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# PREPARING YOUR PRACTICE TO SELL

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# INTRODUCTION

Preparing your practice to sell is something you think about a year or two before you sell, right? Wrong. The sooner you start, the less preparation you would have to do. In fact, if you run your practice perfectly, efficiently and by the book, you would never have to prepare to sell as it would be ready to sell all the time.

But, very few, if any practices are run perfectly and efficiently 100% of the time. This book is meant to give you some insight as to what are some of the main things you need to do so that when the time comes, your practice is ready to be put on the market.



# PREPARING TO SELL

Failing to look ahead can have disastrous results. In 1912, a lookout aboard the maiden voyage of the Titanic forgot to bring binoculars to the crow's nest to watch out for icebergs. We know what happened next. In 2000, Blockbuster Video had the opportunity to buy a video mail-order company called Netflix for \$50 million. Today, Netflix is worth \$150 billion, and Blockbuster is nearly extinct.

There is a reason there are so many famous quotes on preparation and planning. Quotes including:

“The best time to plant a tree was 25 years ago. The second-best time is now.”

- Chinese Proverb

“By failing to prepare, you are preparing to fail.”

- Benjamin Franklin

“Give me six hours to chop down a tree and I will spend the first four sharpening the axe.”

- Abraham Lincoln

I am certain you have heard these quotes before. So, there must be a reason that preparation and looking ahead are important. If you apply this to your career and practice ownership and you are within a few months and up to five years away from selling your practice, then a little planning could avoid some potential problems. Here are some things you should do to prepare for the transition of your practice.

## Step 1

### MEET WITH YOUR FINANCIAL ADVISOR

Discuss with your financial advisor that you are thinking of selling your practice within a few years. If the intention is to retire, let them know that is your plan. Your financial advisor should help with your plan. They can calculate how much of a nest egg you will need to live a certain lifestyle after you retire. They will also consider the proceeds from the sale of your practice which may help allow you to retire sooner than you think. It's also important that your advisor know how close you are to retirement in order to structure your portfolio to keep your investment assets safe. Moving more risky investments to safer platforms as we age is an important aspect of anyone's retirement portfolio.

After your initial visit with your financial advisor, it is important to check in with them on a consistent basis. A minimum of once every six months is good. Checking in every 3 months is even better. They can also look at different investment programs such as a Defined Benefit Plan which allows you to put more funds away in a short period of time in a tax advantageous way.





## Step 2

### DISCUSS TAXES WITH YOUR ACCOUNTANT

This is especially important in the current environment. There have been discussions at many state and federal government levels to increase both capital gains and income tax rates. Both affect the proceeds you will receive from the sale of your practice. Your accountant keeps apprised of all the changes and proposed changes in tax law to help you with your tax planning. Your accountant can also help you look at your books and clean up any non-essential items which you are running through the practice that may make the practice financials look better if you stopped doing so. The items can include writing off your trips for continuing education, running your car expense through the practice, or paying your personal home supplies through the practice. There are also certain retirement plans and corporate structures which may require some planning to optimize your taxes when you sell.



## Step 3 OBTAIN A PRACTICE VALUATION

You may initially get a snapshot valuation when you are four or five years away from a practice sale. A snapshot is a high-level valuation. It is best to get a full valuation when you are within a couple of years of selling. You can provide this to your financial planner which will help determine when you will be able to retire if you get the desired amount from the sale of your practice. You can also go over the valuation with your accountant to look for opportunities to save on taxes when it comes time to sell. If you cannot yet retire, most practice valuation companies or brokers will update the valuation for a minimal charge each year. The valuation also gives you a line in the sand to know where you are with your practice value. If you need to get \$1 million of proceeds out of your practice and you are at \$800,000 with two more years to work, it is time to turn it up a notch and get your production going and make your practice more profitable.



## Step 4 KEEP YOUR FOOT ON THE GAS

Do not slow down in your production! If possible, ramp up production to get the maximum value from your practice sale. Banks and buyers like practices that are trending up in production instead of going down. They also like to look at a minimum of two years full tax returns, but in some cases, three years. Keeping your production up for those two or three years is important. We have seen many practices that were once worth \$1.5 million only to have the owners ease up on the gas the final two years and let collections drop to \$900,000. They lost over \$400,000 in value in the last two years of their practice ownership just because they wanted to relax more in their last couple of years. Work hard your last two years so you can enjoy the rest of your life.



## Step 5

### ASSESS THE CONDITION OF YOUR PRACTICE

Do you have 20-year-old flooring that is faded, stained, or torn? Replace it. Do you have mustard-colored countertops from 1970? Update the countertops. A fresh coat of paint on the walls will do wonders as well. Don't spend a lot of money with a full remodel but spend a reasonable amount - \$5,000 and up to \$20,000 for a larger practice - to make the practice look and feel fresh and updated. Thinking about getting the new latest and greatest piece of equipment and you are three months from putting your practice on the market? Don't do it! The practice value will not go up because you spent \$150,000 on a new piece of equipment. Buyers are buying your income production more so than your equipment. The equipment you used to produce the income you have produced is what they want. They're not going to pay \$150,000 more when what you had produced \$200,000 in net income. However, if you had a piece of equipment go on the fritz a month before selling that you need in order to produce that \$200,000, you should replace it with a like-kind piece of equipment. You do not necessarily need to buy a new one but purchase something like what was already there.



