



Timothy A. Brown

Practice Management

Multiple Offers

In today's active market, many practices for sale are attracting multiple offers from multiple buyers. Why is this happening? What should buyers do when competing with other dentists who want to purchase the same practice?

To understand this competition for practices, the most influential issue to consider is the increasing surplus of young, ambitious general dentists in the GTA. During one recent sale, our firm met with 34 dentists — each of whom arrived in person to view the practice — and all on the same day! This was unheard of in the past and only serves to confirm there are large numbers of buyers seeking established practices in the GTA. As a result of this one-day “open house” numerous offers were submitted within the following week, affording the seller the luxury of choice. In the end, only one offer was accepted and the remaining buyers were left to seek other opportunities.

Buyers often ask what steps can they take to improve their chances of being the successful candidate? My first suggestion is that speed is the buyer's best tactic. The process of deciding what price to offer and working with a lawyer, accountant and banker to structure the offer is also very important. Some buyers wait too long, thus lowering their chances. Much like the housing market, if you see a practice you want, it is imperative to move promptly and with decisive communications to the seller and his or her broker.

Buyers should also know that the

market has developed a ‘sealed bid’ process. Only the seller knows the price and terms of the various offers. If a broker informs one buyer of another buyer's price or terms, he then creates a “Dutch Auction” whereby all buyers are entitled to know the price offered by all the other offers. While the “Dutch Auction” is common in some markets, it is not the preferred technique for selling professional practices. Buyers tell me they do not want others to know what they have offered the seller. Buyers also do not wish to be subjected to an increasing price simply by allowing the seller (or broker) to create this open knowledge auction. Invariably, the price will escalate even higher.

Another strategy for today's buyer is to carefully examine the tax structure of the sale in advance of submitting the offer. Many sellers are forming professional corporations prior to sale, so that they will benefit from substantial tax savings afforded by the capital gains exemption. Buyers traditionally were not inclined to buy the shares of corporations, as it does not afford them the same tax advantage as sellers. However, as the market continues to evolve, the incorporated practice is fast becoming the norm and buyers

are advised to prepare for the impact of buying such practices. An accountant is the best advisor to consult with on this matter before you commit to submitting an offer.

Buyers should also seek advice from their bankers before entering a competition for a practice to ensure they are well prepared for the possibility of a counter-offer (also known as a “sign-back”) from a seller who is seeking a higher price. In many recent sales, the final selling prices have often been higher than appraised values.

I am empathetic to buyers who are ready, willing and able to take over an established practice only to find that they are being eliminated due to an overwhelming number of competitors. The market must change, as all markets do over time, but I do not foresee the surplus of dentists in the GTA reducing in number anytime soon. Great news for sellers — not so great for buyers.

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