

The Dental Transition

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Timing the Market: *Why 2019 Might Be THE Year to Consider Selling Your Practice*

As practice transition specialists, we are often asked: "Is now a good time to sell my dental practice?" While there are many factors involved in making the decision to transition your practice, the short answer is YES. The current practice transition environment features several attributes that are helping to enhance practice value and make it an ideal time to consider a practice sale:

1. High Demand – The strong profitability of dental practices and the poor economic outlook in medicine have caused a significant increase in dental school applicants over the past 10 years. With 66 dental schools currently operating in the United States, the number of dental school graduates topped 6,000 in 2017. Combined with the rapid emergence of DSO/Private Equity buyers (in some markets), the pool of potential buyers has increased dramatically over the past few years. This trend is expected to continue in the near future. With a surge in the number of potential buyers comes an increase in the demand for quality practice acquisition opportunities.

2. Limited Supply of Acquisition Opportunities – Many doctors who are well within retirement age have delayed the sale of their practices due to the recession. As a result, there have been a relatively fixed number of practice acquisition opportunities available. The increase in demand coupled with a limited supply of quality opportunities has resulted in an increase in the value and marketability of dental practices.

3. A Divergence in Practice Values – While the values of large, updated offices with annual revenue in excess of \$1 million and substantial cash flow have increased dramatically over the past 3 years (largely due to the emergence of DSO/Private Equity buyers), smaller, antiquated practices with revenue of less than \$400,000 and limited cash flow have been declining in value and are becoming increasingly more difficult to sell. We expect this trend to continue in the future due to the expectations (in regards to the facility, equipment, and technology) and significant living expense needs of most young dentists.

4. Low Interest Rates – Due to the fact that most buyers rely on third party financing to fund practice purchases, interest rates and the availability of capital play a major role in practice value and transitions. Despite recent increases, interest rates are currently near an all-time low, and numerous lenders are offering 100% financing plus working capital to qualified buyers. The current availability and low cost of capital is allowing buyers to comfortably afford to purchase practices, and fueling the increased demand for quality practice purchase opportunities.

5. High Cost of Practice Start-Ups – Another contributing factor to the increase in practice values is the rising cost of establishing a new dental practice. The prices of dental equipment, technology, and leasehold improvements have increased dramatically over the past decade, resulting in an average cost of approximately \$500,000 to start a practice from scratch. Combined with the

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significant living expense needs of most dental school graduates (due in large part to a high level of student loan debt) and the time and cost required to start a practice and generate a profit, many doctors are focusing on purchasing an established practice rather than pursuing a start-up. Real estate agents who focus on dental office space have also commented that private practices are struggling to compete with large corporate practices for prime dental locations.

6. Increasing Burden of Management – More now than ever, dentists must be proficient in managing the business side of their practices in order to be successful. We have seen many established doctors experience an increase in their stress level in regards to managing staff issues/turnover, dealing with PPO plans, implementing an effective marketing plan, controlling overhead, etc. Currently, there are transition options available to doctors who desire to lighten their management burden, cash out the value of their offices at the peak of the market, and continue working at their office until retirement.

7. Adverse Changes in Future Market Conditions – While market conditions are currently very favorable for sellers, over the next few years we are expecting several changes to occur. These changes will likely put downward pressure on practice values, including:

- **Increasing Number of Acquisition Opportunities** – As the Baby Boomer generation reaches retirement age and the economy and stock market soar, more and more sellers will enter the marketplace. Therefore, we expect that supply and demand will eventually reach equilibrium and will no longer be a “seller’s market”.

- **Increasing Interest Rates** – Interest rates for dental loans have increased by more than 1% over the past year and are expected to increase another 1-2% over the next 24 months. Since most buyers are relying on 100% financing from dental lenders to fund their practice acquisitions, a significant increase in interest rates will harm the buyer’s cash flow and could adversely impact practice values.

- **Increasing Number of Female Dentists** – The demographics tell us that there has been a substantial increase in female dentists entering the marketplace. While female dentists make excellent practice owners, many of them will likely choose to work part-time and/or refrain from pursuing practice ownership opportunities, which could lead to a decrease in demand.

- **Other Factors** – Downward Pressure on Pricing (from PPO plans), Upward Pressure on Overhead (technology, marketing, etc.), Increasing Competition (growth of corporate dentistry), Increasing Management Burden (discussed above), and Rising Student Loan Debt.

The factors we have discussed in this article make 2019 an ideal time to consider selling your practice. If you are considering a practice transition, don’t go at it alone. A practice broker will help you formulate a transition strategy to meet your individual needs, confidentially market your practice to find a buyer who is the right fit for your office, provide a structured closing process to facilitate a smooth and timely transition, and maximize the value you receive for your practice.

Thinking About Selling Your Practice to a DSO?

If you are considering selling your practice to a DSO, you need to explore and understand your options. McLerran & Associates is here to help. Here are several factors to consider when selling to a DSO:

1. Competition is a good thing ... you need to shop your practice to multiple DSO/Private Equity buyers in order to receive the highest price and best terms. If you entertain an offer from only one buyer, you may be leaving money on the table.
2. While DSO buyers may pay a premium price for your practice, there are numerous other deal points that will have a significant impact on your net sales proceeds, post-closing compensation, and overall satisfaction with the transaction.