### Step 5

## ASSESS THE CONDITION OF YOUR PRACTICE -continued-

Another topic that comes up is getting away from paper charts. Buyers like to see that you have gone to paperless charts. However, it's not the end of the world to have paper charts. The process of going to paperless charts, while cumbersome, has gotten easier over the years. If you are close to being done, don't worry about it. Just keep your paper charts. Digital technology is another thing to look at. If you do not yet have digital x-rays, you should consider doing so. Digital x-ray sensor prices have come down considerably. Having digital x-rays in your practice will help in the sale of your practice.



## Step 6

### CLEAN UP YOUR ACCOUNTS RECEIVABLE

If you have credit balances on patient accounts, you are required to send those back to the patient after a certain number of years. In most states, it is three years. Each state has its own Unclaimed Property or Escheatment law. You can find it on your state's unclaimed property website. If you cannot find the patient, you are required to submit the credit balance to the state. Note there may be cases where you can charge the patient a management fee on their account. Consult with your accountant on whether this makes sense in your situation and in your state. Cleaning up your credit balances on patient accounts will increase the balance of accounts receivable, and when you go to sell the A/R, you will get a higher price.





## Step 7

### SELF-ASSESS YOUR PRACTICE NUMBERS

Is your staff payroll and benefits expense above 25% of your total collections? Is your production down, but do you have the same staffing level? Do you have the same number of staff today, but your practice used to produce \$1 million more five years ago? You should consider laying off employees or increasing production to get your numbers in alignment.

Did your hygienist leave six months ago, and you are now doing hygiene? Find a new hygienist. Offer bonuses and get creative to find someone. Is your dental supply fee over 7% of collections? Know what your ratios should be and manage to your numbers. If you are not sure where you are in terms of numbers, contact a consultant. They can do an assessment of your practice and show you where you can make improvements.

Here are a few ratios you should measure:

*Staff Compensation to Total Collections - 25%*

*Lab Fees to Total Collections - 7%*

*Dental Supplies to Total Collections - 5%*

*Hygiene Production to Total Production - 30% or higher*

*Facilities Expense to Total Collections - <9%*



### Step 8

## KNOW HOW LONG IT TAKES TO SELL

Are practices in your area selling quick? Do you own a specialty practice? Are interest rates super high? If it takes two or three years to sell a practice in your area, then you may want to list it sooner rather than later. As a rule of thumb, if you have a practice with collections higher than \$700,000 in a decent location with good overhead, you have a sellable practice. It should take less than a year to sell. If you are in a remote area, have a practice collecting less than \$300,000, or have a specialty practice, it will take longer than one year to sell. In some cases, it may take two or three years. In other cases, your practice may not ever sell. Get with your broker and have them give you a real, honest picture of how long it is going to take to sell your practice.



## Step 9

### PERFORM A SELF ASSESSMENT

How you doin'? Think you are five years away, but your back, neck, or hands are telling you to SELL NOW? Burned out on managing staff and insurance companies? Just tired of living where you live and are ready for a change? All these may lead to selling sooner than your retirement date. Just because you sell your practice does not mean you have to retire. You can still practice either in your or in someone else's practice. Or have you always wanted to do something different? Maybe it is time to test the waters. You can always go back to being a dentist. I know several dentists who are semi-retired and work as a dentist two days per week and drive Uber or LYFT two days per week for fun. I know other dentists who became financial planners, mortgage brokers, and even equipment supply representatives after they sold their practices. They were each in their 60's. There is life after dentistry.



## Step 10 CONTACT A BROKER

Some of the best transitions we have done began several years before the sale occurred. We built relationships with the seller. In several cases, we found a buyer asking for a specific area. We made the call to one of the dentists we had a relationship with, and they said, "It's time." Brokers can also be advisors over the final two, three, or five years of your practice ownership. Should you buy the new CBCT? Should you hire an associate? We can help answer those questions.



# IN CONCLUSION

Selling your practice is a major life event, right up there with moving out of your parents' house for the first time, graduating from college, or even buying your first practice. Be sure and prepare, have a plan, and get the right advisors. Doing it wrong could cost you. Doing it right will make you hundreds of thousands of dollars - and possibly more.





YOU ONLY GET ONE CHANCE TO SELL YOUR PRACTICE.  
DO IT RIGHT. WE ARE ALWAYS HERE FOR YOU AND  
PHONE CALLS ARE ALWAYS FREE. GIVE US A CALL AT  
877-866-6053.

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CONTACT YOUR  
LOCAL PRACTICE BROKER AT

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