

TRANSITIONS

Winter 2015 Issue

 **HENRY SCHEIN**[®]
PROFESSIONAL PRACTICE TRANSITIONS

**FOR SALE
BY OWNER**

**...a Smart
Strategy?**

For those doctors who are planning to sell their practice this year but have no potential buyers identified, the strategic question you must ask yourself is, "Do I want to sell my number one financial asset on my own?"

Many doctors want to assume this responsibility for selling on their own primarily because they want to avoid paying a commission to a dental broker. Conversely, how many doctors try to sell their home without using a real estate agent? The answer is very few! So, what is the logic behind a dentist selling his/her practice on their own?

In our experience we have found that many mistakes can be made in negotiating your own practice sale. The average practice sale can take in excess of 100 hours of time from start to finish. First of all, how much do you think your practice is worth and how will you determine its value? You may do yourself a real disservice if you do not have a professional valuation prepared to establish a market value for your practice! In fact, the commission you may pay a broker can be significantly less than a lower sale price you calculated if you were unaware of the true market value of your dental practice. Practice values vary greatly around the country and have risen substantially in many markets over the past several years. This is especially true in markets where there are a relatively small number of good practices for sale. Since brokers get paid on commissions, they'll make every effort to get you the maximum price for your practice.

It also takes considerable time to recruit a qualified purchaser, marketing your opportunity, making sure your buyer can qualify for a loan, dealing with accountants and attorneys for both sides, negotiating the Practice Purchase Agreement and finally, closing the sale! These tasks can contribute to lost production on your behalf if you are doing it "on your own." The cost of lost production comes directly out of your practice's net profit and this loss of income frequently may exceed the commission you'd pay if you engaged a broker.

Another important point to consider is if you want to sell your practice by yourself is not addressing key points in a professionally prepared Practice Purchase Agreement that is needed to document the transaction. Many brokers provide sample contract templates that incorporate all key terms and conditions of a practice sale as part of their sales commission. These agreements can save you thousands

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Planning for the Unexpected

How many dentists have an “Emergency Exit Strategy” should an unforeseen event occur? We cannot predict the future, so having a plan in place should the unforeseen occur is an excellent financial planning strategy.

It is critical that no matter your age you develop an “Emergency Exit Strategy”. Were you aware that when a dentist dies the practice’s value decreases approximately 5% per week? Fifty percent of all practices go unsold upon the untimely death of the practice owner primarily as a result of delays in getting the practice listed for sale. Statistics also show that 95% of all dental practices remain unsold after 90 days of the owner’s death.

As transition consultants, we place a premium on planning not only for the long term transitions but for addressing situations such as a long-term disability or death. It is important for all dentists to know what his/her practice is worth. So, here are some recommendations to assist you in developing your “Emergency Exit Strategy”.

Step 1

Have your practice appraised.

Most dentists consider only having their practice appraised when considering a practice transition. Quite the contrary! Since your practice is probably your number one financial asset, don’t you think you should know what it is worth? How about sharing that information with your family members as well as your trusted advisors? We recommend that you get your practice appraised now and share that information with those close to you. Your practice appraisal does not have to be

updated annually, every few years is fine, especially if you’ve been experiencing steady growth or have made some major purchases of equipment and technology.

Step 2

Prepare a Letter of Instruction.

A “Letter of Instruction” is a document that will provide your heirs with a quick and orderly way to set the “wheels in motion” to sell your practice immediately. A “Letter of Instruction” should contain a list of key advisors who need to be contacted in order to take appropriate action. Advisors can include your accountant, your attorney, your dental supply rep, and, if you’ve been working with a transition consultant, include them as well. Additionally, within this document you can also document information about your life and disability insurance policies as well as the insurance agents contact information.

A “Letter of Instruction” is also applicable in the event of a severe disability whereby you may be incapable of making sound business decisions regarding the disposition of your practice.

Although no one likes to think about these events happening to you, they do in fact occur. It is sound business to re-emphasize the importance of taking action today to protect your family.

