollars-and-cents standpoint, the numbers aren't even close. Somebody is going to be much better off purchasing an existing practice than starting up on his own.

*Bentson Clark is located in Greensboro, North Carolina; for more information please call 800-621-4664, or visit [www.bentsonclark.com](http://www.bentsonclark.com).* ■