

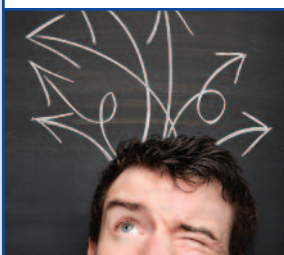


JUNE 2012

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Advice from Lenders



Q&A

ADS Florida  
*Congratulates*

Luis Gomara, DMD  
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Cape Coral

Harold Arthur, DMD  
to Joseph Richardson, DMD  
Maitland and Eustis

Janice Wahl, DMD  
to Maryam Brazdo, DMD  
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Charles E. Fletcher, DDS  
to Aleesha Freimuth, DMD  
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Walter G. Fletcher, DDS  
to Aleesha Freimuth, DMD  
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# ADS Florida Insider

EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST

## The State of the Dental Economy

### Trends That Will Affect Your Practice Transition



Just as large corporations provide quarterly updates to their stockholders and the general public, we at ADS Florida would like to give you, our doctor clients, a periodic update to keep you informed of the state of the "dental economy" as it relates to practice transitions and the seller marketplace.

#### General Dental Economy

The First Quarter of 2012 continued to show improvement in the dental industry as the economy recovers. Though still fragile and somewhat dependent on international economic conditions, indications are that slow growth and improved stability will continue. The stock market has recovered, to a great extent, from the losses incurred during the recession and though still somewhat volatile, seems to have stabilized with Q1 earnings showing slow growth.<sup>1</sup> Though many Dentists lost significant portions of their retirement portfolios, some, if not all of those losses should have been recovered.

#### Buyer Availability

Fortunately, in Florida, we seem to be never lacking in qualified buyers for most areas of the state. Qualified buyers are individuals that have some actual practice experience which may include GPR or other residency programs or associateships. The primary qualification however continues to be a good credit history and score. We are regularly contacted by qualified buyers looking for good practice opportunities.

#### Bank Financing

Currently, there is an abundance of financing available from multiple banking sources at very competitive rates, ranging from in the mid 5% to the mid 6% for qualified buyers. Lenders are routinely financing 100% of the loans with additional working capital available, and only in isolated situations are banks requiring some owner financing.

#### Capital Gains Tax Status

For those dentists contemplating a transition in the near future, serious consideration should be given to completing the practice sale before the end of 2012. With as much as 90% of the sale price allocated to goodwill, and because goodwill is treated as a long-term capital gain (currently taxed at 15%), it is important to note that this tax rate may only be available through the end of this year as it automatically reverts back to the previous 28% if Congress does not act to again extend the current tax rates. A practice selling for \$500,000 can expect to pay \$50,000 to \$60,000 in additional taxes if the current capital gains tax extension expires.

We understand this information may lead to more questions. Rest assured that at ADS Florida, we understand the market and are available to help answer questions and guide and assist you in the right transition strategy, at the right time. Please contact any of our transitions specialists and we will be happy to work with you in assessing your transition status.

<sup>1</sup>.Bank of America Capital Market Outlook

# What bankers would do if they were you

Getting Your Practice Transition-Ready,  
From a Lender's Point of View



As one of the most tenured teams in practice transitions, we have been fortunate to build strong relationships with national lending institutions that specifically focus on dental practice transitions. In an effort to share their collective experience, we are starting a series of roundtables whereby you will hear directly from each of them on the same topic. If you would like to speak directly to any of our resources, we have included their names and contact numbers at the end of the article. Further, if you have a question that may be appropriate for a future roundtable (whether for bankers or other professionals such as attorneys or accountants), please let us know at [newsletter@ADSflorida.com](mailto:newsletter@ADSflorida.com).

## Question: What advice would you give to a doctor who is considering a sale within two to five years?

### Bank Of America Practice Solutions

Sellers need to understand how banks look at deals and what information is used to determine if a deal is acceptable to the lender. Banks rely on historical financial data to determine if the practice (as it looks on paper today) makes enough money to pay back the loan, the buyer's personal expenses, taxes, and a calculated living expense, and still have some money left over for the buyer. The more profit your practice shows on paper, the more you can ask for your practice, the easier it will be to find a buyer who wants your practice, the less hassle you will get from the buyer's advisors, and the easier it will be for you to get a lender to approve the deal. Buyers don't want to overpay for a practice, and a buyer shouldn't have to hire a forensic accountant to find the true net income for your office.

As the economy improves, the sellers who were forced to delay their practice sale will soon feel comfortable enough to make the decision to sell, which means practice sale inventory will soon increase. Buyers will have more practices to choose from, and, if your financials are not "clean," a buyer may move on to a deal that on paper makes more money, which will force you to reduce your sales price. If you are thinking about selling your practice in the next few years, you should work on cleaning up your tax returns and show the true cost of operating your business and the true profit of your business. Please consult a qualified tax advisor regarding any tax or accounting questions.

**Bank of America.** Bank of America Practice Solutions  
**Matt Adrian at 855.266.7221**



### Capital Source

The market value of any business and a buyer's ability to obtain financing to purchase said business will always be in some way tied to profitability. Often we see practices with either flat or declining revenues, which reduces profitability. This of course also affects the practice's fair market value, making it either flat or causing a decline—both resulting in a loss to the seller.

A practice with flat or especially declining revenues can also create uncertainty for an underwriter evaluating the projected future profitability of the business. This may lead to difficulty for a borrower in achieving financing

to purchase the practice at full fair market value. Therefore, a practice owner who is concerned with receiving 100% of their practice's full market value should sell prior to allowing revenues to flat line or decline. This happens most often when a practitioner reduces the number of days they work from five to four or even four to three days per week.

