

## Final 2011 Webinar Presentation

Our webinars are a great way to get information from our experts from the comfort of your home or office. If you're considering selling your practice in the next year, you won't want to miss this last presentation. CE credits are offered and the cost is \$49.95 per webinar. For further information visit our website at [www.snydergroup.net](http://www.snydergroup.net) or [www.henryschein.com/pptwebinars](http://www.henryschein.com/pptwebinars).

**November 8, 2011** 8:30 pm EDT  
**Are You Ready for a Practice Sale?**  
Dr. Tom Snyder

## Schedule of Seminars for 2011

**November 6, 2011**  
**Practice Transitions & Associateship Steps to Success!**  
Queens County Dental Society  
Jamaica, NY  
Presented by Dr. Tom Snyder

**October 7, 2011**  
**Practice Growth & Transitions - How to Profit Today from Tomorrow's Transitions**  
Elmhurst, IL  
Presented by Dr. Eugene Heller  
Info: (630) 516-9088

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## Schedule of Seminars for 2012

**January 26, 2012**  
**Practice Transitions**  
Stark County Dental Society  
Canton, OH  
Presented by Dr. Tom Snyder

**March 26, 2012**  
**Transitioning Your Practice in Tough Economic Times**  
Big Apple Dental Meeting  
Mahwah, NJ  
Presented by Dr. Tom Snyder

100 Centre Blvd.  
Suite A  
Marlton, NJ 08053

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# TRANSITIONS

News & Information from The Snyder Group

Fall Issue 2011

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Welcome

## Simplified Valuation Formulas - Are They Reliable?

"How much is my practice worth?" is the first question that comes to mind for those considering selling their practice. The importance of obtaining an accurate practice valuation cannot be underestimated. Your practice's value is the culmination of a lifetime's efforts, so resist the urge to save a few dollars by opting for the "one-size-fits-all" approach of those "Free Practice Valuations" offered by some transition firms. These "free" valuations use a simplified approach to determine your practice's value, and the resulting valuation may be higher or lower than your practice's actual value. Both scenarios are problems since even an inflated practice value prices you out of the market, costing lost time and lost opportunities to secure qualified buyers. And, once you learn how the real market actually values your practice, your expectations may be crushed.

One of the common techniques some firms use to value dental practices is the Gross Multiplier method. This method either uses last year's gross revenue or computes an average revenue over the past several years to arrive at a practice value by simply multiplying this average by a revenue multiplier factor (percentage). This method does not consider the practice's profit which is a key indicator of value. **So, for prospective buyers, if you plan to purchase a practice and this is the only method utilized you may be making a big mistake!** That's because potential buyers may overpay for a practice that may have been appraised at a lower number, if proper methods considering practice profit had been applied!

So, if Gross Revenue Multipliers don't work, what's the next best solution? In our opinion, one of the tried and true methods of valuing a dental practice is **based on valuing a practice's net profit plus the fair market value of the Tangible Assets** (equipment, leaseholds, supplies, etc.). This approach makes sense since purchasing a dental practice means buying someone else's historical income stream. So, valuation methodologies using practice cash flow, net profit and value of Tangible Assets more accurately reflect practice value.

Obtaining an accurate practice valuation is the most critical aspect of selling (or buying) a practice. Be sure to understand the methods used for practice valuation, and keep in mind that using "simplified" valuation methods very often disappoint.

Welcome to the fall issue of Transitions. Whether you are receiving this issue electronically or in a printed version, we're pleased to be a source of news and information for you.

This issue addresses many of the concerns today's dentists have about selling their practice. We'll explain the perils of using simplified valuation formulas to determine your practice's value, explore some tips for hiring an associate, and offer advice for those looking to sell their practice within the next year. We'll offer insights on deferred transitions and finding and locking in an ideal candidate for a practice sale or a partnership.

If you've visited us online recently, you may have noticed our new website design that features easy access to over 200 practice listings and partnership opportunities throughout the United States. In addition, you'll find numerous articles on a wide range of practice transition topics in the "articles" section of our website. Visit us at [www.snydergroup.net](http://www.snydergroup.net).

By the way, if you are receiving the electronic version of our newsletter, and would prefer a printed version, please contact us, and we'll be happy to update your preferences. We hope you can use the information in Transitions to help prepare your practice for the coming year, and to have a successful last quarter of 2011!

Thanks for reading!

Sincerely,  
Thomas L. Snyder, DMD, MBA  
Editor

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## Key Points of a Facility Sharing Arrangement

More doctors today are considering working together, but they may not always want to become partners. A viable alternative to consider is **developing a Facility Sharing Arrangement**. Here are several key points that should be considered.

### Rights Granted

Facility Users normally have rights to use part of the premises either by number of operatories, common space, or use of entire facility based on scheduling.

### Term

How long will you agree to work together? In the event the Facility Provider makes capital improvements and if the Facility User leaves before the end of the term, there should be some consideration for liquidated damages.

### Expenses

- **Rent** - Typically, rent is charged based on facility usage and equipment and number of days worked. Utilities as well as an estimate for maintenance and repairs should be included in the rent.
- **Staff Costs** - If the User routinely uses any staff of the Provider, that portion of staff salaries, payroll taxes and fringe benefits can be added to the rent, plus a small administrative override. If the User employs his/her staff, it is the User's responsibility to pay them directly.
- **Telephone** - Clear delineation of phone numbers needs to be made and the cost of telephone system integration should be borne by the User.

- **Supplies** - Common supplies are usually provided and paid for based on a formula, unless those are considered separate, such as implant supplies or orthodontic supplies, and identified as direct expenses of the User.
- **Computer Expense** - If the systems are discussed, this needs to be addressed and costs apportioned accordingly.

