



# Preparing a Practice for Sale

**M**any of our clients ask what steps they should take when preparing a practice for sale. Common wisdom suggests that a little planning can yield big results if the owner of a practice is committed to the succession planning process.

Even with one year or less before an anticipated sale, the following steps, if taken, may result in a higher sale price and a smoother transaction.

## 1. Confirm Your Premise Lease Renewal Option(s)

Most leases contain an option to renew, once the current term expires, but the tenant must confirm the presence of such an option or risk being faced with the following situation:

In this case, the tenant failed to notice that the landlord had intentionally deleted the option to renew clause. The office was in a fabulous location and moving this practice was most definitely not in the dentist's best interest. The practice was put up for sale, but the dentist had yet to approach the landlord to discuss the matter of the renewal option. When an offer was presented, the buyer insisted that we include a condition that the landlord confirms, in writing, that the lease may be renewed. This was eventually accomplished, but not without delay, additional cost and frustration for all parties involved. It could have easily been prevented had our client carefully reviewed the first lease he signed (five years earlier) — an easy and relatively inexpensive task. In the event the landlord was not as co-operative, this condition may not have been satisfied, resulting in a failed offer.

Today's buyers (or more often, their bankers) demand the right to remain in the existing premises for a minimum of seven or eight years. Banks are reluctant to finance a practice sale if the office has to be moved on short notice. If

your lease does not include adequate renewal options, contact your landlord and request written confirmation of same. You may want to consult with your appraiser or lawyer before doing so.

## 2. Prepare Your Financial Records

Most practices use computer software that tracks monthly production statistics. However, we notice that some of our clients are unfamiliar with their software and do not always have adequate reporting functions for income, hours worked and the various procedures performed or patients referred. Buyers wish to understand the unique nature of a practice, and may often ask to see the procedure analysis to determine if their skill set is compatible with that of the owner. If you do not have computerized records (yes, about 20 to 30 percent of dental offices are still using one-write systems) I suggest you retain the day sheets for at least six months, to demonstrate your appointment protocols and the procedures provided in your practice.

## 3. Protect Your Practice from Employee Fraud

Sadly, a growing trend in business is employee theft. While dentists are not usually victims of this crime, when compared with retail businesses, it is apparent that more and more staff are discovering methods of exploiting the inherent weaknesses of dental practice management systems. Longstanding and trusted employees have been involved in reported cases of dental fraud. Employee fraud in dental practice appears to be a growing trend — one that may be very damaging to the value of your goodwill. Here are a few ways to help 'fraud-proof' your practice:

- Request a copy of each day-end report and examine the billings and deposits
- Cross-check the daily billings with appointed patients indicated on the day-sheets

- Examine the deposit book for cheques received and compare to the bank or computer deposit slips
- Randomly examine patient charts and compare the procedures recorded with those found on the patient ledger
- Day-end reports may be changed at any time — so cross-check them with month-end reports to verify no backdating or reversals have been made.


The advent of sophisticated software has accidentally provided a complex means to hide or erase data and make employee fraud easier. To their credit, the major software companies have been modifying their programs to prevent changes to financial records, but it is not yet a foolproof system. Any dentist who does not know how to use his or her dental software properly is open to fraud. To protect your investment it may be necessary to hire a professional fraud examiner. One such company in Canada is found at [www.prosperident.com](http://www.prosperident.com).

#### **4. Review and Update Contracts and Agreements**

Purchasers demand accurate details of the contracts you have in place. Ask your associate(s), partner(s), landlord and any other suppliers for a current version or copy of your agreement(s). We often receive copies of important contracts that are not signed, current dated or valid. The owner has enjoyed a positive working relationship with

the other party for many years and no one thought to revisit the agreement to be sure it accurately reflects the current relationship. Lawyers, accountants and bankers are becoming more skeptical and thus more protective of their clients. They do not enjoy the benefit of familiarity and trust that you have with your suppliers and other parties. A lack of up-to-date contracts may substantially reduce the sale price of a practice, and in some instances it may prevent a sale altogether.

#### **5. Consult with Your Accountant About Incorporation**

The large majority of today's selling dentists are incorporating prior to sale, and we are sometimes surprised to discover that our clients have not had this discussion with their trusted advisors. Although we are very familiar with the advantages and disadvantages of professional incorporation for dentists, your accountant is the expert and the best person to assess your particular situation. Incorporation may provide substantial tax savings to a dentist. 

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