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Senior Associate - Alberta

Preparing a Practice for Sale

Deciding what **not** to do is a good place to start.

The ROI Corporation News

Issue # **2** ...of a Series

Edmonton Seminar - Sept 29 - see pg 4 for details!

In our experience with nearly 900 practice sales, since 1974, here are what we would consider as THREE BIG 'DON'Ts'

1. **Don't load up on technology and major equipment!** Despite what the selling (usually senior) dentist thinks the buyer (usually younger) might be looking for in a practice, it is usually not a wise investment to spend heavily in technology upgrades within a year or so of a practice sale. Buyers want systems in place and equipment that is fully integrated into the practice. So while a new piece of technology might be *de rigueur* in today's modern dental office, if it is sitting in the corner of the operatory, underutilized – because the dentist, the staff and even the patients don't understand (or even accept) the benefits it can provide – then what is the point? Further, the piece of equipment may not have been what the Buyer would have chosen had he/she been making the purchase decision him/herself (perhaps having a preference for a different model, or a different manufacturer altogether – or even an altogether different use for the invested funds).
2. **Don't subscribe to the Kitchen and Bathroom conspiracy!** When selling a residential property, Vendors are frequently advised to make upgrades to these 2 areas of their homes – because that is what homebuyers deem as important. However, no Realtor® around will deny that there is very often much less than a 100% 'return' on this investment. So, while a dentist may decide to spend \$100,000 on new equipment and/or leasehold improvements, there may only be a corresponding increase in the appraised value of the practice in the order of say, \$75,000. And once again, the improvements or additions may not be what the buyer would have picked.
3. **Don't put your practice deep into debt!** While there are proponents of 'equity take out' schemes (i.e., essentially entering into a reverse mortgage situation), there are risks to this strategy that also act as detractors to potential Buyers. Essentially, in order to free up some cash from the practice, lenders (e.g., leasing companies) will offer to lend (i.e., give you money) against the equity built up in the practice. Despite that the advocates of such ideas will tell you that the resulting leases are transferable, not every Buyer wants to be bound to the terms of an agreement made by someone else. Besides, if you need money – a line of credit is often an easier, and cheaper, way to access funds.

The Associate Buy-in: Why Does it (Often) Fail?

By **Timothy A. Brown**, President & CEO, ROI Corporation*

Our firm gathers an abundance of data related to Associateships during our interviews with many young dentists. Most are meeting with us to confidentially investigate the purchase of a dental practice. These interviews, and our informal surveys of dental students, suggest that one of the top three reasons they enrolled in the dental program was "to be my own boss".

Unlike the last generation of dentists who went directly into ownership (1980's and earlier), today's graduates will invariably choose to associate within an established practice for a term of 1 to 5 years to 'get their feet wet' and to learn the basics of a 'real-world' dental practice. Some are granted an option to buy into these practices after a specified period of time. In strict confidence some Associates tell me that they agreed to this concept at the outset, yet they had absolutely no intention of actually completing the buy-in process. Some admit that they are simply continuing in the position until a better opportunity comes along. Sadly, many Principals I work with are unaware of this. We sometimes feel conflicted, as we know both the Principal dentist and the Associate, and although all appears fine on the surface, we know otherwise - yet we are bound by our promise of confidentiality.

When I listen to Associate buy-in scenarios, as proposed by either the Principal or the Associate, I am resolved to predict failure for the large majority of these situations, due primarily to three key reasons: communication, equity and timing. In most instances the parties end up going their separate ways; sometimes with excessive financial loss, a loss of professional respect and even the occasional lawsuit.

Communications

Principal dentists hire Associates for 3 main reasons:

1) they have too many patients and cannot treat all their needs, **2)** they want to take more time off and/or expand the hours of operations (evening and weekend) to better utilize the equipment, staff and facility, and **3)** they prescribe to the theory of 'hire and groom the buyer' for their practice.

Associates usually join a practice for 3 main reasons:

1) to earn income and reduce student debts (or to save for their own practice), **2)** to gain clinical experience, and **3)** to bide some time while searching for a location to set up on their own, or for a practice to buy.

