



ADS Florida BuyLine

OPPORTUNITIES FOR DENTAL PRACTICE BUYERS & ASSOCIATES

NOVEMBER 2012

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What Are You Buying?
Goodwill!



Same Word.
Different Meanings?



Q&A
Beware Rules of Thumb

ADS Florida
Congratulates

Ernest Collins, DDS
to Kevin Van, DDS
Clewiston

Mark Colin, DDS to
Fredrico Schmid-Hidalgo, DDS
Fort Lauderdale

Simon Amini, DMD and
Alan Farrugia, DDS to
Vincent Cardinale, DDS
Naples

Raul Ortiz, DMD has
joined the practice of
Sheldon Mann, DDS
Sarasota

Sterling Ronk, DDS
to Manav Malik, DMD
Sarasota

Stan Pfost, DDS
to Bryant Anderson, DMD
Winter Park

Preserve the Goodwill of the Practice You're Buying Keep the Seller on Your Side



It's a common understanding that a practice is made up of equipment and goodwill, but mostly goodwill. You're buying a little bit of value in equipment and a lot of value in the practice's name and reputation. Buyers tend to lean on this when discussing the restrictive covenant part of the contracts and the "transition period." What is often missed is that significant, unintended damage can be done to goodwill in the course of purchase negotiations. It is easy to avoid this. Let's look at a few ways how:

The True Impact of Price

The amount paid for something is generally the most focused-on piece of a transaction. However, in most practice transitions, whatever amount may be negotiated off the purchase price really ends up having a negligible effect on the buyer's long-term "take home" compensation. Hard negotiations to save ten percent of a \$500,000 purchase price (\$50,000) amount to about \$550 per month, or roughly one-half of a crown. That same \$50,000 could be the difference between a deal and no deal. It could also be the difference between a seller who complies with only the bare minimum requirements or one who goes above and beyond what is contractually required. One crown every two months is a small sum to pay for the seller's whole-hearted endorsement and cooperation in a transition.

Un-complicating Contracts

After agreeing on a price and completing in-office due diligence, the next step is to have contracts prepared. The best transitions firms have draft contracts on hand that are designed to be complete, fair and neutral. They've evolved over time and represent the best feedback from educated counsel. If you hire counsel who makes excessive or complicating changes, it not only costs you, but also the seller. The longer the back-and-forth goes on, the more frustrated the seller may get. This is not to say you should not have qualified counsel, but keep in mind that counsel works for you, not the other way around.

Keep Requests Reasonable

Everybody wants everything, and it is understood that you want to protect your investment. That said, repeated or "and just one more" requests pushed on a seller, regardless of magnitude, can erode a future relationship, and therefore the goodwill of the practice. Again, you should look out for yourself, but seriously consider whether a request is 'reasonable' and something you would agree to if the roles were reversed.

These are just a few simple things to keep in mind. Working with a tenured specialist and consulting with them throughout the process is an easy way to avoid these and many other pitfalls. While the consultant should not represent both parties in any way, they should be interested in your success and have experience in transitions. They should be used as a resource and reasonable sounding board.

When Is an 'Appraisal' Not an Appraisal?

Buyers Need to Know the Terminology



The question of "do I need an appraisal?" often comes up when working with clients, whether buyers, sellers, clients entering into partnerships, mergers or litigation, or for estate planning.

First let's define what an appraisal is. An appraisal is a formal opinion of value based on all the pertinent information available about the subject—in our case, a dental practice. There are many factors that go into "all the pertinent information," including gross income, net income, fee schedule, staff information, PPO, HMO and Medicaid insurance participation, total number of patients, number of new patients, specialties and procedures, demographics, market issues, etc. Appraisals can be oral or written, but must be based on all of the pertinent information.

Some practice brokers and consultants often offer a "Free Appraisal" of a practice when seeking to represent a seller. Unless specifically indicated, it is most likely that this will be an "Opinion of Value" based on a Rule of Thumb approach, not an "Appraisal." So what's the difference?

