November 2017

Transitions

Experience, Information, Consultants You Can Trust

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YEAR END THOUGHTS FOR 2017

Although we encourage doctors to review their business operations regularly, the year end is a good time to re-evaluate things. With that in mind, here are some key areas to review before the new year.

Equipment/Software Purchases

With the caveat that you should always confer with your accountant for advice on the timing of any major purchase before a possible practice transition, the Section 179 Deduction remains at $500,000 for 2017. In order to take advantage of the deduction on your 2017 taxes, the equipment and/or software must be in place by midnight, December 31, 2017. If you're considering investing in new equipment or technology, the next few weeks may be an excellent time to do it. In addition to the potential tax savings, financing is still readily available and at low rates. Contact our team at 800-853-9493 for more information.

Compensation/Bonuses

The year-end in many practices means annual performance reviews with your staff. Oftentimes, this is an exercise that is tied to bonuses and pay modifications. While there are many ways of compensating and giving bonuses to team members, sound advice is to maintain a compensation model that aligns with your personal and professional goals. Compensation should be competitive, based on performance, and most of all, the practice must be able to afford it.

Transition Planning

While time is running out for a practice transition in 2017, the market remains robust in nearly every part of the country. If you're considering an exit in the short term, now is an excellent time to refine your plan, starting with a valuation of your practice. If you're considering a ten year timeline or pondering a partnership/multi-owner doctor situation, it would benefit you to spend some time planning.

2018 Outlook

Indicators point to another strong economic year in 2018 with more pro-business legislation to come. Of course, as we do at the end of every year, we encourage you to review all of your office systems, from your fee schedule to your clinical operations, to identify opportunities to improve your profitability and efficiency.

We know that 2017 has been a busy year and hope that you were productive and profitable. We are available to assist you with a broad range of practice related transition plans! We wish you, your family, and team the very best through the holidays and look forward to working with you in the coming months.

CORPORATE PURCHASE: WHAT YOU NEED TO KNOW TO MAKE THE RIGHT DECISION

Several times a week we are approached by a doctor who has been contacted by a corporation interested in acquiring their practice or by an investor group looking to purchase practices (yes, multiple). Corporate dentistry is growing throughout most of the country and it is expected to continue growing for some time. Let's be clear, the growth is typically not in "de novo" or start-up practices but instead through the acquisition of existing practice purchases. We believe in keeping you as fully informed as possible, so let's take a closer look at corporate dentistry.

The Role of Corporate Dentistry

To be clear, there is a place for corporate dentistry or small group practice networks (SGN). These offices can provide a training ground for new dentists and may be a good fit for dentists with no interest in owning a practice of their own. They also provide vital care to many patients who may not have insurance plans that are conducive to fee for service private practices. Corporate groups or SGNs can function well with a heavy pay or mix of PPOs because of their ability to function within the economies of scale these groups can achieve. In some instances, access to care for patients can be enhanced as these practices may function well in an underserved area where many private practitioners may not be interested in locating.

Private vs. Corporate

If your practice has gross revenue of $750,000 or less, and you have no more than four (4) treatment rooms, chances are that you are not a candidate for acquisition by a corporate group or SGN. So, if your plan is to sell your practice as a going concern (at current location including equipment, etc.) your options may be limited to a sale to another practitioner or possibly to someone seeking a second location.

Corporate groups or SGNs seek practices with five (5) or more treatment rooms and usually collecting in excess of $750,000. Further, they are not interested in non (or barely) profitable businesses – they require overhead to be in line with range norms, if not lower.

There may be a feeling, or you may be told that your practice is "too large" to transition outside of "corporate", but this is only true for a small number of practices. In many cases, we see that some successful dentists want to 'slow down' from the constant churn of production and apply their successful management skills to another dental practice or two hoping to replicate their success. This puts your practice right in their sweet spot. As such, your transition options are not restricted solely to a sale to a corporate entity – you most certainly have the path available to sell to a private practitioner or group practice and, if you so desire, possibly even stay to work on a limited to full basis after selling (depending on the practice).

Many corporate groups and SGNs are able and happy to pay an above average price for a practice, especially in markets where demand is high. We have seen instances where corporations have paid multiples of net income (3x-8x), much more than the 'typical' percentages of gross. It is important to note that in these sales, a seller will have to understand that, most often, 15% (or more) is held back to ensure compliance with post-sale employment requirements.

Some groups compensate their doctors with a combination of commission plus a profit share. In that, it must be remembered that many groups factor in a management fee and other certain expenses that may reduce the potential profit to be shared. It is vital to have a clear understanding of post-sale compensation. Corporate groups and SGNs nearly always require the seller to stay and work for a period of time. Usually, if the seller doesn't stay for at least two years, the offered price will be severely discounted or there will be no offer at all. Should the seller leave early, the purchase price held back will not be paid. When staying, post-sale, sellers should expect to make somewhere between 25% to 30% of the their collections (not production and not including hygiene collections). While we know of some corporations that will pay possibly even 33% percent of generated income, it is important to look closely at any compensation agreement to see who pays for, and who makes choices on, lab, supplies, instruments, etc.

Guidance

If you have been approached by a corporation or are considering this as a transition option, contact your local Henry Schein PPT representative before taking the next step. While there are several instances where a corporate purchaser or SGN may be the right purchaser, we feel that every seller should enter a transaction with their eyes open, and with the best understanding of their future, as possible. Our team has, at one point, worked with just about every single large and small multi-office purchaser out there. As such, please use us, we are a resource regarding this option and have developed models to give doctors a good idea of how a potential sale may work out. To find your local representative, go to HenryScheinPPT.com or call 800-988-5674.

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- Hiring Your First Associate
- What is My Practice Worth?
- Creating Successful Partnerships
- Preparing for a Practice Sale

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Whether you are considering selling your practice, merging your practice, bringing on a partner or associate, retiring, relocating, or buying a practice, we can give you guidance on what's most important in your situation and the next steps.

Register today for a free phone consultation,
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Q&A

Q: WHAT'S THE BEST WAY TO FIND A TRANSITION BROKER OR A PRACTICE TRANSITION CONSULTANT?

A: The best and most common way is to get a referral from someone in the industry whose opinion you value. If you have a colleague who has recently sold or purchased a practice, ask them who they used and what their experience was like. Other places to get leads include your dental sales consultant, conferences, online, industry associations, or ads in trade publications.

What Our Clients Say

"Henry Schein Professional Practice Transitions was so valuable in the recent sale of my dental practice! The bottom line truth is that without the energetic and committed assistance of Blaine Brown, the sale could never have been completed. My sale was so complex and complicated, with many moving parts and players, that it needed special and creative attention. It took time, patience and seasoned leadership which Blaine provided.

I am so grateful to Blaine and his team. I wish I would have used them instead of the previous consultant who helped with my Associate, years ago. I would have saved thousands and thousands of dollars. My investment in Henry Schein Professional Practice Transitions really paid off. They are my go to guys in the future!

– Dr. Chad Roskelley — *Seller*
Boise, ID