3. Not all DSO/Private Equity Buyers are created equal. You need to vet potential buyers to ensure they have the capital to complete the purchase and the right culture, practice philosophy, and infrastructure to support you and your practice post-closing.

When selling to a sophisticated buyer like a DSO, you need an experienced advisor who will represent your best interest, negotiate the details, and guide you through the process. McLerran & Associates has spent years vetting DSO/Private Equity buyers in order to provide our clients with the best possible options and terms available in the marketplace. Call us today for a free consultation.

The Role of a Dental Practice Broker

Planning to sell a dental practice? Don't go at it alone.

FACT: A dental practice is typically the doctor's most valuable and prized possession.

FACT: A dentist will typically sell only one dental practice during his or her professional career.

Considering these facts, many dentists choose to entrust the responsibility of selling their practices to a professional who has the knowledge and experience to facilitate a successful transition...a dental practice broker. In our experience, these dentists, on the average, receive a higher value for their practices, have a more amicable relationship with their buyers following the sale, and experience less stress and anxiety during the closing process than their counterparts who try the "do it yourself" approach.

Selling a dental practice is not like selling a vehicle...it is a complicated process that extends far beyond simply finding a buyer and closing on the sale. While some practice owners may be able to easily identify a buyer, who is interested in purchasing their practice, getting from that point to the closing table is the most challenging component of a practice sale. Determining the market value of the practice, finding the right buyer, negotiating the purchase price, drafting the asset purchase agreement, formulating the transition plan, negotiating the lease assignment, and obtaining practice financing are just a few of the key areas where a potential practice sale can be derailed and the experience, expertise, and guidance of a practice broker can be invaluable.

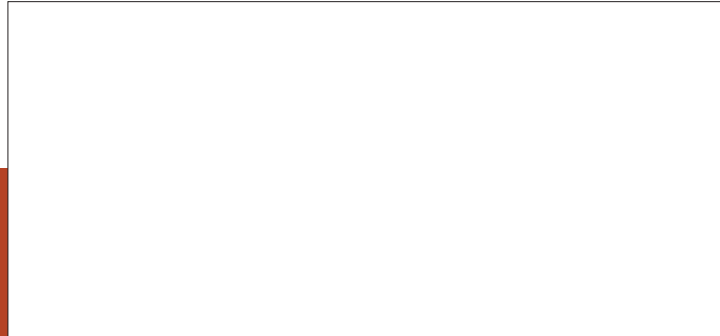
Doctors who are preparing to sell a dental practice often ask us about our role in the process. Here are the primary responsibilities of a practice broker:

1. Identify and accomplish the seller's goals for the transition – Every doctor and practice is unique so it is imperative for the practice broker to spend the time to understand the seller's individual situation and goals, and formulate a transition strategy to meet their needs.
2. Solely represent the seller's interest throughout the process – While the practice broker should be focused on putting together a win-win transaction for all parties involved, their responsibility is to solely represent the seller's best interest during the transition process. Beware

of practice brokers who offer "dual representation", as it is impossible to represent the best interests of both the buyer and seller simultaneously.

3. Determine a fair market value for the practice, maximize the value the seller receives at closing, and be able to support and articulate the value to interested buyers and their advisors.
4. Construct a detailed marketing profile and cash flow analysis for the seller's practice – The marketing profile should be organized and include all pertinent information that potential buyers and their advisors will need in order to evaluate the office.
5. Confidentially market the practice to qualified buyers and advertise the practice on a local, state, and national level via the web, print ads, seminars, trade shows, etc. It is critical that all potential buyers are required to sign a Confidentiality Agreement prior to receiving any information on the seller's practice.
6. Handle all inquiries from potential buyers and their advisors regarding the practice, including conversations, email correspondence, and showing the office after business hours.
7. Work with the seller to identify the right buyer for the practice so that the staff and patients will be in good hands following the transition.
8. Serve as a buffer between the buyer and seller throughout the process (particularly during price and contract negotiations) to preserve the goodwill of the practice and relationship between the parties.
9. Provide draft contracts including the Letter of Intent and Asset Purchase Agreement.
10. Provide an organized process so the practice sale and transition go smoothly, including managing all correspondence between both parties and all of their advisors (attorneys, accountants, consultants, lenders, etc.).

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11. Assist the buyer with securing practice financing.
12. Assist the buyer with building an experienced team of dental advisors so that they are positioned for long term success following the transition.

As you can see, a practice broker plays a vital role in the transition process. When you consider all of the responsibilities associated with owning/operating a dental practice along with the expertise and time necessary to fulfill the practice broker's responsibilities, it is easy to understand why doctors who attempt to sell a dental practice on their own are often overwhelmed by stress and anxiety.

Therefore, we encourage you to contact a local, reputable practice broker when it is time to start planning the sale of your practice.

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Contact us TODAY to schedule a free consultation!