If you would like to receive a complimentary copy of our “Letter of Instruction”, which is prepared in an interactive PDF format, please send me an email at tom.snyder@henryschein.com and we’ll be happy to share it with you.

Key Indicators for Adding an Associate

There are several key tell-tale signs that usually are indicative of whether you are ready to hire an associate. Here are five key indicators:

1. You are scheduled solid six to eight weeks in advance.

Our rule of thumb is that if you have 90% of your schedule filled six to eight weeks in advance on a consistent basis, you are showing one of the cardinal signs of saturation.

2. Hygienists are scheduled three to six months in advance.

This is particularly true in practices that pre-appoint patients as scheduling flexibility becomes very difficult when you have an abundance of patients eligible for a re-care appointment with not enough hygiene days available to meet patient demand.

3. New patient hygiene appointments are difficult to schedule.

With the high demand for re-care appointments, chances are you may sacrifice “designated” slots that are to remain open for new patient hygiene appointments. In order to satisfy patients who want to schedule their re-care appointment, those “designated” slots get filled, thus new patients’ hygiene appointments cannot be scheduled in a timely manner.

4. Clinical production and patient revenue is stagnant.

It is difficult to effectively increase production in a saturated practice. Oftentimes to meet increasing patient demand, many “saturated” doctors will begin to schedule shorter appointment times or less clinical procedures per hour in order to accommodate patients who need to be seen. Saturation not only adds stress but can also reduce productive days. If you review your last few years’ revenue, saturated practices show no growth at all except for the growth due to an annual fee increase.

5. Increase in number of “patient of record emergencies”.

Saturated practices are characterized by an increasing number of “emergencies”. These patients are not “off-the-street” emergencies, rather patients who have missed a few re-care appointment intervals. So a clinical issue that may have been addressed during a re-care appointment, now becomes a patient “emergency” due to the lapse in time of a regularly scheduled re-care appointment.

So, if you meet the criteria for several of these indicators, chances are you are ready for an associate.

Deferred Transitions - A Growing Trend

As the retirement age of all dentists keeps increasing to a current average age of 68.3 years, we see more senior doctors entering into deferred transitions, whether it is an eventual sale or partnership buy-in.

Some of the key ingredients to a properly designed deferred sale are:

“Locking in” the Practice Value

The most important element of a deferred transition is establishing a future sale price or buy-in price. So having a “baseline value” is important if you want to avoid any problems at the time of transfer. Most young doctors want to know their financial obligation at the outset. At the time of sale, this baseline value should be adjusted for inflation, new equipment and for technology purchases during employment phase of the buyer.

Earnest Money

In the case of a complete deferred sale, it is essential that the seller receive a good faith deposit after a probationary period, since the seller is effectively taking the practice “off the market”. Realistically, most young doctors do not have the cash available to make a down payment, so preparing a promissory note for the deposit is one option. However, if the deal does not come to fruition, trying to collect the amount owed may be very expensive. Another option commonly used is to “hold

back” a portion of the associate compensation during their employment phase. However, there may be tax implications on the latter approach, so please confer with your accountant. In the event the associate changes his/her mind, then any funds would be retained by the seller. Properly crafted escrow instructions must be contained in any documentation with this transaction.

Contract Preparation

Whether you are considering a deferred sale or a deferred partnership buy-in, the necessary contracts that relate to the transaction need to be prepared ahead of time, so that all terms and conditions are known “up front”, thus preventing any major problems when the actual transition event is set to occur.



Henry Schein Strengthens Dental Practice Transitions Presence in Florida

Henry Schein Inc. announced in January the acquisition of ADS Florida, LLC, one of the largest dental practice transition and Brokerage Companies serving Florida. Through this transaction, ADS Florida, the Florida affiliate of ADS (formerly American Dental Sales), became a part of Henry Schein Professional Practice Transitions (HS PPT).

