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## LOOK BEFORE YOU LEAP

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At a recent presentation about “What You Need To Know Before You Buy Or Sell A Dental Practice” the audience was asked, “How many of you have been approached to sell your practice by someone that you don’t know?” One hundred percent of the sellers in the audience of 50 people raised their hands.

This might seem surprising if we forget that In many areas of Canada there is a big push by the multi-practice ownership corporations to acquire dental practices and the largest of these corporations have full- time staff who do “cold calling” to practices that meet a specific profile:

- They are general dental practices. The market for specialty practices is different.
- They are producing 1.5 million dollars of dentistry or more.
- -The owner or owners are mid-career or have at least 5-10 years before retirement
- The practice location is conducive to recruiting and retaining associate dentists.

So, in these circumstances what is the best response if you are cold called to sell your practice?

As with any critical decision the more background knowledge that one has the more likely it is that the decision will be a good, informed one.

Here are some factors to consider:

- For the most part, multi-practice ownership corporations are well run, profitable businesses and as such, they seek to purchase their practices in a

way that makes good business sense for them and usually the offer to the selling dentist is tailored to appear to be very attractive from both a financial and lifestyle perspective.

- Based on our own experience as brokers of dental practice sales as well as conversations with many of our competitors, these corporations very rarely buy on the open market. They very much prefer to deal directly with a purchaser. Does this then raise the question as to how competitive those offers might be?
- The norm for most sales of dental practices is that the full purchase price is paid by the vendor to the purchaser at the time that the transaction is closed.
- Conversely, the norm in sales to large multi-practice owners is that the offers to purchase will include provisions for the seller to retain partial ownership of their practice and or to have a portion of the purchase price paid with equity in the larger corporation.
- The good news is that in the past few years these ownership stakes have proved to be good investments and have increased in value; the bad news is that the original sellers' ability to cash in these ownership stakes is insufficient. They can be very illiquid investments.
- These corporate buyers state that they do not set production "quotas" on the holdback part of the purchase price. They do however agree that their purchase agreements do usually include production "goals", the difference being that the selling dentists have the choice as to whether or not they wish to meet these "goals". However, both parties understand that reaching these "goals" will, in turn, impact the payment of the hold back amount.

The decision to sell one's practice is as much a lifestyle decision as it is a financial decision. The fact is that dental practices are great businesses so that it seldom makes sense to sell them for economic reasons. However, for many practitioners who still enjoy doing dentistry and have grown tired of the administrative responsibilities of owning a practice, the prospect of continuing to practice without ownership responsibilities while selling for a fair price in the present strong seller's market can be very desirable.

But, as always, the key to any successful transition is to be informed. Canadian general dental practices are currently selling in a comprehensive range of 60-200% of gross revenues so, you need to know what your practice is really worth and

what is really a fair price. You need to know what all your options are and you need to understand all of the consequences that flow from the possibility that you select.

Authors:

Dr. Tom Breneman, Practice Sales & Transition Specialist, Tier Three

Dr. Alf Dean, Practice Sales & Transition Specialist, Tier Three



Dr. Alf Dean



Dr. Tom Breneman