



ADS INSIDER

PRACTICE TRANSITIONS MADE PERFECT

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From the Desk of the President



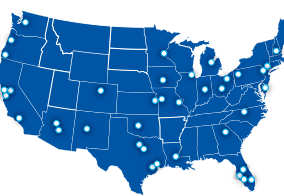
Is Now The Time?



Acquisition Opportunities

“It is important to critically evaluate your readiness to sell.”

- Earl Douglas, DDS, MBA, BVA
Principal, ADS South



Plan On It

From the Desk of the President

The sale of a dental practice is a complex transaction requiring extensive knowledge and expertise. You need more than a consultant with experience and expertise; you need a personalized transition plan to address your needs. The planning process makes sure they have examined all options and made critical choices addressing your goals and needs. As mentioned in our article on Michael Gerber’s book the *E-Myth*, it is

essential to work on this plan. Our national team of expert transitional consultants offers a complimentary visit with you to answer your questions and start developing the right transition plan for you. **Contact us today to start planning for your future.**



Frank Brown | President, ADS

Is Now The Time?

By Steve Wolff, DDS
EMA Dental Practice Sales



I don’t mind telling you that I am a long-term believer in Michael Gerber’s *E-Myth* philosophy. Boiled down to its essence, the message is this; spend some portion of your time working **on** your practice as opposed to working **in** your practice. Separate yourself from being the producer and become the CEO. What steps need to be taken to maximize the value, productivity, and profitability of your practice? At no time are these concepts more important than when you begin to imagine a time that you will be ready to retire and sell your practice. Discounting those cases in which the seller may have little or no choice such as sudden illness, permanent disability, and death, there are three components in evaluating a potential seller’s readiness to sell; financial, facility, and fun.

Prospective buyers are more comfortable with practices with good long-term production and profitability, and the practice will generally sell for a better price.

Next, we need to evaluate curb appeal. Is the location still desirable and well kept? Buyers generally want to be able to take over the practice and go to work without having to do renovations. If new patient flow has slowed down, maybe it’s time for some freshening up of the office surfaces. It is amazing what \$10,000 in paint, wallpaper, carpeting, and upholstery can do for a practice. You might even feel better and be more productive while you’re there.

Finally, we have what might be the most important and difficult of the factors to consider. Are you still having fun? Are you still comfortable physically with the clinical areas of the practice and enjoying the day-to-day interactions with patients, staff, and colleagues? Can you keep the practice active enough that revenues don’t start to decline? Are you prepared psychologically to quit? Do you have other interests you are anxious to pursue after retirement, or if planning to work as the buyer’s associate, can you tolerate the lack of control?

The financial factor has two main components; the practice financials and the owner’s financials. Careful analysis needs to be done to determine if you have accumulated assets sufficient to continue your lifestyle? Do you have a clue about your practice’s value? Is the sale of the practice a critical component to a retirement portfolio or is it just the icing on the cake?

Next is the financial health of the practice. What are the annual revenues and are they increasing, flat, or decreasing? Is there adequate profit for the buyer to make a living and be able to pay back the bank? Are business records and tax returns in good order with all income and expenses well documented? Will the practice sell for enough to cover any remaining debts or liens?

If after stepping back and assuming the CEO role, you discover that it’s time to begin the process towards a sale or transition, assemble a good team of advisors in order to market the practice in its best light. If working a few more years (regardless of your age) turns out to be the best answer, then enjoy. The world still needs you.

National Network. Local Experts.

ADS is an alliance of independent dental practice brokers and management consultants committed to the highest level of practice transition, appraisal, and consulting services to the dental profession. To find your local representative, visit ADStransitions.com/Local.

Acquisition opportunities

By Peter Mirabito, DDS, ADS Precise Consultants



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.

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.

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 (Prefax)	\$69,310		\$125,150	