“Having acquired The Maddox Practice Group in California last February, and now ADS Florida, HS PPT continues to expand its practice transition footprint in markets where the dental industry is flourishing,” said Stanley M. Bergman, Chairman of the Board and Chief Executive Officer of Henry Schein, Inc. “Integrating these successful companies into the entrepreneurial spirit of Team Schein, we can expand the reach of our transitions’ offerings to practice owners looking to buy and sell their Florida practices. We are delighted to welcome Dr. Paul Rang, Dr. Stuart Auerbach, Greg Auerbach and their colleagues to Henry Schein.”

ADS Florida, is based in Naples, Florida and specializes in dental practice sales, appraisals and practice transitions (including partnerships, fractional sales and associate buy-ins and buy-outs). Dr. Rang represents ADS-FL in Central and Northern Florida; Dr. Stuart Auerbach is responsible for the company’s operations on Florida’s East Coast and Mr. Greg Auerbach serves Florida’s West Coast.

PPT Launches New Website

We are pleased to announce the recent launch of an entirely new website, www.HenryScheinPPT.com. This responsive, user-friendly website contains lots of useful information starting with hundreds of practice listings nationwide, as well as a wealth of resources from educational articles and videos to interactive brochures on the topic of practice transition and valuations. The responsive design means that the site adjusts to whatever device you are using -- it’s mobile, tablet, laptop and desktop friendly.

For those doctors interested in purchasing a practice, the site offers free enrollment as a preferred purchaser. By completing an online form, purchasers gain access to additional detailed listing information.

In addition to the hundreds of practices for sale, there are many other resources available on the site. You can find consultant contact information by geographic area or name. We also offer a listing of upcoming seminars and webinars on a variety of transition topics for dental professionals at all stages of their career. There are articles, archives of newsletters, and other resources available on the site. Be sure to take a look as new features are added to the site in the weeks to come.



Seminars for 2015

Winter/Spring Schedule

February 13

Henry Schein Dental
*Steps To Take For A Successful
Practice Transition*
Dr. Joe McManus
Fort Wayne, IN

February 28

Chicago Midwinter Dental Meeting
*Steps To Take For A Successful
Practice Transition*
Dr. Joe McManus
Chicago, IL

March 20

Henry Schein Dental
*Steps To Take For A Successful
Practice Transition*
Dr. Joe McManus
Waltham, MA

May 8

Henry Schein Dental
*Steps To Take For A Successful
Practice Transition*
Dr. Tom Snyder
Bethesda, MD

May 29

Henry Schein Dental
*Steps To Take For A Successful
Practice Transition*
Dr. Joe McManus
Houston, TX

New PPT Representatives

PPT is pleased to welcome several representatives. Many of them are retired dentists who owned and managed successful practices. Here is a list with their major geographic areas:

- Mr. Steve Caudill – Southern California
- Dr. Jeffrey Jones – Austin, San Antonio, Houston, Texas
- Dr. Michael Lipman – Maryland
- Dr. Russell Okihara – San Diego, CA
- Ms. Cindy McKane-Wagester, RDH, MBA – Washington MetroArea and Northern Virginia
- Dr. Mark Williams – Indiana
- Mr. Thomas Wright – Georgia

If you would like to contact any of these representatives, please contact our web site for their contact information. www.henryscheinppt.com

Webinars for 2015

Winter/Spring Schedule

March 10

Are You Ready For An Associate?
Dr. Tom Snyder

May 19

What is My Practice Worth?
Dr. Tom Snyder

For registration information about any of these programs, please visit our website at www.henryscheinppt.com

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of dollars in legal fees, especially if your attorney does not have considerable experience in negotiating dental practice sales. You still must retain a lawyer to represent you, but using time tested agreements as part of your sale can only benefit you.

Experienced brokers will also recommend proper tax allocation strategies and that can save you, the seller, thousands of dollars. Most brokers also have solid relationships with dental lenders so they can assist the purchaser in obtaining financing.

So in the end you need to weigh the costs and benefits of engaging a broker to dispose of the most valuable asset in your portfolio . . . your dental practice!

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