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The Dental Transition

N E W S L E T T E R

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The Critical Steps in Selling a Dental Practice

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point in the transaction to protect confidentiality while not delaying the closing.

10) As the closing date approaches, the buyer, seller, and broker will work closely to ensure that all the details of the transition are completed prior to closing, including transferring/establishing vendor accounts (utilities, phone, etc.), PPO credentialing, drafting a transition letter that will be mailed to active patients upon closing, and ensuring the lender receives all necessary documentation to fund on the closing date.

11) Throughout this process, the staff and patients are typically unaware that the dental practice is being transitioned to a new doctor. The reason for this is simple: to protect the goodwill of the practice. Selling a dental practice is an emotional process for any doctor because of the relationships developed with their patients and staff over the years. The timing of this introduction, how the initial

meeting is handled, and training the staff to explain the transition to patients is a critical step in ensuring a smooth transition of ownership and maximum patient retention following the sale.

While this article covers the most significant steps required to sell a dental practice, it is by no means comprehensive. Each practice transition is unique and presents its own set of challenges to overcome during the transition process. Therefore, it is imperative to be educated about the process and employ the services of experienced professionals (practice broker, attorney, accountant, etc.) to help you navigate the process and ensure a successful transition for all parties involved.

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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. Here are some of the key considerations you should take into account when planning your practice transition:

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. While the average sales price of a dental practice from a national perspective is approximately 67% of the most recent year's revenue, there are a number of other factors that can influence value in either direction, including revenue trends, profitability, type of patient base, type of dentistry, location (urban vs. rural, high visibility vs. low visibility), quality and age of equipment, curb appeal, etc.

The first step in the transition process is to obtain a practice valuation from a local, reputable practice broker so you and your financial advisors can determine if you are financially prepared to sell your office. 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 or outside of the non-compete radius. Once you have determined that you are financially prepared to sell your practice, it's time to move onto 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?
- 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?

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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. In that situation, the doctor's options are relatively limited in regards to the type of transition strategy they can utilize to sell their office. 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 at least three years in advance 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 value, and avoid mistakes that may negatively impact value.

Over the past few years, market conditions have been favorable for sellers, as there has been strong demand for dental practice acquisition opportunities coupled with a limited supply of sellers (creating a seller's market) and lenders have been providing buyers with 100% financing at historically low interest rates. While market conditions remain favorable at the moment, we are expecting several changes to occur over the next few years that could have a significant impact on practice value:

- 1) Practice value is heavily impacted by a fundamental economic principle ... SUPPLY AND DEMAND. With the baby boomer generation reaching retirement age over the next few years, we are expecting a large number of practice acquisition opportunities to hit the market, which will bring supply and demand into equilibrium. With more practices on the market, sellers will be competing with each other to make their practice stand out from the crowd. As a result, those offices with negative attributes such as declining revenue, high overhead, and/or antiquated equipment/technology will become more difficult to sell and realize a significant decline in value.

- 2) While we anticipate that the banks' appetite for practice acquisition loans will remain strong, interest rates are expected to increase significantly over the next few years. Considering that most buyers are counting on 100% financing to fund their practice purchase, an increase in interest rates will have a negative impact on cash flow and an adverse impact on practice values.

- 3) Here are several other market conditions that could have a negative impact on practice value: (1) Increase in student loan debt; (2) Downward pressure on pricing for dental services (PPO involvement) and upward pressure on practice overhead; and (3) The burden of owning/managing a dental practice is increasing dramatically (the business side of dentistry is becoming more complex).

Given the expected changes on the horizon for the practice transition marketplace, it is more important than ever for potential sellers to understand the factors that influence value and take the necessary steps to maximize practice value, beginning with considering the financial and emotional implications of a practice sale and planning for their transition in advance.

