Bernard Dolansky
BA DDS MSc

Bill Henderson
HBA

We Beg to Differ

In general terms, we, the authors, tend to be contrarians by nature. Perhaps that is why we both reacted the same way when reading the Ontario Dental Association's *2017 Economic Report to the Dental Profession* prepared by R.K. House and Associates (1). We have a different perspective on the future of the dental profession in Ontario than was portrayed in the report. But we are both realists as well, so we know that any attempt to predict the future accurately is fraught with peril. However, we certainly think that by providing some counterpoints to the report, we can offer you a wider perspective and more to think about.

In this article, we will tackle something near and dear to our hearts as practice brokers — the ability of young dentists to buy their own practice. In the report, when referring to young dentists, it was claimed that, "Many will never be able to afford their own practice. Their prospects are further dimmed by the rise of corporate dentistry. The rewards such as they are, may go to the capital/investor, and not to the labour/dentist" (1, p. 6). We beg to differ.

First, let's take a step back and comment on one area where we are in complete agreement with the report: its assessment of what it takes to save for retirement. We agree that the future will not mirror the investing environment of a young dentist's parent(s). And that means it is more important than ever to own a successful practice if a young dentist wants to fund an exceptional retirement. Given that the average practice owner in our database makes more than twice as much annual income as the average associate, owning a practice and the incremental earnings that go with it, is arguably the most important thing a young dentist can do.

Beyond the incremental annual earnings that go with owning a practice, practice owners have two massive tax advantages when saving for retirement. First, they can pay off their purchase loan in dollars taxed at the corporate, rather than personal, rate — now at all-time lows. And when an owner goes to sell, at least the first $847,000 in capital gains from a sale are entirely tax-free, as long as the owner qualifies for the lifetime capital gains exemption. And that $847,000 is indexed to inflation. While the federal Liberal government threatened to eliminate the ability to double, triple or quadruple that shelter using spouses and children or parents, they backed off that plan in face of the onslaught of criticism they received. At least for now, an owner who structures properly can use family members to multiply that indexed $847,000 by the number of related owners they bring in. This approach is much more valuable than an RRSP, and the cornerstone of any smart dentist's retirement plan.

But, all of this requires owning a practice. So then, what of the report's assertion that many young dentists will never be able to afford a practice, and that investor dentists pose a major threat to the ability to buy practices?

Let's tackle the issue of affordability, which by its nature will lead us to the idea that investor dentists pose a major threat to the ability of young dentists to buy practices. If it's true that young dentists will not be able to afford practices, then someone should tell the major Canadian banks, who obviously disagree. Notwithstanding that banks are tightening credit for dentists, we have yet to see a young dentist with a good credit history be unable to get financing for a practice. Banks are still consistently loaning 100 per cent of the purchase price of a properly appraised practice, and often more. And even at today's purchase prices, owner dentists are usually able to repay their loans in seven to 10 years from the earnings left over after they've paid themselves a wage equal to 40 per cent of their production. That scenario will likely remain true even if interest rates rise as high as five per cent or more, which is well above current levels.

What should we make of the reported tightening of bank credit? The reality is that tightening is affecting investor dentists far more than single practice owners. Banks are increasingly concerned about highly leveraged investor dentists who own multiple practices and struggle to maintain earnings in the face of management challenges, as well as dental providers who are less motivated than owner dentists and ever-changing, since associates come and go. Those investors are no longer getting bank loans for 100 per cent of the purchase price for a third, fourth or fifth practice — unless they have a very healthy balance sheet and can show a large amount of equity in their practice group, and from our experience, it seems many can't.

This issue extends to even the biggest groups. They all have significant private equity investors who want returns of 10 per cent or more — well above the 3.7 per cent prime rate that individual dentist buyers are currently securing. For those who are familiar with the *Globe and Mail* ad in which a dental corporation was trumpeting the $1-billion financing they'd arranged, you can be confident that they are paying a much higher rate of interest on that financing than the prime rate that individual dentists are getting. Thus, given the arguably reduced financing for investors, requirements for equity and associated returns, and climbing interest rates, practices are, in actual fact, much more affordable to the average individual dentist than to the investors — big or small.

Even with these advantages, how can an individual dentist compete with investor dentists? With a few exceptions, that competition is over before it even begins. An investor dentist is dependent on a revolving door of associates to staff a practice; compared to an associate, the owner operator is arguably much more likely to care more, work harder, and build stronger patient and staff relationships. These are specifically the traits that result in a stronger practice over time, which, in turn, should yield a large, loyal and growing patient base, more prepared to invest in the dentistry they need and/or want. Thus, we argue that, with the lower financing costs that individual dentists experience, young dentists are well able to afford a practice.

It's never quite so easy, though. The three deficits most individual dentists operate at, relative to the investors, are business acumen, experience and confidence. To succeed, individual practice owners need to focus more than ever on effectively running their business. That is another area where we are in complete agreement with the aforementioned report. From our years of observation, we think it is safe to say that most young dentists lack both the business acumen and experience to make smart offers on practices that are for sale and then to run those practices effectively. As a result, too often, they lack the confidence to make things happen, even though they have all the advantages they need to succeed versus the investors. Smart, determined buyers will invest the time and money to get the necessary training, talk to those with experience, and seek the right advice to offset their gaps in knowledge and experience. It is with this mindset and the advantages that individual dentists have (chief among them the ability, in actual fact, to afford and buy a practice) that will allow them to compete effectively and rise above the competition.

REFERENCE

1. Ontario Dental Association. *Economic Report to the Dental Profession*. Toronto: ODA; 2017.

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.

Bill Henderson is the President of Tier Three Brokerage Ltd., one of Ontario's leading dental practice brokerage. A recognised industry expert in dental practice valuations and sales, Bill is a regular presenter for the ODA as well as other industry organisations. He may be contacted at bill.henderson@tierthree.ca, or 416-578-7061.