
Buying Time



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We often consult with dentists about the ideal time to sell their practice. The conversation usually starts with an overview of the process and what the current market is like for their type of practice. We then delve into some postulation over what the future holds for the market. We try to relate other dentist's experiences, and arm them with data and information to help them form opinions and make good decisions. Generally several months pass, and quite often years pass before the dentist actually decides to sell, no matter how robust the market might be.

The decision to sell a dental practice is most often predicated on some life event or goal that the selling dentist experiences or strives for. In the life event category, there is a very wide range of things that happen that cause dentists to take action, pick up the phone and begin the process of changing their future. We have had things like:

- The worst Monday I've ever had
- My staff treat me poorly and I need to get away from them
- A good friend just died and he never had a chance to enjoy his retirement
- My back is killing me
- The commute to the office is getting longer every year
- I still love dentistry but I no longer want the responsibility of being an owner,
- The RCDSO won't let me treat my spouse anymore and that is ridiculous (this decision by the College, which has since been reversed, was very good for the practice sales business!)

You get the point. There are all kinds of things that occur that make people pause and consider their options.

On the goal side, we often hear:

- I have other interests that I want to pursue
- My spouse has retired and we want to travel
- My kids are settled, so I don't need to work as hard
- I want to go back to school
- Life is short, I want to really enjoy things
- I want to move to a different part of the country

Again, many, many different reasons, but the outcome is clear. A different future is in store.

Each of these reasons boils down to one thing and that is **time**. In dentistry, it is very difficult (though not impossible) to prosper without spending time doing it. Therefore, most dentists are left with the option of continuing to work or changing their professional life in order to have more time for the things they want to do. I call this “buying time” because that is what the decision to sell a dental practice means; you are trading future profits for more free time.

I have often said that from a financial point of view, the best course of action for dentists is to work their practice into the ground and throw away the keys just before it's your time. I say that because a dental practice is a great investment and provides a fantastic return on invested capital. Even taking into consideration, the elevated prices that practices trade at now and the tax advantageous a share sale structures, it is still better financially to hold than sell. This can be proven by the significant investment that multiple practice owners and more particularly, corporate owners are making in dentistry. These investors are very smart business people and they see the significant returns that dentistry offers. They are happy to pay the higher multiples that today's market demands because the returns they achieve are still far greater than they could earn investing their capital in other businesses or public companies. So, if it is a great investment for them, it is also a great investment for you. The math confirms the theory. Practices trade at four to eight times adjusted net earnings. This is after the overhead, dentist (you in your own practice) and taxes have been paid. Therefore, you could earn money working in the practice (40 per cent of your production) and earn money owning the practice. It is this ownership income that is attractive to others. If we assume a six times multiple it would take six years of ongoing ownership to be even with what you got for selling the practice. It is highly unlikely that you could get anywhere near that return if you invested the proceeds from the sale in another kind of investment. It would still be better financially to work the practice as long as possible. If that is so, then why don't more dentists do that? Simply, time.

You will know when the time is right to plan a different future. The life event or goal will arise and you will decide that it is your time to start “Buying Time”.

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