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The Dental Transition NEWSLETTER

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Making the Decision to Sell Your Practice

Making the decision to sell your dental practice is one of the most important decisions you will make in your professional life. Therefore, it is imperative that you put a great deal of thought into when and how you would like the transition of ownership to occur. The following article provides some insight into the key considerations you should take into account when planning your practice transition.

Start with WHY?
Any decision of this magnitude should start with clearly defining WHY you are considering selling and the goals that you are looking to accomplish. Here are the most common reasons that dental practice owners sell their offices:

- Retirement or Relocation
- Achieve Financial Goals
- Decrease Work Schedule and/or Production Responsibilities
- Reduce Burden of Management
- Fuel Practice Growth & Development
- Attain a Better Work/Life Balance
- Death or Disability

Choose a Transition Strategy That Meets Your Individual Needs
Once you have defined why you are selling and what you are looking to accomplish as a result of the sale, it's time to choose a transition strategy that meets your unique needs. There are countless ways to sell/transition a dental practice, but here are the top proven transition strategies that we utilize to help our clients achieve their goals:

- **Walk Away Sale / Short Term Transition** – Sell 100% of the practice (typically to a private buyer). The seller either walks away at closing or provides the buyer with transition assistance for a short period of time post-closing (typically 4-6 weeks).

- **Sell and Work Back** – Sell 100% of the practice to a private buyer or DSO. The seller continues working in the practice full-time or part-time for a pre-determined timeframe following closing.

- **Associate to Purchase (Phased Transition)** – Sell 100% of the practice to a private buyer in 1-2 years at a pre-determined purchase price or pre-determined formula for calculating the purchase price at closing. The buyer works as full-time or part-time associate in the office for 1-2 years prior to the transition of ownership. This transition strategy typically works well in the case of a larger practice (revenue of $800,000+ and 5+ ops) where the seller desires to cut back his/her work schedule but retain ownership of the practice for a couple of years prior to the sale.

- **Sell to a DSO** – Sell 50-100% of the practice to a DSO buyer. Selling to a DSO buyer can result in the seller receiving a significantly higher value for the practice as compared to selling to a private buyer. However, the premium paid by a DSO usually comes with some conditions that must be met in order for the seller to receive the full purchase price. In most cases, the seller will be required to continue working in the office for 2+ years following the sale. The practice may also have to maintain a certain revenue or EBITDA level post-closing for the full sales price to be earned by the seller. Selling to a DSO can accomplish several objectives that sellers often desire to achieve via the sale of their practice, including fulfilling financial goals, the ability to continue working in the office and earning an income indefinitely following the sale, and substantially reducing the burden of management. By retaining partial ownership in their offices,

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sellers may also have the ability to receive ongoing net income distributions and participate in future re-capitalization events (which can dramatically increase the overall practice value).

- **Partnership** – Sell a partial interest in the practice to a private buyer. Entering into a partnership can potentially allow a seller to accomplish his/her financial goals while providing flexibility in regards to the seller's work schedule and decreasing the seller's management burden. However, partnerships require a great deal of due diligence to determine if the personality and practice philosophy of the partners are compatible. It also requires a detailed partnership agreement that clearly defines how doctor compensation and net income distributions will be calculated and how situations involving partner disagreements, buy-in and buy-outs, death, disability etc. will be handled.

Choosing and executing the transition strategy that best meets your individual needs is key to ensuring a successful sale and smooth transition of ownership for all parties involved.

Financial Considerations

For many doctors, their dental practice is one of their most valuable assets and the proceeds from the sale of their office will be utilized to fund a significant portion of their retirement. Therefore, it is crucial for you to understand the key factors that influence the value and marketability of your practice to ensure that you are in the position to maximize the value of your office at the point of sale. There are a number of factors that can significantly influence practice value, including the type of buyer/transition (individual doctor versus DSO), revenue levels and trends, profitability (net cash flow vs. EBITDA), type of patient base, type of dentistry, location (urban vs. rural, high visibility vs. low visibility), quality and age of equipment, curb appeal, etc. While the historical average sales price of a dental practice on a national perspective is approximately 67% of the most recent year's revenue, over the past year we have sold practices for as low as 40% of revenue and as high as 250% of revenue based upon the type of transition strategy utilized and the unique attributes of each office.

The first step in the transition process is to obtain a practice valuation from a local, reputable practice broker to determine the current market value of your practice and chart a path to reaching your financials goals. It is also important to remember that selling your office is not synonymous with retiring, as there may be opportunities for you to continue generating personal income following the sale by working as an associate in your office, working as an associate outside of your non-compete radius, receiving net income distributions (DSO sale with retained ownership interest), or participating in future re-capitalization events (DSO sale with retained ownership interest). Once you have determined that you are financially prepared to sell your practice, it's time to move on to considering the emotional implications of the sale.

Emotional Considerations

We have found that the emotional process of selling a practice often plays a more significant role than the financial implications. For many practice owners, it is extremely difficult to consider selling their practice due to the emotional ties the doctor has to their patient base, staff, and the business they have spent their entire career building. These emotions can be even more intense for those doctors who do not have other interests or hobbies outside of practicing dentistry. Therefore, it's important to ask yourself these questions before making the decision to sell:

- How strong is my emotional connection to my practice?
- What interests or hobbies do I have to keep me busy following the sale of my practice?
- Am I ready to give up control of my practice?
- If you plan to continue working in your office following the sale, are you willing to adopt an "associate mentality" and be accepting of change?

It is also worth mentioning that the emotional implications associated with the sale of your practice will increase once you accept an offer and begin navigating the closing process. By asking yourself the above questions and dealing with these feelings prior to putting your practice on the market, you will be in the position to minimize your anxiety as you navigate the transition process.

