

Smaller Practice Realities

After 30 years and having gained so much from the dental industry, I feel blessed to be able to share my insights and lessons learned with the dental profession. It is my belief that after many years of hard work and sacrifice, all dentists should exit the profession in a dignified manner and be treated respectfully by all constituents. Recently, we have had several smaller practice opportunities come to market. These transactions are often very challenging to complete. This recent experience has generated some data points and logistics issues that are worth reviewing.

My definition of a smaller practice is one with an annual gross revenue of less than \$500,000. Let me be clear, there is nothing wrong with a practice in this category. It just means that they don't enjoy the same level of demand as larger practices do, and as a result, they will not attract the same multiples as larger practices.

If you own a small practice, consider the following to enhance the prospects for its eventual sale.

- **Employee Contracts.** Staff should be on contracts with clauses that limit severance to that which is provided for by the Employment Standards Act of Ontario. The contracts should be drafted by a good employment lawyer and be aware that, in many cases, you will need to give your employees up to two years notice before the contracts will take effect.

This is important because the buyer of the practice may be a neighbouring dentist who won't need or want all of your employees. If your employees are long term, full-time employees, and despite how valuable you perceive them to be to the practice, the buyer may insist that you sever them on closing. This will consume a large amount of the purchase price if they do not have contracts.

- **Premises options.** Try to arrange the eventual sale of the practice at a time when you will have options coming due for your lease. Many of our vendors espouse the virtues of their location and try to convince us that someone will be able to do better than they have done for 30 years. The reality is not all locations are great and people's tastes and willingness to climb stairs, for instance, to visit the dentist, have changed. Your best chance to sell is to be attractive to multiple buyers. You want to attract the dentist next door or downstairs who wants to merge your practice with theirs. You want to attract the career associate who finally decides this is the right time to buy a practice, and wants to keep it small. You want to attract the neighbouring dentist who has lease challenges and wants to relocate. You want to attract the corporate aggregator or DSO that may consider your practice a "bolt-on" acquisition. All of these options are predicated on you having flexibility in your lease and options to either stay on favourable terms for at least 10 years or leave when the lease is up.

In one recent case, a client resigned for a 5-year renewal on his lease prior to consulting with us. Unfortunately, there was a demolition clause exercisable on six months notice. Despite the fact that the landlord's agent verbally told our client that they "have no plans to do anything with that building", our client is in a tough situation. He can't be moved because he just re-signed for 5

years, and his location is not ideal because of the demolition clause. He now cannot sell until his lease comes up for renewal.

- **Be ready to stay or go.** I generally advocate that the smoothest goodwill transfers occur when the vendor stays for a while. With smaller practices, this is still true, but it depends on which way the sale goes. If the practice stays in its present location, a short transition (1-2 months on a very part-time basis) is usually all that is necessary since there is usually not enough work for both dentists. If it is going to be moved, the vendor should be prepared to associate at the new owner's office for at least 6 months or more. This will help ensure that the maximum number of patients will transfer to the new office and having more familiar faces there is better.

If the practice is moved nearby, be aware that the buyer may insist on part of the purchase price being paid based on specific performance metrics. For instance, they may pay fifty percent up front based on a certain number of patients transferring over, and then, pay an additional amount per patient over that amount. There are many ways these performance based or holdback deals can be structured so make sure you seek advice from your lawyer, accountant and broker. These structures are not as desirable as a straight cash deal, but may often be the only way to close a transaction.

- **Keep it neat and organized.** It is not imperative that you have all the latest and greatest technology, but you should be current. This means being computerized so the billings, schedule, and transmission of insurance claims are easily done through the software. Furthermore, ensure you are up to date with respect to sterilization techniques and health and safety regulations. It is also prudent to purge older patient charts. Patient charts for anyone who hasn't visited in the last 3 years should be stored away. Do not worry about upgrading equipment or adding digital x-rays, for instance. If your office is relocated, it may not matter. Overall, the office should be decluttered and functional. Buyers will see your office as a reflection of you and of the treatment you provide so make it look inviting and worth pursuing.

There are many different ways to market smaller practices. The key success factors are to remain flexible and realistic about what your practice offers.

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