Can the Buyer Afford Your Practice?

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In approximately 80% of transactions, the seller sells outright transitioning 100% of the practice to the purchaser immediately and remaining only for a period of 1-3 months to familiarize the purchaser with office systems and patients. They finish open cases, but don't begin new work. This is the simplest form of a practice transition, but dentists sometimes want a long transition period. Long transitions are usually not practical. For solo practitioners, the facility is generally not large enough for two doctors. This not only strains the facility, but also means the practice won't support more than one doctor.

Consider the following example:

Overall Practice Collections (Hygiene and Doctors)	$750,000
Hygiene Collections (25% of Practice)	$187,500
Total Dentist Collections (75% of Practice)	$562,500
Seller Dentist Collections (33%)	$185,625
Purchaser Dentist Gross Collections (67%)	$376,875

While a practice generating $750,000 seems enough to support a two-doctor practice, 25% is generated from hygiene leaving $562,000 of operative dentistry. When the seller remains and produces 33% ($185,625) that leaves $376,875 for the purchaser. Compensated at 35% of collections, the seller grosses $64,968.

The purchaser retains:

Hygiene Collections	$187,500
Purchaser Collections	$376,875
Seller Revenue Collections	$120,656
Purchaser Gross Revenue (Minus Seller/Associate Pay)	$685,031

Assuming a 60% overhead ($450,000), the purchaser has income of $235,031. The buyer pays a $525,000 loan over seven years at 9.25% or $102,162 annually, leaving $132,869 gross. The buyer here probably would not complete the purchase because he or she could work for another dentist, produce $375,000 annually, with his or her compensation factored at 35% or $131,250. This allows the same dentist to generate similar income without assuming the $525,000 liability.

Had the seller done a complete sale with 1-3 month transition, the buyer would generate after-debt-service pre-tax income of $197,836.

The practice would have to generate considerably more than $750,000 to warrant the selling dentist continuing in the practice. If your practice generates sufficient revenue to allow you to remain, several additional factors must be considered:

Is your practice large enough to accommodate two practitioners and at least one hygiene chair?
Are effective management systems in place to assure your practice is operating efficiently?
Do your employees work as a team and will they accept direction from the new owner?
Is your technology up-to-date in equipment and management-information systems?

If you are planning for transition, critically review your practice to develop a successful transition strategy. The key step is early planning. You should begin planning three-to-five years prior to the anticipated exit date. This is especially true if your exit strategy includes you remaining in the practice for several years.

In most cases, it makes more sense for you to remain in practice until you can afford to retire completely. We find that a seller remaining in practice for three or more years can make more money than by selling the practice prematurely.

A properly planned exit strategy allows you to update your practice with technology and systems, if needed, and increase your revenue to enhance the overall value of your practice. Additionally, you can properly prepare for a full transition out of dentistry and into your next endeavors as easily and smoothly as possible.

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