PROFESSIONAL PRACTICE SALES

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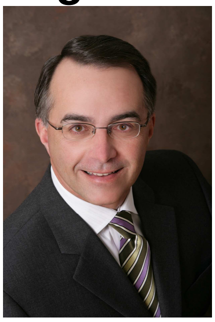
Organize your debt in order to sell your practice.



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Partner

Introduction:
I have been in the dental industry for over 20 years, the last 17 of which with CIT Financial, a large commercial finance company where I had overall accountability for the Healthcare Division. We were specialists in providing practice financing to dentists. I am now very pleased to be a partner with Graham Tuck at Professional Practice Sales, and look forward to being a regular contributor to The Professional Advisory.

Organizing your Debt:
When you're getting ready to sell you need to organize your practice debt. This should be done when you arrange the debt as opposed to when the closing date is looming large. By then it is too late. The type of debt I'm referring to are the term loans and leases that are commonly used to buy assets, not the revolving debt that is used for your day to day cash flow. The latter is usually open for prepayment at any time.
The offer you receive for you practice will include a clause that states you will transfer the assets free of liens and encumbrances. This essentially means you must pay off all debts that are secured by practice assets, including goodwill, in order for the purchaser to be able to close. What some people are not aware of is that there may be penalties owed to the bank or financial institution in to order retire your obligation. These penalties may be far larger than the "three months interest" that everybody believes is standard. Penalties vary by institution, and range from zero to the balance of payments due under the contract.
A natural question at this point might be: why don't I just transfer the debt to the new owner of my practice and reduce the selling price by the remaining principal? While this is a possibility, it also complicates the deal for a couple of reasons:

1. Your lender will likely have a blanket security registration, meaning you would be forcing the purchaser to use the same lender. Purchasers normally have their own financing lined up.
2. Your guarantee may not be released on closing.

So how do you organize your debt to avoid this problem? If you are more than 5 years away from selling your practice, set the term on the loan or lease to expire 6 months before you think you will sell. This will give you a little cushion for unforeseen circumstances.
If you are less than 5 years from selling, or if this is not possible for cash flow reasons, take a loan that has a shorter term than amortization. For instance you could take a 4 year term with a 7 year amortization. This would give you an opening at the 4 year point to pay off the balance with no penalty. Of course you would be exposed to the then current interest rates should your plans to sell change. If you are within 2 years of selling and you need to take on debt for some reason, I suggest you think very carefully before you do so. If you decide to proceed, expect to pay penalties to retire the debt on the sale of the practice.

I look forward to sharing more practice strategies with you in the months and years to come. I would welcome your feedback (positive or negative) on this, my first article, and encourage you to offer suggestions for future topics that would interest you.

David Lind is a Partner in Professional Practice Sales (Ontario) Ltd. (www.ppsales.com), which specializes in the valuation and sales of dental practices. He can be reached at (905) 472-6000 or 1-888-777-8825 or e-mail at: david.lind@ppsales.com