

Issues to Consider Before You Sell Your Dental Practice

As a dental-specific CPA, a dental practice transition specialist, and a broker, I have been involved in over one thousand dental practice sales, representing both sellers and buyers. I frequently speak to sellers about how important it is to start the process of preparing your dental practice for sale at least five years before you actually decide to pull the trigger. Unfortunately, we see many dentists who either wake up one day ready to sell or in worse situations are injured and unable to practice without pre-planning for such an event.

Here are some steps you should take before you decide to sell your practice and retire:

Financial Planning: Questions to consider

- Have you saved enough money?
- Will you have enough income to retire comfortably?
- Are you going to relocate and downsize?
- Are you going to start a second career which will provide more income to supplement what you have saved?
- Can you set up a defined benefit pension plan (which requires sophisticated planning with a CPA and retirement plan administrator) so that you might be able to put some of the funds from the sale into a tax-deferred retirement plan?

Several years prior to selling, you should sit down with a financial planner to discuss the above questions.

Your Facility

What does a realtor tell us to do when selling a house? Make any improvements you can, clean it up and enhance the curb appeal before listing. Similar principles apply to your dental practice. First, make sure you have updated lighting so when buyers view it, the space looks bright. If you need new paint and carpet, invest in it. This should be done a year or so before listing; if you make these changes right before you want to list, your dental team might get suspicious. Most importantly, you should have digital x-ray equipment in your practice at least three years before you sell. Remember, young buyers are trained on digital x-ray equipment and do not know how to practice without it. While the old traditional x-rays have worked for you for thirty or forty years, they do not work for current buyers. Many buyers have offered less money for a practice on the basis of having to purchase this equipment. Also if you are very close to selling (one year or less) do not make huge improvements in the facility as you will not recoup those costs.

Your Dental Team

Review your team for effectiveness and contributions to the productivity and profitability of your practice. If you have under-achieving employees that you have employed for years (i.e., who

keep getting raises and who may not be technologically savvy nor may not be as motivated as you might like), it might be time to make some changes. Again, this should be planned a few years in advance so you have a great team when it is time to list your practice for sale.

Your Office Lease

This might be the most important issue to evaluate. At least three years before you are ready to list (or longer depending on how much time is left on your lease), you need to retain a dental-specific attorney to review the lease and prepare it for assignment. Virtually all banks will not loan to a buyer without at least five years remaining on a lease (including option periods). For example, one of the clients in my brokerage is a seller with only two years left on his lease with no options. The seller asked the landlord for option periods to be added. The landlord agreed, but has increased the rent substantially in the option periods. The buyers are balking and the seller is going to have to likely reduce his price. This situation is a good example of why you should have your lease reviewed before listing the practice for sale.

Make sure your lease is:

- Assignable with reasonable terms
- That the options are not personal only to you so that a buyer can exercise them
- There are no unreasonable provisions such as recapture clauses
- The assignment language is reasonable so that it does not take Superman or Wonder Woman to assume the lease

Your Systems and Profitability

If your practice is very profitable, then you are likely to achieve a top dollar selling price; practices that show NPBT (net profit before taxes) of 35% or higher can sell for maximum value. Bring in a dental management consultant to assess your practice several years before retirement. A practice that is on an uptrend will command a price much higher than one that has been struggling. Remember that the price of dental practices are generally based on profitability.

Disability

Unfortunately, about three-in-ten sales in my experience occur because the doctor has a physical ailment. At the first sign of any physical problems, contact an attorney who specializes in helping obtain the highest payout on your disability policy. Have that attorney coordinate with your transition team to make sure the sale occurs so that you receive the highest reimbursement. For example, I referred a dear client who had been diagnosed with cancer to my go-to disability attorney. Upon review of the policies, we found that if my clients doctor announced his "retirement," the policies would consequentially become null and void and he would not receive a dime. Make sure you time your sale and your actions correctly.

Choosing your Transition Team

For the above process, you will need to select a qualified team of professional advisors -- your CPA, attorney, management consultant and broker. If you are not working with dental-specific advisors, you should do so, as this process requires people who understand the dynamics of a dental practice sale. Get referrals from your dental colleagues and trusted advisors.

Finally, do not wait until it is too late

I speak to hundreds of dentists every year. Many times when a doctor is ready to retire and they inform me, the dentist is already at the point when he or she simply cannot do it any longer. If you are starting to think that "I am not able to or wanting to do this much longer" (either physically, mentally or emotionally), it is time to act quickly. If you don't, your practice will suffer, your patients will suffer and you will suffer -- especially with the potential selling price of your practice.

One client of mine told me years in advance "One day I am going to call you and tell you I am ready to pop." Well, he called me one day in November of 2016 and he told me he was ready. He could keep going, but he felt it was time. He kept the practice at a high level of performance, achieved top dollar selling it, and retired at the top of his game. If you are even starting to have doubts, start preparing your practice now.

If you take these steps three to five years in advance, you will be in very good shape to sell at top dollar and you can retire in the best position -- instead of having a sale due to a crisis, which usually does not end well.

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