



Practice Transitions Made Perfect™

Newsletter Article Reprint

Acquisition Opportunity

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In these difficult economic times one of the best ways to grow your practice is "growth by acquisition." Simply put, acquisition is a strategy to increase your patient base by acquiring another practice and merging it with yours.

The best candidates for this are practices that are small enough that you can comfortably accommodate the additional patients and that do not have a lot of value in the equipment. Additionally, the practice needs to be close enough to your existing practice so that distance is not a barrier for the new patients to transfer. In a metropolitan area, the rule of thumb is no more than approximately five miles.

The economics of such an endeavor are very sound. When you acquire a practice the only overhead expenses that you are going to incur from the acquired practice are the variable expenses. Since you are already covering your fixed expenses your overhead should only go up with increases in expense items related to an increase in production.

Your practice's fixed expense such as rent, insurance, accounting, telephone dues and subscriptions, and utilities will remain the same. Increases can be expected in such variable expenses as lab, dental and office supplies, repairs and possibly staff. Depending on the size of the practice that is acquired possibly an assistant and/or a part time hygienist may need to be hired to accommodate the increased patient flow.

Here is an example of a acquisition that we recently completed. An estimation that 25% of the patient base would not transfer was made in this case just to be conservative in our projections. The expense items that will not be incurred by the buyer have been adjusted out, to show what the possible true net income from this transition could be. As shown below over \$125,000 or 74% of collections is net profit.

(see next page for table)

This practice sold for \$77,000. In this example, even with a 25% loss in patient revenue the buyer of this practice can recoup his investment in less than one year.

There are some caveats for a buyer of one of these "growth by acquisition" practices. One is that the buyer should do a chart audit of the patient records to ascertain where the patients reside. Any patient that is driving a long distance to the practice will probably not be retained by the buyer.

Another caveat is; patients that subscribe to capitation or PPO plans that the buyer does not participate in, will also be lost and not transfer to the buyer's practice.

Dentists who have completed a "growth by acquisition" with us invariably contact us later and ask us for another opportunity to acquire a practice in this manner because it was so successful for them. When prudently selected and with the appropriate characteristics, a practice purchased for a "growth by acquisition" strategy is a predictable and effective method to grow a practice.

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2009	SCHED C	ADJUSTMENT	REVISED	REASON ADJUSTED
INCOME				
Gross Receipts	\$224,534	\$0	\$224,534	
25% Revenue Loss (Conservative Illustration)	\$0	(\$56,378)	(\$56,378)	Estimate of patient loss
ADJUSTED INCOME	\$224,534		\$168,156	
EXPENSES				
Depreciation, Auto, Interest Expense	\$7,790	(\$7,790)	\$0	Not applicable to buyer
Taxes, Licenses, Insurance	\$8,097	(\$8,097)	\$0	Not applicable to buyer
Travel Meals and Entertainment	\$4,671	(\$4,671)	\$0	Not applicable to buyer *
Legal and Professional	\$3,043	(\$3,043)	\$0	Incl. w/ buyer expense
Office Expense	\$2,622	\$0	\$2,622	
Pension and Profit-sharing	\$13,556	(\$13,000)	\$556	Not applicable to buyer
Rent, Repairs, Maintenance	\$20,821	\$20,821	\$0	Incl. w/ buyer expense
Wages	\$54,223	(\$54,223)	\$0	Buyer has own staff
OTHER EXPENSES				
Bank Charges	\$916	\$0	\$916	
Dental Supplies, Medications	\$17,629	\$0	\$17,629	
Laboratory Fees	\$15,671	\$0	\$15,671	
Licenses, Permits, Waste Removal	\$1,205	\$1,205	\$0	Incl. w/ buyer expense
Postage	\$928	\$0	\$928	
Telephone	\$4,052	(\$4,052)	\$0	Incl. w/ buyer expense
TOTAL EXPENSES	\$155,224	(\$112,218)	\$43,006	
NET INCOME (Pretax)	\$69,310		\$125,150	

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