### Allocation of Revenue

It is important to keep revenue segregated. Typically, the User will have a separate bank account to pay for practice expenses.

### Management Operations

Often times the Facility Provider and User will market themselves as separate entities, as there is no employment relationship. Each party should have the right to manage their respective practices.

### Patients

It is understood that the User and Provider maintain their own patient pool. Typically, new patients who specifically request the service of a particular dentist will be assigned to that dentist. Additionally, **arrangements should be made to cover each other** in terms of vacation, emergencies, and other times as mutually agreed upon.

In summary, there are many points to consider when establishing a Facility Sharing Arrangement. In cases where there may be a transition plan, appropriate clauses leading to potential purchase of the Provider's practice at a future point in time must also be addressed. Properly crafted documents are essential for a successful arrangement.

## How do I Know if I am Ready for an Associate?

Considering hiring an associate in the near future? Here are four indicators to determine if you are ready:

### 1. You are scheduled solidly six to eight weeks in advance.

You have 90 percent of your schedule filled six to eight weeks in advance on a consistent basis—exhibiting one of the key signs of “saturation.”

### 2. New patient hygiene appointment becomes difficult to schedule.

If you pre-book re-care appointments in a busy practice, chances are that your staff may sacrifice “designated” slots for new patients in order to accommodate patient demands for their re-care appointment. Thus, it becomes difficult for a new patient to be seen by a hygienist in a timely manner.

### 3. Clinical production and patient revenue growth is stagnant.

It is difficult to effectively increase production on an hourly

basis in a saturated practice. Oftentimes, to meet increasing patient demand, many “saturated” doctors begin to schedule shorter appointment times to treat more patients, so typically hourly production suffers. When valuing practices, we typically see no true revenue growth over a several year period.

### 4. Increase in number of “patient of record” emergencies.

Saturated practices exhibit an increasing number of “emergencies.” These are not “off-the-street” emergencies, rather patients of record who have missed a few re-care appointments and now have a problem. So, a clinical issue that may have been addressed during a re-care appointment now has become a patient “emergency.”

*If a few of these indicators ring true for your practice, hiring an associate can alleviate these issues, and can provide the added production to make your practice more profitable, and less stressful.*

## Preparing for the Sale of Your Practice

For those of you who are thinking about selling your practice in the next few years, there is a great deal of preparation required before taking this big step. Failure to do so may result in your getting a lower value or not being able to complete the transaction at all! Here are some key points to consider.

### 1. Meet with your financial advisor.

Can you really afford to sell your practice? Some of you may be surprised! If you have never had a financial plan prepared, now is the time to get one done. We often speak to potential Sellers who are emotionally ready to sell, but financially unable to do so. Based on the plan's results, you may find that you'll have to put your practice sale “on hold” a few more years or, conversely, you'll have newfound confidence to move forward with your transition.

### 2. Discuss the tax ramifications of a practice sale with your accountant.

If you are a Professional Corporation, there are some “road blocks” that must be overcome with tax allocation issues in selling your practice. How will you allocate goodwill between the corporation and yourself? How tax efficient will your future sale be? Ask your accountant to prepare an analysis showing what your “after tax” dollar picture will be when you sell.

### 3. Get a comprehensive Practice Valuation.

If you use a broker, retain one who will prepare a “formal” valuation. Many brokers who prepare formal valuations will credit the valuation fee against the future sales commission. Obtaining a “free” valuation is not always serving your best interest. In our experience, just having a “number” appear on a spreadsheet does not do you justice, when potential Purchasers are trying to determine if they want to make the investment in purchasing your practice.

### 4. Do not slow down or work less days.

Doctors who start reducing their schedule in the years prior to selling often discourage accepting new patients. This will hurt your practice's value and can prove to be a disincentive for potential buyers who are often less interested in purchasing a practice that has been showing a steady decrease in revenue for the last few years.

### 5. If you are employing an associate, make sure you have an Employment Agreement containing a restrictive covenant (in states where enforced) as well as a non-solicitation clause.

If you are currently employing an

associate without a contract, consult with your attorney, as you may be able to ask the associate to sign an Employment Agreement for additional compensation known as “consideration”. This will protect your practice's value. Another important clause in your Employment Contract is the clause allowing for transferability of the employment contract to a new owner. Without such a clause it may also have a negative impact on your practice's value!

### 6. Assess your facility.

You do not necessarily have to make any large capital expenditures, especially if you want to sell in less than a few years. However, you should at least consider making some cosmetic enhancements, if needed; whether it's fresh paint on the walls, new carpet, tile, new landscaping, etc. In other words, make your practice look more aesthetically appealing. First impressions are always critical to any Purchaser.

### 7. Purge any uncollectible accounts receivable and make every effort to collect those accounts that are past due over 90 days.

This is especially true if you are planning to sell within the next 12 months. If you fail to do this, it will become a “sticking point” in your negotiations.

### 8. Fee increases.

We suggest you have a fee analysis prepared to determine where you stand within the fee percentile range within your community. If your fees are well below average and you still have a year or more to go before the sale, do yourself a favor and increase your fees. Even though we have been facing severe economic obstacles, increasing fees especially if you are at the lower end of a fee profile makes good sense. Chances are your patients will accept the fee increase; you will increase your income, and possibly enhance the value of your practice.

### 9. Be realistic in your timing.

Sometimes we receive calls from doctors who want to sell their practice in six months or less! This is almost an impossible task for any broker or transition specialist to undertake, unless your practice is exceptional and located in a high demand area. Our advice to most of our clients is to expect a 9 to 12 month time to complete the sale of a practice.

So in the end, proper planning is necessary for you to really get your practice ready for sale and it may also afford you the highest probability of getting your practice's fair market value!

