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Caveat Venditor

Advice for dentists who are thinking about selling their practice

Most of us are familiar with the admonition that the buyer should beware, *caveat emptor*. However, the warning that the seller should beware, *caveat venditor*, is much more rare. But we now have an Ontario market for the sale of general dental practices that is so strong, we are in a situation where unconventional advice is required.

We have discussed the strong seller's market for general dental practices in previous articles in *Ontario Dentist*.^{*} The combination of: historically low interest rates; significant net annual increases in the number of licensed Ontario dentists; the growth in the number of dentists who are pursuing multiple practice ownership; and the influx of investment capital to the dental practice market are all combining to create a demand for general dental practices that cannot be met by the supply of practices that are available for sale. In other words, an exceedingly strong seller's market has materialized.

In this environment, some buyers, and those who advise them, are trying to avoid competing in the open market, where they will have to pay fair market value and risk being compared to other buyers. Instead, buyers are going directly to practice owners – either privately or through a broker – before the owners have listed their practice for sale.

How many of you who own practices have been contacted directly by an associate wanting to buy a practice, an investor dentist or company, dental supply representatives, lawyers or accountants? Did they have “a great buyer for your practice, so you can avoid the costs and hassle of listing your practice for sale, either yourself or through a broker”?

It is always worth asking yourself another question, “*Cui bono?*” or “Who benefits?” Does that person perhaps have a longer-term financial interest in the buyer than the seller? In a market as competitive as this one, there are a lot of people with a strong vested interest in ensuring your

practice never gets on the open market. They fear what will happen if you have the best choice of potential buyers and price.

You wouldn't dream of selling your house to the first person who walked through the door – nor should you sell your practice that way. Many owners have invested the better part of a lifetime in building their practice. You deserve the best possible results when it comes to selling – both in terms of price and the choice of person who is going to carry on what you have built.

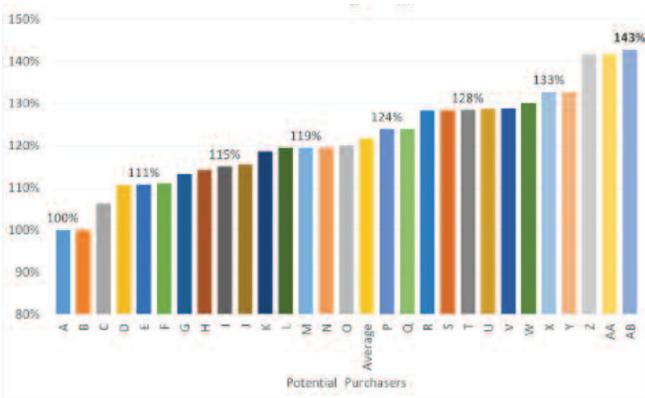
Without exposing your practice to a large number of potential buyers, how will you know if you have the best person or the best price for your lifetime of work? Consider the accompanying chart, which shows the range of offers we recently received for a practice for sale in the Greater Toronto Area. If you are only dealing with the one person who contacted you or was recommended by your accountant or a dental sales representative, how will you know if you are dealing with person A or person AB?

As well, price is just one of the determinants a seller is going to consider. Most sellers care about a host of other critical factors, including the type of person the purchaser is and the many considerations associated with the legal agreement and transition plan. The variations across those elements are usually even greater than across price.

In the above-mentioned sale there were substantial differences among buyers in terms of personality, business practices, professional experience, facility with the English language, where they trained, how they would approach managing the practice, and whether they already owned many practices or if this would be their first.

In addition, there were significant differences across the offers, such as: post-sale liabilities of the vendor; the amount of the deposit; the closing date; whether or not buyers wanted the vendor to remain in the practice after the sale – and if so, for how long; how much they would

Offered Prices as a Percentage of Appraised Value



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*“What is a Dental Practice Really Worth?” *Ontario Dentist*, October 2014; “Dental Practice Values” *Ontario Dentist*, March 2015; “ The Top Five Factors That Drive Dental Practice Values” *Ontario Dentist*, June 2015.

*All back issues of *Ontario Dentist* are available online. Visit the ODA website at www.youroralhealth.ca/member/ and click on **Ontario Dentist** in the top banner.

pay the vendor as an associate; how that pay would be calculated; what guarantees they sought from the vendor; and their track record in actually successfully closing a sale.

Many of these factors are important to any vendor. Only by getting a full sense of the range of buyers and what they were prepared to offer was the vendor able to be confident that he was selling to the right person, at the right price, on the right terms.

So, *caveat venditor!* Beware of direct purchasers, or their representatives. They may be the best people to sell to, as they or their proxy are telling you, but by the simple law of large numbers, the odds are that there are a number of better purchasers out there and, unless you have explored the full range of potential purchasers in today's seller's market, how will you really know?

You only get to sell your practice once, and there is no way of undoing the wrong decision, so start by exploring all of your options. The “special purchaser” that found you or was recommended to you isn't going anywhere – unless they realize they can't compete with the open market.

Most dentists care deeply about the patients they have been treating during their career and most dentists will stay on in their practice for some time, post sale. For these reasons alone, it is in the sellers' best interest to give themselves the broadest possible choice of buyers that this strong seller's market now offers. 

Dr. Bernard Dolansky is Past President of the ODA, the Ottawa Dental Society, the CDA, and the Dentistry Canada Fund. He is currently a partner at Tier Three Brokerage Ltd., and assists dentists with transition planning, practice purchase and sale, evaluations, associateships, retirement planning and partnership arrangements. You may reach him at bernie.dolansky@tierthree.ca or 613-794-1977.

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