Using a Rule of Thumb

A Rule of Thumb uses some information and then usually applies an arbitrary multiplier to that information to arrive at a value. The most common Rule of Thumb we hear is, "The practice is worth 70% of gross revenue," or "The practice is worth one times net income." Neither of these Rules of Thumb is an accurate representation of the practice value.

An example: Two practices each collecting \$1,000,000. One has an overhead of 50% and the other an overhead of 70%. Using the "70% of gross revenue" Rule of Thumb, each practice would be worth \$700,000. In reality, the first practice is significantly more valuable than the second because of the larger profit. Similarly, if one practice has state-of-the-art equipment and technology and a second has 20-year-old, non-digital, out-of-date equipment, it is obvious the first practice is worth more.

A Formal Appraisal

A Formal Appraisal includes all the pertinent information and provides a formal written report. The report can be a Comprehensive Report, usually from 50 to 70 pages of information plus supporting documentation; or a Letter Appraisal Report, usually from 2 to 4 pages plus supporting documentation. Both reports have completed the same analysis, the difference being that significantly more data and discussion is included in the Comprehensive Report, where the Letter Appraisal report is a

summary of the information without much in-depth discussion of the data or findings. Both formal reports must be signed and dated by the appraiser.

For the purchaser of a practice, one very important piece of information in an appraisal is a "Cash Flow Analysis." This is the most important tool a buyer can have in determining if he/she can afford to purchase the practice and how much earnings will be available to take home after the debt service. The value of the practice is irrelevant if there is not enough money to take home! (A Rule of Thumb will not provide this important information.)

Brokers Use Different Methods

Unfortunately, there are brokers and consultants who will tell a seller what he or she wants to hear in order to engage a client. If the seller thinks the practice is worth \$500,000 but an official appraisal suggests it is really worth \$350,000, the seller is going to be more inclined to engage the broker who tells him the practice is worth \$500,000, even if the broker knows the practice will end up selling for \$350,000. AND, the broker has a contractual period, usually a year, during which the seller will be obligated to work with the broker.

An honest broker is going to tell the seller what the market for the practice is and, by doing an appraisal analysis, give the seller a realistic value. The appraisal does not have to be in the form of a written report, either Comprehensive or a Letter Appraisal, but the analysis that the broker does comprises all of the pertinent information that would go into a formal written report.

Some buyers will request or require a written appraisal report, and the banks that finance the transaction will certainly want the same information that the broker or consultant has used to arrive at a sale price as a requirement for financing. In the case of litigation, partnerships, mergers or estate planning it is probable that a comprehensive written appraisal report would be required.

Since purchasing a practice is probably one of your most valuable decisions, doesn't it make sense that you would want to know its real value? Knowing the difference between "appraisals," and the information and terminology the use, can make all the difference. Looking ahead, we encourage all dentists to periodically have their dental practice appraised as an element of their net worth, their exit strategy planning and for estate planning purposes.

General and Specialty Practice Purchase Opportunities

NORTH FLORIDA

Contact: Paul Rang, DMD, JD

Pensacola	3 ops FFS/PPO Dig X-ray & Pano RE Avail	Gross Reduced to \$225K	Buyer Net*
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Specialty Practices

NE Florida	Ortho 5+1 ops		
NE Florida	Endo 3 ops Dig X-ray microscopes	\$703K	\$263K
NW Florida	Endo 3 ops Dig X-ray microscopes	\$648K	\$330K
NW Florida	Perio 5 ops FFS/PPO Dig X-ray	Ask \$475K	

Practice Ready Facilities

Jacksonville	2,200 sq ft 4 ops, Dig X-ray		
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SOUTHEAST FLORIDA

Contact: Stuart M. Auerbach, DDS

Clewiston	4 ops FFS/PPO/Med	Gross SOLD	Buyer Net*
Coral Springs	5 ops FFS PPO Dig X-ray and Pan	Ask \$225K	
Ft. Lauderdale	2+1 ops FFS	Ask \$165K	
Ft. Lauderdale	3 ops PPO/FFS	SOLD	
Miami Gardens	3 ops PPO HMO	UNDER CONTRACT	
Tamarac	5 ops FFS/PPO Publix Shopping Ctr	Ask \$225K	