When I look at the motives of each party to enter into the arrangement it is easy to see they are not aligned in any strategic manner. The Principal usually wants relief from a heavy workload, but he is not ready to part with control or ownership. The Associates want income and experience yet are not ready to commit to an increased financial burden while paying off student debt, and further, they have no idea what their ideal practice modality is at this early stage of their career. Yet Principals seem intent on offering them the 'opportunity' of a lifetime, which can ignore the Associate's youthful ambitions. Associates seem intent on agreeing to the future buy-in scenario if only to appease the owner, and

will say most anything, within reason, to get the position - as they are focused on their own priorities of income, debt reduction, savings and experience. Thus I conclude that the poor communication of true intentions is the number one reason why the well intended Associate buy-in fails.

Equitable Allowances for Contribution

Principal dentists are proud; having invested many years of hard work and sweat equity to build their practice. When selling they want the deserved value for their efforts. Associates are young, energetic and usually go the extra mile to help a practice succeed, in return for being given the opportunity to work there. When the time arises that price enters the discussion, the two parties typically have opposing views about what the practice is worth. The Principal wants full value, while the Associate believes they have contributed to that value and most admit they feel entitled to some sort of price discount. While both parties have a valid position, the lack of communications at the outset can lead to tensions.

I have personally met with many Principals who report they were insulted when the Associate proposed a price to the point where they lost all desire to continue in the negotiations. Associates tell me they felt that the practice would be worth substantially less and that without their contribution, the owner would be far worse off. So who is right? The answer is perhaps both, but this process usually leads to failure. Price is a very subjective matter, and one that can ruin the otherwise good intentions of the Principal and Associate. My advice is to have the practice appraised before the Associate begins, and then re-appraised at the time of buy-in. Associates need to respect that the years of work invested by the Principal and Principals need to respect the efforts made by the Associate to keep the practice growing (if applicable) during their tenure.

Timing

Sometimes the Principal is more ready than the Associate and visa versa. Associates are young, full of energy and ready to jump into ownership after 1-3 years. Many Principals were simply looking for relief and suddenly feel pressured by the Associate to sell the practice (or a share of it) before they are truly ready to begin the process of letting go. This poor timing could have been prevented had the intentions of both parties been properly communicated at the commencement of the relationship. The opposing timelines of the parties results in failure more often than you may think. It's not that they don't get along - most seem to work together fine - but it appears that the plans of one or the other is inadvertently pushing the other to act, prematurely.

In closing, consider the three main reasons for failure: communication, equity and timing. What have you told your Principal dentist? What have you told your Associate dentist(s)? Are your 'true' intentions in-sync?

**The complete article first appeared in [Ontario Dentist April 2005](#)*

View our SAMPLE APPRAISAL - Call to have one couriered to you today

Not all Appraisals 'Created' Equal

ROI Corporation's Appraisal contains descriptions and details of the following:

- Summary of Valuation Concepts
- Interpretation of Values
- Complete Practice Description & History
- Philosophy of Practice
- Services & Treatment Mix, Services Referred
- Appointment Procedures (times/protocols)
- Office Hours / Vacations / Courses taken.
- Personnel / Employee Contracts
- Staff Benefits, Communication Protocols
- New, Active & Inactive Patient Information
- Patient Profile by Age and Draw Location
- Recalls - Scheduled and Pending
- Fees, Payment and Insurance Policies
- Treatment Planning Regimes
- Accounts Receivable Operations
- Systems and Records (computer / charts)
- Marketing Initiatives Undertaken
- All Facility Parameters (pluses and minuses)
- Value of the Premise Lease
- Calculation of 'Real' Rent - if Building Owned
- Practice Location Map (City/Town)
- Community Demographics (Schools, Industry)
- Dental / Population Ratios (GP and Specialist)
- Accountant's Financial Statements (3 years)
- NORMALIZED Financial States. (by ROI Corp)
- Year-to-Date Financial Info (Revs. by Provider)
- Financial Analyses & Cash Flow pro forma
- Descriptions (with Serial Numbers) of the following, with Market & Replacement Values
 - Leasehold Improvements & Fixtures
 - Clinical Equipment & Fixtures
 - Administrative Furniture & Fixtures
 - Computer Hardware & Software
- Instruments and Materials (by formula)
- Listing of Excluded Assets
- Services Contracts (O₂, security, janitorial, etc)
- Liabilities (e.g. Copies of Equipment leases)
- Recent Practice Sales Comparisons
- Goodwill Calculation based upon:
 - Local Market Factors
 - Weighted Gross Income
 - Weighted Cash Flow
 - + / - Adjustments
- Associate / Partnership Agreements
- Cost Share Agreements
- Office Policy Statements
- Floor Plans & Photographs
- Demographic Data (Canada, Province, Town)
- Copy of Premise Lease

