

# The Chart Sale



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**A**t times, dentists looking to sell their practices may opt to sell only the practice charts. The rationale for this decision may stem from the following circumstances:

- Lease is coming due and a commitment of another 5 + years is undesirable
- Premises are being demolished or repurposed without compensation from the landlord due to the demolition clause.
- Vendor wants to continue practicing after the sale, but even on reduced hours, there are not enough patients or treatment rooms to keep the vendor and the purchaser busy in the vendor's existing location
- The gross revenue or net income is insufficient to cash flow the purchase price of the practice and leave the purchaser adequate income to take on the risk of purchasing
- Health concerns

A chart sale differs from a practice sale because usually only the goodwill is being transferred to the purchaser rather than goodwill and hard assets such as equipment, supplies and leasehold improvements. In this situation, the patients are transferred to a different physical location. The equipment is then sold off, donated, or otherwise disposed of.

Sometimes, the goodwill of a particular practice is worth just as much if not more than the value of the entire practice. The incremental increase in revenues and therefore, the bottom line of combining two (or more) practices is greater than the value of the potential practice for sale due to economies of scale.

Some factors that affect the value of chart sales include, but are not limited to:

- Number of recall patients
- Number of total patients
- Gross revenue per patient
- Hygiene revenue per patient
- Hygiene revenue as a percentage of gross practice revenues
- Location - number of potential buyers
- Transition period of vendor and/or hygienist
- Labour expenses

Purchasers only want to pay for the patients that will transition to them. They do not want to buy any patient that is not seen in the purchaser's practice. All the inactive patient charts are a welcome bonus to the purchaser if they are reactivated. However, as an example, if the vendor is of a certain ethnicity and patients come from extended distances to see this dentist, specifically, the likelihood of these patients to remain with the practice is low if the vendor does not transition to the new practice or if the new office does not make any effort to accommodate the language or cultural needs of these patients.

For these reasons and Covid-related concerns, many chart sale transactions are based on a certain value per chart and the purchaser buys a set quantity in advance. The balance is paid out based on a metric, either production or patients seen at the purchaser's clinic within a defined period.

## Example – 600 Active Patients

If the vendor is not coming over and is not transitioning, the purchaser may offer to buy 150 to 200 patients in advance and pay for the remaining patients as they come in for treatment. Frequently, it is one or two times for any paid procedure or sometimes it is for recall visits, monitored semi-annually or quarterly for 18-24 months. Often, the purchaser wants the transaction tied to production. There is always some slippage of patients that do not go with the practice whether they be friends and family, etc.

The longer the vendor agrees to work as an associate of the purchaser, the more upfront revenue he/she can expect. Also, there is a greater the probability that patient retention will be higher leading to a higher realized "earnout".

## Case Studies

**1. Vendor could not secure a long-term lease and due to health concerns, the practice revenues declined for three successive years.** The vendor did not wish to return after Covid. This was an extremely challenging situation that ended up on the lower end per patient basis with an earnout over 2 years.

**2. Vendor did not want to return to work** post-Covid reopening due to health issues. Because the practice was in an area with plenty of nearby dental offices, we found a willing buyer rather quickly at a fair price for all.

**3. Vendor wanted to sell the entire practice but due to the location and a demolition clause, the practice was ultimately sold as a chart sale.** Because the vendor was willing to stay on for at least one year, albeit at reduced hours, the practice was sold at a fair price with an earnout provision based on patient retention.

**4. Vendor owned a building which housed a practice, but he/she wished to repurpose the building for other uses.** The vendor was a high producer and was willing to stay on for at least 12 months and bring both hygienists. The practice sold for a high price per chart, based on patient retention and negotiated a better-than-market rate associate fee. This transaction occurred just post-Covid reopening and due to the concerns of Covid, the payment was back-end loaded. The vendor was confident in his/her ability to retain the patients and the arrangement has been working out well, to date.

If any of the reasons to consider a chart sale resonates with your personal situation, and you have a less than 5-year timeline before you would like to retire, the following ideas will help to maximize your investment.

- Consider computerizing. Purchasers like data and production reports, and the ability to quickly ascertain how many patients were seen in a specific time frame. It also enables the purchaser to understand the demographics of the practice, to see the types of procedures that are being referred out and to see if co-payments are being collected.
- Digital radiography is not a necessity.
- Employee contracts are a necessity. If you do not have contracts or if they have not been reviewed recently, please consult with your lawyer. It could save you thousands of dollars in the long run.

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- Re-activate inactive patients if possible.
- Review your lease. Be aware of your obligations and exit opportunities.
- Consult with your accountant about tax planning strategies and purification of your corporation, if applicable
- Keep everything confidential. You do not want to cause any uncertainty among staff or patients.

A dental practice is one of a dentist's greatest investments and every dentist reserves the right to transition and retire with dignity on favourable terms. In certain circumstances, a chart sale may just be the most desirable solution, if you are prepared, plan accordingly, and have a great team of advisors. ■

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Gerry Crandles, Partner, Sales Representative, Gerry has spent 29 years in the Dental Industry focusing on Practice start-ups, re-locations and high tech equipment, winning numerous sales proficiency awards across North America. Gerry holds a Bachelor of Arts (Economics) from Western University and has the proven business development skills to provide valuable advice and practical solutions for Dental Professionals. His extensive knowledge of the business aspects of Dentistry, coupled with his vast network of Dentists, accountants, lawyers, contractors and dental industry contacts will ensure he earns the trust and confidence of both Buyers and Sellers of dental practices.