



# Practice Exit Planning: Different ways of selling, or not.

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There are many baby boomers who own dental practices and who are approaching the end of their careers over the years to come, wondering what their choices are.

And there are probably more choices available to them now than have been available to an end-of- career dentist ever before.

Options have opened up over the last few years in Australia that previously never existed.

Let's look at what alternatives there are for a dentist looking to exit their practice. The best option will vary from person to person depending upon their plans for the future and their enthusiasm for the business and practice of dentistry

## **Option 1: Sell and walk away.**

This is the simplest exit plan.

In this option the day the buyer starts working in the practice, the previous owner ceases to work there.

This option works well if the seller:

- is moving interstate or
- is sick of practicing and the burdens of ownership of a practice and wants to retire.

## **Option 2: Sell and work as an employee.**

This option involves selling the practice and working for the buyer as an employee either for a defined or indefinite amount of time.

### **Why do sellers like this option?**

A seller may be tired of the burdens of ownership but still like practicing dentistry. They may be happy to continue to work as long as they can leave straight after their last patient, don't have to deal with staffing issues and paying bills.

A seller may choose this option because it can sometimes provide more interested buyers than the sell and walk away option. For example, some of the corporate entities buying practices in Australia predominantly buy practices under this model.

### **Why do buyers like this option?**

The seller staying on allows the buyer to maintain the production levels of the practice while transferring the patient goodwill (by introducing the buyer to the referrers and patients of the practice, doing patient handovers, etc). This in turn means that:

- The patient retention in the practice post sale is maximised.

- The seller's production post sale could offset the repayments on money borrowed by the buyer in purchasing the practice.

### **Option 3: Phased sell**

This model involves selling equity in phases rather than all at once. The usual way that this option proceeds is that a dentist signs a contract for purchasing the practice in incremental percentages until either a full partnership, or full ownership has been transacted.

The benefits of the phased sell for the buyer is that:

- there is never a large lump sum having to be borrowed and paid back.
- this model allows the responsibilities and obligations of ownership to be phased instead of all at once

For the Seller this option is beneficial for two reasons:

- It could produce a buyer where one didn't exist before  
The seller gets the benefit of the buyer dentist working for them as an employee until settlement is completed.
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### **Option 4: Delayed sell**

This involves a verbal or written contract to sell after a period of time. The practice looks for a dentist to work in the practice as a contractor or employee for a period with the explicit understanding that after a set period of time there will be a partial equity buy in (phased sell to an incoming partner) or buy out by the employee/contractor.

During the interim, the incoming dentist continues to work as an employee while they get mentored both clinically and managerially, until settlement. After settlement, the 2 dentists could be partners in the facility or the new buyer could have bought the whole practice (depending on the initial contract).

### **Option 5: Merger sale**

This model is less common in the industry (but very worthwhile under the right circumstances) and involves finding another dentist working in your area to sell the practice to.

The buying practice purchases the goodwill of the selling practice either with or without the equipment.

The seller is then expected to help transfer the goodwill of his/her patients to the buying practice (often by working in the buyer's practice for a time).

### Option 6: Distressed Sale

This is the sales model no one wants... Unfortunately, far too many dentists die or unexpectedly become disabled and unable to practice. Unfortunately when a disaster like this happens time is of the essence when it comes to selling your practice.

Your patients need a dentist and when you aren't available they will find someone who is. After several months of you not being available, the goodwill in your practice and thereby the selling price has been severely compromised.

### Option 7: Grandfather.

This is where the dentist sells nearly all his/her practice but keeps a percentage of the goodwill of the practice expressed as a specific number of nominated patients as a base to work on over the next years. In this way he does not become an employee, but is self-employed and pays for his own staff, supplies, etc on a pre-agreed formula.

### Option 8: Never sell

This is a new model in the market place, whereby the retiring dentist becomes an absentee manager and owner of a dental practice, but doesn't work as a clinician in the practice. There are a number of skills necessary to obtain in order for this to work, but when you consider it, isn't this similar to what a corporate is doing? And who is more likely to make a success of running your practice: you or someone who has never set foot in it?

The corporates are taking 25%+ of the collections of their practices as their gross profit. Why can't the retiring dentist do exactly the same!

When you think about it, for a practice grossing, say \$800,000, if it was sold on the open market, it could bring about \$500,000 if it were offered for sale. If that sum were invested in the real estate market, one would be lucky to net more than \$30,000 pa.

If, however, the dental practice was maintained as a going concern, and run properly, there is no reason to expect a return less than \$200,000 pa. (and still maintain an asset worth at least the \$500,000)

What is required for this option to work is management and leadership skills, and the ability to look at and analyse the right numbers..

For too long, dentists have been limited by their lack of business skills and training, and constantly complained bitterly about the low prices attainable when they sell their practices (they complain about the high prices when they buy). With some imagination, training, and skills your dental practice can continue to bring you a good income over a long period.

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