ROI Corporation's Services

We Appraise Professional Practices

Our fees are dependant upon the practice size (revenues, # operatories, staff, associates, etc.) and practice complexity (# sets of financial statements, existence of partnership agreements, etc) and on travel expenses. Our fees for a **typical** comprehensive 70+ page Appraisal start at \$3,500.⁰⁰

We Act as Your Exclusive Broker in a Sale

We market your practice using our national network of associates (6 of whom are dentists). We educate buyers and ensure confidentiality in all matters. We do all the showings, representation, negotiations, assisting with financing arrangements, drafting of offers and act as trustee of the sale. Our fee is only paid upon the successful sale of your practice – typically 6-10 % of the price you accept.

We Provide Letters of Opinion

This could be our examination of another firm's appraisal of a practice you are looking to purchase. Other tasks might include analysis and commentary on local market conditions. Fees start at \$750.⁰⁰

We Offer Common-Sense Consulting

Drawing on our 31 years of first hand dental industry experience, and based upon discussions with thousands of your colleagues, we will act as devil's advocates and sober second thinkers. ROI Corp's fees range from \$250.⁰⁰ to \$350.⁰⁰ / hour.

SEE

ROI Corporation at the Northwest Dental Exposition

September 30, 2005
Shaw Conference Centre - Edmonton, AB

HEAR

Jeff Williams, BSc., DDS, MBA
Wayne Raborn, DDS, MS

Dentagraphics™, Appraisal Methodologies, The Agency/Principal Relationship, Transitions, A Canadian Market Perspective and FSOs.

September 29, 2005 (4:00 - 6:00 pm)
Chateau Lacombe, Crowne Plaza, Edmonton
(A light lunch will be served)

To Register - contact Sandra at **888. 764. 4145** or
sandra@roicorp.com Dentists \$145, Spouses N/C

What services does ROI Corporation provide in a practice sale?

To the Vendor (the selling dentist)

This dentist is our **CLIENT**

We act as the exclusive agent of the practice owner(s)

We have an agency duty to represent only (and all) of the wishes of our client

We market their practice in a completely confidential manner

We do not indiscriminately share practice details with disinterested parties

We only disclose information to qualified buyers

We network with our fellow 12 ROI Corporation Associates, located right across Canada

We are in a position to advise on the best deal structure

We can prepare preliminary 'Associate' and 'Cost-Share' agreements

We are licensed (in most Provinces) to sell the practice building/property as well

Although not lawyers or accountants, we can provide much in the way of guidance

The Vendor pays us for our services.

We allow Owner dentists to carry on with the important role they play in patient care, ongoing staff management, and with the enjoyment of family life and their other personal endeavors. Throughout the entire sale and marketing process, the Owner is not bothered by the 'tire kickers' or the merely curious, nor by the myriad of questions asked by would-be purchasers.

To the Buyer (the purchasing dentist)

This dentist is our **CUSTOMER**

We have a responsibility to treat this customer fairly

We have a duty to disclose all relevant practice information

We answer all their questions honestly – and find out if we don't know

We educate them as to the suitability of our particular listed practice

We help them study comparisons (should they be looking at more than one practice)

We help them determine purchase feasibility through preparation of cash flow *proformas*

We provide them with the names of accountants and lawyers (should they have none)

We help introduce them to banks and other sources of financing

We prepare the preliminary Offer to Purchase on our standard form

We recommend review of all information - by their advisors - before an Offer is presented

The Buyer never pays us.

We provide information and assistance to Buyers in order to allow them to make a decision as to whether a particular practice might be 'the one' for them. As many Buyers will have never owned a practice before (much less have purchased one), we find ourselves educating these individuals as to the benefits (and detractors) of dental practice ownership.

ROI Corporation is pleased to announce that Dr. Marcia Boyd, DDS, MA, LHD (Hon) has joined its team of Senior Associates. Dr. Boyd's stellar career is best illustrated through her longstanding leadership at the UBC Faculty of Dentistry, in dental education and organized dentistry. She is widely known, having presented at professional conferences in Canada, as well as internationally. She has been honoured with the Distinguished Service Award by both the Canadian Dental Association and the American Dental Education Association and is currently President-Elect of the American College of Dentists. Marcia will work with ROI's current British Columbia Associates **Dr. John and Sylvia Wilson** to meet the ever increasing needs of this market. Marcia lives and practices in Vancouver and may be reached at (888) 764-4145 or marcia@roicorp.com