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Plan Ahead

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Doctors often ask me, ***"When should I start to talk to someone like you regarding the sale of my practice down the road?"***

I would generally indicate that you should start the planning 8 years before you wish to sell but remember, most transition periods are from 6 months to 5 years after the sale. So, from the start of the plan, to finally hanging up your handpiece, could be as far away as 13 years.

Why 8 years ahead of time?

This gives you three years to go through renovations, and/or replacement of equipment deemed necessary to have a visually attractive practice. Typically, you finance the renovations and new equipment with a 5 year lease, in the years 5,4,3,2,1, you pay off your lease as it is quite disconcerting to have to take proceeds of the sale of your practice to pay off the leases, which could be substantial. You get to do the last years of practicing with new equipment, fewer repairs and it makes you feel good. The leases are written off against income and typically the tax savings are 50% of the cost of the improvements. The practice looks more contemporary - a 'turn key operation" - and the purchaser would not have to lay out big dollars to make the practice feel comfortable. Your excellent patient base with contemporary equipment is worth more and sells easier as purchasers seldom have the vision of "what could be."

What happens if I don't have 8 years lead-time to the date that I see myself selling the practice?

If you do not have a clear 5 years, I would suggest you do either nothing or review the high points such as x-rays and sterilization or replace older equipment with good used equipment depending on what you have. Be aware that your current 22-year-old equipment will be 30 years old in 8 years and what does 30-year-old equipment look like now!

If I put too much value in new leasehold improvements and equipment won't that reduce my goodwill value?

It is possible to have too much value in leaseholds and equipment. There is a balance between leaseholds, equipment and supplies as they relate to your patient base and your professional fees. The value of a practice is mainly driven by the normalized net income and the patient base. This however, is not a simple relationship and I would recommend a comprehensive practice valuation to start the planning of the sale, which may well be 5 to 8 years off. Our VIP Program (Valuation in Place) would update your valuation annually and you would not have to have another valuation done when it becomes time to sell your practice. That however, is a subject for future articles in this same publication.

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