Another consideration when evaluating profitability/market value is maintaining a clear line of sight to profits. If, for example, a practice owner has multiple practices on one tax return or lumps several expenses into one category, it can become difficult to see the true profitability of the practice. Therefore, keep this clear line of sight to profits in mind as you approach the sale of your practice.



Capital Source  
**Kurt George at 855.252.3735**

### Wells Fargo Practice Finance\*

Developing a game plan and exit strategy years prior to a transition is instrumental in what a doctor realizes from the sale of the practice. A common mistake sellers make is slowing down and cutting back on days versus retiring. Remember, the higher the revenue, the higher the purchase price. Plan and work with your ADS broker now to develop the best exit strategy for your practice. Investing in technology now provides practice efficiencies that increase revenues as well as makes the practice more attractive to purchasers who are already working with the technology in school or other practices.

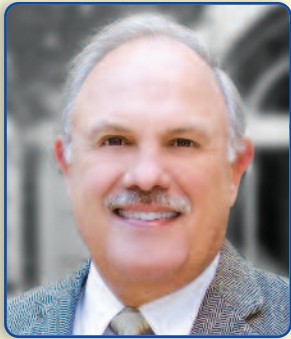
Another area of caution is being overly aggressive on practice write-offs to minimize tax liabilities. Remember these expenses will be reviewed and often looked at as practice overhead when selling the practice.

\*ALL PRACTICE FINANCING IS SUBJECT TO CREDIT APPROVAL.



Wells Fargo Practice Finance  
**Wendy Catone at 866.817.9253**

**ADS FLORIDA**



**[PROFile]**

**H. M. (Hy) Smith, MBA**  
Managing Member Emeritus

Hy Smith is the founder of ADS Florida, LLC, a 35-year plus veteran of practice transitions and the author of *Dental Practice Transitions Handbook: An Insider's Guide to Buying, Selling, Associateships, and Partnership*. As an author or presenter, Hy's central message to dentists in realizing lifetime personal, professional and financial goals is securing win-win-win-win (seller-buyer-staff-patient) transitions. He is a former president of ADS (formerly American Dental Sales) and is currently the director for Exit and Transition Strategy for the Pride Institute.

Hy Smith, a resident of Naples, Florida for twenty years, now splits his time between homes in Florida and Oregon.

**[CONTACT HY]**

239.860.3077  
hy@ADSflorida.com

**Q&A**

**Q: How is ADS Florida different from other brokers in the state?**

**A:** Experience counts. ADS Florida has been operating in the state longer than any other broker and is the only one that has met the stringent standards placed upon members of ADS nationally. ADS Florida also serves as the exclusive transition specialist for the Pride Institute.

Our five-member team provides personalized, experienced, professional service that cannot be found in any other dental practice transitions firm operating in the state. We subscribe to the highest of ethical standards and focus on finding the right transition strategy for each doctor and practice. Our transitions methodology and documentation is among the best in the country, creating win-win-win-win deals for purchaser, seller, staff and patient alike.

How does ADS Florida rate among other transitions specialists?

Find out at  
[ADSflorida.com/HowDoWeRate.pdf](http://ADSflorida.com/HowDoWeRate.pdf)

**What Our Clients Say**

"When I first thought about purchasing a second practice, I wanted to try to do it without a broker. I thought it would save money and, from previous experiences, I never really trusted a "broker."

Now that I have purchased two practices and merged them together working with Dr. Paul Rang, I realize that it could not have been done without him. Dr. Rang is very knowledgeable about the entire process and made this a very comfortable experience. I would highly recommend that if you are buying or selling a dental practice you let Dr. Rang handle the transaction."

— Alan J. Aviertt, DMD

Meet the **ADS Florida Team**



**Hy Smith, MBA**  
(239) 262-3077  
hy@ADSflorida.com



Southeast Florida  
**Stuart M. Auerbach, DDS**  
(954) 431-3624  
stuart@ADSflorida.com



North / Central Florida  
**Paul Rang, DMD, JD**  
(407) 671-2998  
paul@ADSflorida.com



West/Southwest Florida  
**Greg Auerbach, MBA**  
(941) 746-7959  
greg@ADSflorida.com



Naples / Fort Myers  
**Phil LoGrippe, DMD**  
(239) 682-4339  
phil@ADSflorida.com



Thinking **TRANSITION?**

Call 888.445.8041 or Visit [ADSflorida.com](http://ADSflorida.com) Today

# Practice Transition Ahead?

ADS Florida's Hy Smith returns to FNDC this year with an update on his popular practice transition program. With his advice and insightful strategies for maximizing practice value, dentists have added thousands to their current income and retirement. Plan for the future ahead. Plan to attend.

**Saturday, June 16 | 8:00 AM**  
**insight.ADSflorida.com**

Eligible for 3 CEUs

**insight series**  
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## Inside This Issue

- I Teethonomics:** Our Take on the Dental Practice Marketplace
- I Bankers Weigh In:** What Makes a Transition-Ready Practice?
- I FAQ:** How Do We Rate Among Practice Brokers?



## What's New?

Transition volume is picking up with the economy. ADS Florida added a new team member, Phil LoGrippo. And, Paul, Greg, and Stuart are spotting new trends in parts of Florida. But, enough about us. We really want to know what's new with you.

**Stop by the ADS Florida booth at FNDC.**

**Visit**  
**Booth**  
**356**  
FNDC

Practice Transitions Made Perfect™