

How Do I Prepare My Practice For Sale?



Graham R. Tuck
H.B.A., C.A.

Time marches on, circumstances change and nothing is forever. Sooner or later you are faced with the inevitable question, How Do I Prepare My Practice For Sale? To help construct a game plan that best fits your needs the “preparation plans” will be discussed in a series of four articles according to time frame:

- Part 1: Eight to ten years from selling time (Volume #32)
- Part 2: Four to seven years away (Volume #33)
- Part 3: One to three years away (Volume #34)
- Part 4: Sell the practice now (Volume #35)

Part 1: Eight to Ten Years Before Planned Sale

In this category you have time to plan. It all starts with a valuation which should specify the current value as well as identifying areas of weakness in your practice such as: a) over staffing, b) location, c) old, tired facility, d) building lease risks.

Assessing weaknesses

- a) Identify your true staff requirements and get yourself onside over time. If you are paying thirty per cent of your gross billings as wages you are paying too much. This will be seen as a weakness in your practice as the purchaser will most likely be hiring all your staff. The extra expense will also reduce your profit and thus your practice value.

Too often staff requirements are set by the staff. I have seen a practice billing \$600,000 and having two receptionists. A good rule of thumb is one star receptionist for up to \$900,000 billing – and you want a star in this position. This assumes that you are only open 40 hours per week or less. Larger practices can be structured around an office manager and this will be discussed in a future article.

- b) Is your facility what one would call “contemporary” with good visibility and easy access? Second floor with no visibility, a hole in the wall for the receptionist and no elevator is not where it is at today. If you find yourself in this position you should consider moving. You have time to amortize the

cost to your practice and would have good value when you put your practice up for sale eight to ten years down the road. Any facility with a contemporary design will have eye appeal to a purchaser.

- c) When was the last time you did a major overhaul of your practice facility? As in location (above) any renovations can be amortized over the next eight to ten years. Adjusting room sizes and colour schemes can truly improve not only your practice but also your attitude. Your patients will notice.
- d) Three times recently we had situations where the landlord informed the dentist that the lease was not going to be renewed owing to major renovations. This made the practice un-saleable. The forced move meant that not only was there a cost of relocation but it also caused a delay factor in order to show the purchaser that the patients moved with the practice.

In one of the above situations it was a smaller medical /dental building in which a retailer bought the building and wanted the main floor immediately, and ultimately to occupy the entire building. The medical doctors moved out leaving only the dentist and one other professional. Patients were forced come into the building through the back door. The dentist should have moved when the doctors moved out. Now what choices does the dentist have? The dentist could pay for renovations for a new location if one was available, purchase another practice in the area and move the practice into the purchased premises or sell to a local dentist and move with the patients. The dentist did not want to practice too much longer and I recommended selling and moving with the patients. You can see from this last example, a lease does not always protect you.

If you are eight to ten years away from selling your practice, now is the time to plan. There is a comfort feeling of having a more attractive facility to work in and it will be more appealing to the purchaser. Since you are looking eight to ten years away, your facility and equipment are going to age in that time period. One must take this into consideration – an eighteen year old chair and unit today will be nearly thirty years old when you decide to retire. This does not have the best image for the purchaser. The purchaser is adding up the cost of the practice plus \$35,000 to \$50,000 for each old operatory. Turn key purchases sell better than older facilities.

If you have missed the eight to ten year planning period, the four to seven year recovery period will be discussed in the next issue.

Graham Tuck, H.B.A., C.A., is the broker/owner of Professional Practice Sales (Ontario) Ltd., which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1 (888) 777-8825 or by e-mail at: grtuck@rogers.com.