



Selling Your Practice: The Science of Due Diligence

When I first started in this business more than 25 years ago, the scope of general dental practice was much narrower and it was usually very easy to determine the clinical treatments and recordkeeping systems when appraising a practice for sale. The expanded scope of today's practices means a potential buyer has a much larger task when investigating the type and style of the current owner's operations, both clinical and administrative.

It is now customary for a buyer to perform an inspection of the records, both clinical and financial, either prior to making an offer or shortly after the offer has been accepted. The customary term for this process is "due diligence." While we always suggest that a buyer thoroughly examine a practice prior to submitting an offer, today's very active market (mostly in the larger Ontario cities) dictates that offers must be submitted quickly to enter the competition. Thus, some offers must contain a "due diligence" clause.

What records should the seller make available for "due diligence"?

- If requested, patient charts, models and X-rays should all be presented to the buyer. These are the best indica-

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tor of the philosophy of a dental practice, and under no circumstances should a layperson be permitted to examine these types of patient records. Delegating this crucial element to anyone else is a mistake and may also be a violation of privacy legislation unless specifically provided for in the Offer to Purchase. Patient records may be

required by a buyer to verify the data contained within the appraisal and also, with respect to obtaining financing, to satisfy the bank and accountant that the practice has been adequately examined.

Other records to be viewed may include:

- Appointment and day sheets for previous and future appointments
- Employee personnel files and performance reviews
- Financial production reports (daily, weekly, monthly, annual)
- Procedure analysis reports
- Bank statements and deposit books.

What records are not necessary to be examined?


The seller's income tax returns (T1 General) as they contain personal data that is not related to the practice.

When should I meet the staff?

Meeting with staff is not necessary at this point — the goal of due diligence is to examine the paper records, not the personalities of the practice. The staff will have a better opportunity to meet the buyer separately — with the owner present — so they do not feel that it is the quality of their work that is being examined. Once the buyer commits to the purchase, then and only then should he or she be permitted to meet the staff.

How should a buyer perform due diligence?

1. Visit the practice after hours and examine a minimum of 50 to 100 patient charts. (Don't ask to examine the records during working hours, as it will interfere with the normal routine and confuse or upset staff and patients.) Look for the date of the last appointment (it should be within the last 12 months to be considered 'active') and the type of appointment (recall or other). Is there a treatment plan? What codes are being used for certain procedures? Are the fees recorded in the chart or just on the ledger cards or in the computer?
2. Examine the appointment book, both for the past one or two months and for the upcoming months ahead. How far in advance are hygiene appointments booked?

3. Study the day sheets to determine the time allotted for each procedure and the usual booking times reserved for recalls and restorative procedures. Can you complete the treatment in the same time frame or do you require longer appointments? If the latter, production may be reduced accordingly.
4. Ask to see the equipment service log/records, if available, for recent entries. 

Every dental practice is unique and each one maintains records in its own fashion. When selling or buying, the process need not be complicated or adversarial. Sellers want to show the value of the practice and buyers need to be comfortable that they understand what they are buying. "Due diligence" is merely the standard process of acting in a professional and business-like manner when you find yourself involved in the purchase or sale of a dental practice.

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