

How Do I Prepare My Practice For Sale



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Part III – One to Three Years Before Planned Sale

With only one to three years before a planned sale we are coming down to the wire. There is limited time to maneuver. You have definitely come to the point when a valuation is prepared – assuming you have not done so in the past few years. Where are the weaknesses in the practice? Can they be corrected to reflect the changes in the financial statements that will be used to prepare the final valuation to sell the practice? Remember, three years of financial statements are generally the norm unless in very special circumstances it's one or two years. This means you are in control of how your practice is presented in the valuation.

One should make every attempt to keep the practice production stable or growing – a feature definitely preferred by purchasers. Cost control is also needed as the value is based not on billings but on **net normalized profit** and **patient count**. In many situations, where there are low billings per patient, the use of a staff bonus system targeting certain results may be very beneficial to encourage your administrative staff to be more diligent in having patients book and keep their appointments. Increasing their hourly rate carries no guarantee other than increasing costs – thus reducing your net normalized profit. Money may not be the limiting factor for your staff. Your front desk people may not be capable of doing better. They may need coaching or replacing. Every situation is unique.

Cosmetic changes are available and may be needed in order to present your practice in a favourable light. You should treat these as the final changes before it is time to sell. Choose your colours wisely. Major changes to your leaseholds may not have enough additional value in the final valuation to cover the costs involved.

Try putting on a purchaser's hat and look at your practice. Too often vendors look at all the old "dead" files and think there is opportunity in them because the staff is always going into them to reactivate files from the past. Ideally, if your staff can proactively revive some of the old files, do it now. But if the staff is only

reacting to returning patients to pull the file forward, the purchaser would see little value in those charts.

Most purchasers like to see a good dental hygiene management program in place. A motivated hygienist will not only reward the patient but also your bottom line and thus the value of your practice. If you do not have the time or inclination to better train your hygienists there are excellent practice management courses available.

Even if you haven't used an accountant in the past, now is the time to set up a system of annual financial statements for your practice. The last three years financial statements is all you need for the valuation. What happened before that is not important. Purchaser's accountants like to see another accountant's prepared financial statements. It strengthens the reliability of your accounting numbers.

OVERVIEW: The one to three year mark is getting too late to put much money into capital items. Focus on increasing billings and cost control for those three years prior to the sale of the practice. This is especially important if your overhead is high. Remember, both patients and profit drive the value of the practice.

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