



ADS Florida Insider

EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST

NOVEMBER 2012

IN THIS ISSUE



Strengthen Your Goodwill Power



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

Protect The Goodwill It's Taken Years to Build

Before, During and After the Sale of Your Practice



The most valuable component of the price of a dental practice is the portion allocated to "goodwill." Goodwill represents the intangible assets of a business—the difference between an established, successful business and one that has yet to achieve success. In an established dental practice, goodwill consists largely of the name, reputation and skill of the dentist and team, which have led to a strong, loyal patient base and consistent inflow of new patients. For the buyer, goodwill greatly increases the likelihood of continued cash flow from retention of that patient base and from new patients.

For you, the seller, preservation of the goodwill of your practice is paramount to a successful transition. A young dentist who purchased an established practice in Southwest Florida recently said, "The goodwill of the seller in my transition was priceless. His vote of confidence to our patients has increased retention and allowed me to succeed on a level I never would have been able to do otherwise."

Keep on Building Goodwill

In order to assure that you retain goodwill not only prior to selling but also through the critical transition time during and after the sale, you should maintain your reputation and good name within the practice and community at all times. Through the transition process and even afterward, remain involved in study clubs, the local dental association, community organizations and volunteer groups such as Rotary. This not only will help ensure that you receive proper compensation for your years of practice building, but also that your buyer receives full value. Even after you retire, positive support and praise for the new dentist (such as in social settings) will go a long way toward continued retention of patients in the new practice.

Choose the Right Broker

Working with an experienced and ethical transition broker is also invaluable in preserving goodwill and value. The right broker will perform a legitimate appraisal and value the practice in a manner that reflects the true anticipated cash flow following the sale, rather than telling you what you may want to hear and subsequently luring a buyer into a bad deal that destroys goodwill. The right broker will also work to find a buyer who is an appropriate fit for the practice, one whose abilities, ethics and practice style match your own, preserving your reputation and the reputation of the practice. Additionally, the right broker will guide the entire process, working with lenders, accountants, and counsel who are knowledgeable in dental transitions.

The right broker will also work toward the ultimate goal of having a satisfied seller and buyer, preventing negative interactions that can sometimes occur when working with an inexperienced or self-serving advisor.

When Is an 'Appraisal' Not an Appraisal?

Why Sellers Need to Know the Difference



The question of "do I need an appraisal" often comes up when working with clients, whether sellers, buyers, 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.

So why is this important when choosing a broker?

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 you what the market for your practice is and, by doing an appraisal analysis, give you a realistic selling price that you can count on. 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.

Why might you need a formal appraisal at all?

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.

And possibly most important, since your practice is one of your most valuable assets, doesn't it make sense that you would know its true value? 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. Not only does it give you the peace of mind to know what your practice is worth, the process can turn over rocks and open shades that could allow you to be more effective, efficient and profitable, now and into the future. Not only does that help you in the short term and allow you to sleep better at night, but it could be a long-term plus for you, your family and your retirement.

ADS FLORIDA



[PROFile]

Paul Rang, DMD, JD
Partner
North/Central Florida

Paul Rang is the ADS Florida representative for Central and North Florida. Paul graduated from the University of Florida College of Dentistry and practiced for 12 years in Orlando until a hand injury ended his clinical career. He then returned to University of Florida and received his law degree. With his dental and legal experience, Paul is uniquely qualified to assist dentists in their professional endeavors and is a special addition to our outstanding team. He has presented numerous courses at the local, state, and national levels on various topics including medical-legal issues concerning dentists and practice transitions. Paul lives in Orlando with his wife and has a son attending college and a daughter in middle school.

[Contact Paul]

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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 a 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.

Q: Will I have to carry a note in the sale of my practice?

A: In nearly all cases it is possible for the buyer to secure 100% financing so you can be paid in cash at closing.

How does ADS Florida rate among other transitions specialists?

Find out at
ADSflorida.com/Professionalism

What Our Clients Say

"There are really not enough ways to thank you for working so hard to get Harold and I through this process. You were honest with me from the first day and I would not hesitate to pass your name on to any of the young dentists who are out looking for practices."

— Joseph Richardson, DMD

"A great overall experience. Thanks for a very smooth transition."

— Charles E. Fletcher, DDS

Meet the ADS Florida Team



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Strategies for a Successful Transition
Sell or Partner? Understanding the
Economics of Your Exit Options

December 14th & 15th | Phoenix
For details call 866.818.1037

Don't Miss This Seminar.



I Keep Growing Your Goodwill: It's a Gift That Keeps on Giving

I Appraisal vs "Appraisal": What's Real vs. What You May Want to Hear

I FAQ: Note or Cash at Closing?

H.M. (Hy) Smith, MBA
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