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Selling your Practice – Knowing the options

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By the age of 45 years, most dentists start looking at how they will exit from their practice. At that stage of their career they have started to consider how they'll get to the stage of being able to retire.

Will it be a straight sale? Should I sell to a corporate? What other possibilities are there?

The Normal Model: The practice is sold and the seller disappears

There's no question that the easiest path to take is a straight sale. The new dentist takes over on the day you leave and you walk into the sunset with the money paid. It is important for all practice owners to know that this isn't their only option though. There are other methodologies for selling and exiting that may produce better results for all involved.

Alternate Model 1: The seller stays on as an employee

Under this model the seller of the practice agrees to remain working in the practice as an employee for a period after the exchange. The amount that the selling dentist will work will depend on the capacity of the practice (space and patients). During this time the seller will get paid as if he/she were a normal employee dentist.

This seller/employee role would only be contracted for a finite term but if the practice is busy enough and the buyer and seller find themselves compatible with each other, this relationship may continue indefinitely.

Buyer's perspective

From the buyers perspective the advantage of this approach lies in the ability to retain a large amount of the goodwill of the patients. Much of the sale price of a practice is in the goodwill of the patients and their loyalty is with the dentist that they *were* seeing. Once he/she has left there is much less keeping them coming back to the practice.

Having the selling dentist stay on for a time as an employee will minimise patient attrition as it will:

- create continuity in the patient's mind between their old dentist and the new one
- show the patients that the dentist they were seeing is confident in the abilities of the new dentist



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The selling dentist will be seeing patients but will have additional duties to make the transition smooth for the patients. These extra duties would include:

- briefing the new owner dentist on existing patients
- making patient introductions to the new owner dentist
- being a source of information on practice history with suppliers, specialists, etc in the area
- introducing the buyer dentist to referrers and specialists in the area.
- Maintaining their name alongside the buyers on the signage and stationary

Seller's Perspective

the advantages of Alternate Model 1 include:

- provision of this option to a seller may give your practice an edge over other practices for sale.
- it may attract buyers where there were none.
- if a seller wants to get their money out of the practice but is not ready for retirement yet, this could be the ideal option. Working for the buyer on an ongoing basis will mean his career end is more flexible

Alternate Model 2: Selling to a Corporate

If the practice is sold to a corporate, there is usually a period of 4-5 years in which the selling dentist is contracted to work as an employee for the corporate (like model 1) to earn them back their purchase price. The most common arrangement going around at the moment is that the corporate will purchase the practice at 4-5 times the profit of the practice if the dentist contracts to work for them for 4-5 years, each year giving them back $\frac{1}{4}$ or $\frac{1}{5}$ of their purchase price.

The end financial result? The selling dentist has given the corporate back 100% of what they paid apart from some potential tax benefits.

Sellers perspective

For many sellers this model is all they want and need. There are other dentists, however, who think it would be better to work for themselves for those 4-5 years, and then sell their practice on the market. For them, whatever they get at that point would be profit over and above what a corporate would have given them originally, but they would have had to earn back.



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Alternate Model 3: The employee-with-view or the “Try before you buy”

In this scenario, a selling dentist takes on a dentist as an employee, with the expressed and written purpose of selling him/her a share of the practice. The steps involved with this are as follows:

Step 1: There is a trial period of no longer than a year, during which both the practice owner and the employee assess their compatibility, including clinical, personal and managerial.

Step 2: At the end of the year a decision gets made by both parties as to whether to proceed

Step 3: At this point, both parties sign a contract for the equity purchase and sale (could be for half the practice or the whole practice). A valuation should be done at this point to determine the contract price, but there may or may not be any money changing hands at this point.

Step 4: There are a few ways of proceeding at this point:

- The employee could pay in full at this point for whatever share of the practice he/she is purchasing.
- The employee could continue to be employed by the seller for several years and a percentage of the employee's pay gets put contractually into escrow every pay for the financing of the settlement of the purchase at a fixed date in the future.
- The employee agrees to 'buy' according to a contractual schedule a percentage of the practice each year paying an agreed upon amount until the transaction is completed at a fixed date.

With any of the above potential paths, the end result would be a full or partial sale of all the equity in the practice.

The Buyer's perspective

From a buyer's perspective there are two advantages to this approach:

- Practice purchase can be a very risky endeavour. The patients may not like the practice buyer, there may not be as many patients as you were led to believe, the staff may not like the new dentist, the equipment may not be in as good condition as promised, the inherited practice protocols may be inefficient and hard to get rid of (discounts to everyone, staff doing whatever they like).
- Easily the safer option is to “try before you buy”; that is work in the practice for a while before purchasing. This can either be as an employee with view or on a limited one or two month trial.



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- The employee doesn't need access to the full purchase price up front. While it commits them to the purchase it gives the buyer a longer opportunity to save towards it..

Seller's Perspective

The advantages of this approach to a seller are:

- This may help find buyers that would not be interested in a straight sale because of financial or risk reasons
- The monetary benefit (which can be quite considerable) of having an employee dentist working for a period of time before they buy.

Unfortunately this option takes longer than a straight sale. If you need to make a speedy exit, this option may not be for you.

There are many ways to exit from a practice. No single way works for all dentists. It is important to understand the options available in order to assess what's best for any individual situation.

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