Specialty Practices

W. Broward Cty	Surgery: Dental Alveolar and Implant	\$750K	\$220K
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Practice Ready Facilities

Miami Beach	2 ops fully equipped with Pan X-Ray	Ask \$97K	
Port St. Lucie	2+2op Equip, CPUs, Dig X-ray, Near Hospital	Ask \$200K	
Pompano Beach	1800 sq ft Building 6 ops plumbed large lab	Ask \$350K	

WEST FLORIDA

Contact: Greg Auerbach, MBA

Bradenton	5 ops FFS Dig X-ray, Cerec & Laser	Gross \$625K	Buyer Net* \$196K
Bradenton	5+1ops FFS/PPO	\$815K	\$273K
Tampa	6ops FFS/PPO Pan Ready to Grow	\$467K	\$72K
Westchase	4 ops PPO/FFS Pan Laser Dig X-ray	\$485K	\$126K

Specialty Practices

Sarasota/Bradenton	Endo 5ops DXray, Zeiss 5 Stage	SOLD	
West Florida	Pediatric Goodwill/Chart Merger	SOLD	

SOUTHWEST FLORIDA

Contact: Greg Auerbach, MBA or Philip LoGrippe, DMD

Fort Myers	5 ops FFS Well Established Practice	Gross \$1.3M	Buyer Net* \$308K
Fort Myers	3ops FFS/PPO Dig X-ray	\$460K	\$137K
Naples	4+1ops FFS/PPO Dig X-ray,Pan	\$750K	\$273K

CENTRAL FLORIDA

Contact: Paul Rang, DMD, JD

Cocoa Beach	4 ops FFS/PPO 3 days/wk	Gross \$374K	Buyer Net* \$112K
Daytona Beach	4 ops FFS/PPO Dig X-ray + Pano	\$950K	\$414K
Levy County	7 ops 3 days/wk	\$362K	\$145K
Ocala	5 ops FFS Dig X-ray + Pano	\$825K	\$294K
Orlando	5 ops FFS Dig X-ray Cerec	\$1.12M	\$311K
Orlando	3+3 ops FFS/PPO Pano	\$558K	\$160K
Orlando	2 locations w/ 3 ops FFS	\$525K	\$170K
North Orlando	3 ops FFS Pano	\$549K	\$192K
Winter Park	4+1 ops FFS/PPO	\$521K	\$141K
Orlando	4 ops FFS Dig X-ray	SOLD	
Winter Park	5 ops FFS	SOLD	

Specialty Practices

Central FL	Prosth 5 ops FFS Pano	\$798K	\$235K
Central FL	Endo 5 ops	\$587K	\$312K
Central FL	Endo 2 locations w/ 3 ops	\$505K	\$193K
Central FL	Pedo 5 ops Pano-Ceph	\$503K	\$143K
Central FL	Pedo 5 ops, Pano, Dig X-ray	\$1.27M	\$492K

Practice Ready Facilities

Ormond Beach	2,000 sq ft Condo, 5 ops, specialty prac.	Ask \$307K	
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For the most recently updated listings visit listings.ADSflorida.com

*Buyer net includes the debt service on 100% financing of the asking price.

Q&A

Q: I have read that dental practices are worth 70% of their gross receipts averaged over the past three years. Is that true?

A: While three years of financial information is important to determine the value of an practice, rules of thumb are simplistic and don't usually provide the correct value. To find out the true value of a dental office, an expert in transitions should be consulted to conduct an evaluation or full appraisal on the practice.

What Our Clients Say

" Greg Auerbach provided exceptional service and information. Other transition companies were trying to sell me everything they had listed. Greg found what I wanted. "

- Jeff Skupny, DMD

Meet the ADS Florida Team



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For details call 866.818.1037

Strength- building Seminars.

The Complete Dental Marketing Plan
Learn how to grow your practice with modern marketing strategies for maximum return on investment.
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Strategies for Successful Transitions
Sell or Partner? Understanding the Economics of Your Exit Options.
December 14th & 15th | Phoenix