The Importance of Planning Ahead

As practice brokers, we are often contacted by practice owners on the day they are ready to sell. While we are certainly prepared to help dentists who find themselves in this position, it is far from ideal. By waiting to the last minute to plan their transition, the doctor's options are relatively limited in regards to the type of transition strategy he/she can utilize to sell the practice. As is often the case, the doctor has also taken their foot off the gas in recent years, resulting in a significant decline in revenue, profitability, and practice value. To avoid these mistakes, we encourage you to develop a relationship with a local, reputable practice broker well in advance (3+ years) of your practice transition. In doing so, you will gain valuable insight regarding the current value of your practice and the key factors that impact practice value and marketability. This information will also provide you with sufficient time to develop a customized transition strategy to meet your individual needs, make changes to your office that will enhance practice value, and avoid mistakes that may negatively impact value.

Given the significant changes that have occurred in the marketplace over the past year as a result of the COVID-19 pandemic, it is more important than ever for potential sellers to plan ahead, explore their options, understand the factors that influence value, and employ the services of an experienced practice broker to serve as their advocate and guide them through the process. We encourage you to contact McLerran & Associates to schedule a free, confidential consultation to discuss your practice and how we can help accomplish your goals.

Thinking About Selling to a DSO?

Here Are the Questions You Should Be Asking

If you own a successful dental practice, you have likely been solicited by DSO's and brokers promising extraordinary valuations and/or hocking gimmicks such as "invisible DSO's". While partnering with or selling to a DSO is a legitimate transition strategy, much of the "noise" in the marketplace is misleading and designed to coax you into responding to an unsolicited offer without exploring your options. The truth is … deciding on whether a DSO transition is the best pathway for accomplishing your goals and determining which DSO is an ideal fit for you and your practice requires a great deal of consideration and due diligence. Not all DSO's are created equal, as there is a wide variance when it comes to practice valuations, deal structures, culture, practice philosophy, and the level of infrastructure/support provided by the DSO to its affiliates. Therefore, you need proper representation in navigating the process and evaluating the multitude of options available in today's marketplace.

At McLerran & Associates, we understand that partnering with or selling to a DSO is an enormous decision from a professional, personal, and financial perspective. Our focus is to educate and empower dentists with the information needed to make sound, informed decisions regarding the future of their practices. Should you choose to sell your practice to a DSO, we take on the responsibility of helping you identify THE DSO that is the right fit for your office and create a competitive environment among buyers to obtain the highest price and most favorable terms/deal structure available. We have spent years vetting and building strong working relationships with local, regional, and national DSO buyers to ensure that our clients have the best options available to them. In this article, we will explore why some dentists make the decision to sell to a DSO and the questions you should be asking when interviewing potential buyers.

Making the Decision to Sell to a DSO

There must be a compelling reason to consider selling to or partnering with a DSO buyer, as opposed to retaining ownership/control of your office long-term or selling to a private buyer. Here are several reasons why our clients have chosen to sell to or partner with a DSO buyer:

- ✓ To receive a substantial premium on the practice purchase price compared to a private buyer (as discussed below)
- ✓ To unload some or all of the management burden, thereby having less stress and a better work/life balance
- ✓ To take advantage of the economies of scale and support a DSO can provide
- ✓ To retire debt and accumulate substantial liquidity/retirement savings
- ✓ To fund future growth/expansion

Whatever your reason for entertaining offers from DSO buyers, you need to make sure that you choose the right buyer/partner that will truly enable you to accomplish your goals.

Questions for Potential DSO Buyers

Due diligence is a two-way street. Just as DSO buyers will ask an enormous amount of questions and require a tremendous amount of data in order to evaluate your practice, you should conduct due diligence regarding the culture, practice philosophy, infrastructure/support services, reputation, performance, and financial health of potential buyers. Here are the questions you should be asking during your initial interactions with potential buyers:

- Please provide some history/background for your company (i.e. location of home office, ownership structure, geographic footprint, # of locations, growth plans, etc.).
- What type of support/centralized services do you provide to your offices? What services must be centralized? What services can/will remain at the practice level?
- Will you rebrand my office?
- Will you assert any influence on my clinical philosophy or treatment planning?
- What is your typical doctor compensation structure?
- Do you plan to retain my staff? Will their compensation change?
- What benefits do you offer to your doctors and staff members?
- Does the DSO have a physical presence in my office? If so, please explain. If not, who will manage the communication between my office and the parent company?
- What changes can I expect immediately following closing and down the road (i.e. practice management software, operating hours, payor mix, dental supplies, labs, etc.)?
- How can you help me grow the practice?
- Are you partnered with a Private Equity Firm? If so, what is the name of the firm and when did they acquire an ownership interest in the company? If not, what is your source of funding?

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- Have you realized a re-capitalization event? If so, how long ago and what was the EBITDA multiple? When are you expecting the next re-cap event to occur?
- What does your typical deal structure look like (i.e. 100% sale, partnership model, etc.)?
- If I retain equity in the practice, is the equity held at the individual practice level or at the parent company level? Am I eligible to receive net income distributions and/or participate in future re-capitalization events?
- Do you charge a management fee to each affiliate office in exchange for the centralized services? If so, what is the fee?
- What does the process look like from this point forward?

As you can see, selling your practice to a DSO is a dynamic process that requires careful consideration and a tactful approach on behalf of the seller. Therefore, it is imperative that you refrain from responding to unsolicited offers, understand/explore your options, and have proper representation. As a result of engaging McLerran & Associates as their advocate and by following our proven process for navigating DSO transactions, we are proud to say that our clients have partnered with the right DSO for their offices and attained an average premium of 25% on the sales price of their offices. We look forward to achieving these same results for you!

Contact us TODAY to schedule a free consultation!

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