What Our Clients Have To Say About Us Matters

"I would like to thank McLerran & Associates for assisting me with the sale of my dental practice. I had a unique situation and very short time frame to work with but the team at McLerran & Associates were up for the challenge. They handled the entire process in a timely and professional manner and located an experienced buyer who was a great fit for me, my staff, and my patients. I found the transition process to be both financially and professionally rewarding and I am grateful to McLerran & Associates for their expertise and guidance."
- Paul Craven, DDS, MAGD (Austin, TX)

"I would highly recommend McLerran and Associates for any Dentist that is looking to sell their practice. They were very instrumental in making the sale of my practice a success. The company is well known and respected and because of that, they have a wide variety of prospects that approach them. I never felt any pressure to accept a client or an offer, which was great! When I signed a contract the experts within McLerran and Associates worked diligently and efficiently to bring the deal to a close. I am forever grateful to McLerran and Associates."
- Yvonne Thomas, DMD (Houston, TX)

The Critical Steps in Selling a Dental Practice

The sale of a dental practice is one of the most important events in your professional career. If handled properly, it should be a rewarding and profitable transaction for all parties involved. To ensure a successful transition, it is important to follow these crucial steps:

- 1) Begin the planning process three to five years in advance of a transition. There are countless ways to sell a dental practice. Therefore, it's important to meet with your local dental practice broker to determine the best transition strategy to meet your individual goals leading up to and following the sale. Another advantage of beginning the process three to five years before a sale is the ability to address and correct issues that could have a negative impact on practice value, thus ensuring that you maximize the value of your practice upon the sale and position the future practice owner for success.

- 2) Once you have selected a transition strategy and prepared your practice for sale, you are now ready to initiate the transition process. The first step in this process is to collect all of the information required for your practice broker to determine the market value of your office: practice reports, financials, office lease, equipment list, pictures, etc. Upon establishing the value/asking price, your broker should construct a comprehensive practice profile that will be utilized to confidentially market the practice to prospective buyers.

- 3) When you sell a dental practice, maintaining confidentiality during the transition process is extremely important. Your broker should require all potential buyers to complete a confidentiality agreement prior to receiving any information regarding your office. The broker should also oversee all communication with potential buyers and their advisors and handle initial practice showings after office hours. Should a buyer determine your practice is a good fit after reviewing the profile and visiting the office, a follow-up meeting will likely be arranged to allow both doctors to get to know each other.

- 4) The next step is to find the right dentist for your practice. To sell a dental practice, some brokers will simply list a description of your practice in various journals and their website with the hope of coming across a good fit. This approach doesn't cut it! To ensure that prospective buyers are a fit for your office, it is extremely important that your broker works diligently to cultivate relationships with all prospective buyers to understand

their needs, goals, and skill set to then match them with the appropriate practice. By taking a more hands-on approach, the broker is more likely to find a quality buyer in a shorter amount of time.

- 5) Once an ideal buyer has been located, the next step in the process is to agree on the terms of the purchase in a Letter of Intent, which should detail the proposed purchase price, intended closing date, assets included in the sale, and a list of contingencies that have to be met before the transition is completed.

- 6) Upon agreeing to the terms of the sale, the next step in the process is for the buyer to secure financing. Since most buyers will require 100% financing, it is important that they work with lenders who are familiar with dental transactions. It is equally important that the practice broker helps position their loan request in a favorable light with each lender to give the buying dentist a strong chance of securing the level of financing requested. This involves understanding each lender's unique underwriting requirements, presenting a comprehensive practice prospectus and cash flow analysis, and proactively addressing any potential red flags up front.

- 7) While navigating the financing process, the buyer will also be completing their due diligence on the practice. This typically involves meeting the selling doctor, reviewing patient charts and practice reports, inspecting equipment, and consulting with an accountant to evaluate practice financials.

- 8) The most important document involved in a dental practice sale is the Asset Purchase Agreement, which serves as the legally binding document detailing the terms of the sale. This document should be specific to a dental transition and be a win-win agreement that protects both sides and discusses how common issues, such as accounts receivables and credit balances, will be handled after the sale occurs. It is imperative for each party to hire their own legal counsel (with experience in dental transitions) to review the APA and other agreements involved with the sale.

- 9) In addition to the APA, the buyer will need to negotiate an assignment of the existing office lease or negotiate a new lease with the landlord. It is important to consider the requirements of the lender when negotiating the lease term and to approach the landlord at the proper

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