

When Is the Right Time to Sell My Dental Practice?



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Yes, it's true, that due to a combination of factors, the values of dental practices are on the rise. As a result, we are often asked the question, "When is the right time to sell my dental practice?", and, "Have we hit a ceiling on these values?" While the answer may be as simple as "Sell it when you want to retire", I think that the true question that we are asked, is When Is the Right Time to Sell My Dental Practice for the highest price that also provides me with the flexibility to commence the next stage of my career.

The response to that question is complex and must take into consideration many factors, including net worth, health, family, economics, demographics, the future, and many practice performance factors (No, age is usually not a factor!).

The most important consideration is your personal situation. Surprisingly most decisions are more about lifestyle factors than financial considerations. Selling your practice doesn't necessarily mean retiring from dentistry. When we are helping a dentist decide what decision to make, we ask many questions about their personal situation, dentistry, and their practice. When a dentist responds that they love dentistry, their patients, and staff, then it's clearly not time to sell! If the response is; they love dentistry, their patients and staff, but don't want the management headaches and want the flexibility to slow down, then options arise. These options may include selling and associating back with the new owner dentist, adding an associate, merging their practice, hiring a manager, or simply reducing hours, with the understanding that the value of the practice will decline. When dentists respond that they don't like practicing anymore, the staff and patients are a hassle, that they are tired, etc. – then do yourself and your patients a favour and sell!

While the concept of selling and associating back is growing in popularity, and for many it is a fantastic way to transition into retirement, it is not always the best financial solution. We recently were part a sale where this occurred, and here are the financial implications. The practice produced approximately \$715k per year in revenues, and the dentist was earning \$323k pre-tax income. He sold his practice for \$730k and agreed to remain as an associate for five years earning 45 per cent associate compensation. In this example, his new wages would drop to \$189k for the same production. If we compare the financial implications after five years (without taxes, fees, etc.), and can invest the proceeds of the sale at three per cent per year, and assuming that the practice value stays the same, here are the results:

Sell		Don't Sell	
Earn \$189K/year	\$ 945K	Earn \$323K/year	\$1,615K
Invest \$730K @ 3%	\$ 848K	Practice Value	\$ 730K
5 year total	\$1,793K	5 year total	\$2,345K

This was not a financially motivated transaction, but it made sense because the dentist did not want to continue to own and manage his practice.

The above strategy is also increasing demand for the practices where dentists want to remain as an associate. In some instances, the price paid for a practice if a dentist is willing to stay on, can be higher as typically these purchasers have other practices, and can reduce costs through operational efficiencies, (bulk buying, shared resources, etc.), by bringing in additional services (specialists, implants, additional technology, etc.), and don't forget, you are a very valuable associate.

Another factor to be considered is the convergence of economic and demographic forces. It is clear that our dentist population is aging, and due to two major recent economic downturns that have affected net worth, some dentists are being forced to delay retirement. By some estimates, 34 per cent of Ontario dentists graduated in 1982 or earlier, making them approximately 55 years old and over. At some point, these dentists will want to sell their practices, and depending on the location, etc., the increased supply may put pressure on the supply demand forces in the market and may in fact bring practice values down.

Irrespective of when you decide to sell your practice, you will be faced with competition from other sellers. This fact makes it extremely important to ensure that you prepare your practice for sale well in advance of the listing. The factors that create value include; a stable revenue stream, good profit margin, solid long term premises lease, good hygiene program, good recall patient base, a decent asset base, etc. The preparation for sale and your retirement planning can be started as much as 5-10 years before you actually sell.

To maximize the value of your practice, start focusing on your practice well in advance of the selling decision. The start of this planning phase may involve performing a comprehensive valuation of your practice, and working with your other financial advisors to create a long term plan. In a typical valuation there will be enough information for you to identify issues and opportunities to work on to improve value. Subsequent simple updates can be completed every two years to measure the results of the changes you have made.

In summary, the decision to sell should be based on your own personal situation. You will know when the time is right. The most important part of this process is that you start as early as possible to understand the market, and take the necessary steps to maintain a strong healthy practice. That way, irrespective of market forces and competitive pressures, your practice will be ready to be marketed and its value will be maximized.

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