Here are a few things to keep in mind when you consider the purchase of an existing dental practice:

1. **An existing practice offers instant cash flow.** Unlike a start-up practice, an established practice has an existing patient base — and just as important, an existing cash flow. This instantly allows the buyer (you) to support the practice debt load, including your new loan payment, your salary and your personal expenses. Lenders usually look for the practice and doctor’s personal income to cash flow at a ratio of a 1.20%, which means the practice is expected to generate a $1.20 in revenue — or collections — for every $1 spent between the practice expenses and the doctor’s personal expenses. Lenders determine cash flow in much the same way, but there are variables, such as allowable expenses. For example, let’s say a seller has a $5,000 charitable contribution that was being paid out of the practice, and the buyer decides they don’t want to continue contributing at that level. Or the seller was writing off $10,000 per year in entertainment expenses and the buyer may not see the need to entertain at the same level. By reducing these types of expenses, a lender may “add back” the expense into the practice’s profitability, which results in a higher cash flow. Your lender can help you understand the most accurate cash flow — and other important metrics of your practice — as you move forward.

2. **You’ll need a network of trusted advisers.** Chances are you started associating soon after you passed your boards. During this time, you likely started conversations with industry experts about the possibility of acquiring a practice. You should not acquire a dental practice without the input of one or more of these key advisers:

   - **Practice transition consultant or broker** — Dental practices can be sold directly by the owner or through a business broker, who may have multiple buyers waiting for the right practice to come along. Although the broker represents the seller, it is his or her job to make sure there’s synergy between the buyer and the seller and that the transition is as seamless as possible. With every transaction, the brokers’ reputation is at stake, which means they’ve vetted their listings, done their own appraisal, and established a fair selling price with the seller. To understand the current market in your area, be sure speak with multiple brokers and look at a variety of practices.

   - **Dental-specific CPA** — Of course, there are many general CPAs who would like to earn your business — and you may already have one you trust — but we encourage you to have a conversation with a CPA who works with at least 25 dental clients. A CPA with dental expertise will not only provide valuable industry perspective, but also advice on the best tax strategy regarding allocations of the selling practice, best practices from existing clients, expense averages, and a cost analysis on hiring and equipment acquisitions. A strong dental CPA can become a lifelong adviser and planner for your professional and personal financial goals.
• Dental-specific attorney — Since the practice broker will represent the seller, you need to find a reliable source to represent you, the buyer, during the transaction. Your dental attorney should be at least engaged in the terms of the buy/sell agreement, office lease negotiations, non-compete covenants, establishing your corporation, and lender requirements. A specialist attorney will have a niche among many dentists and will typically provide the best advice at a packaged price.

• Dental-specific lender — As with dental specialty advisers, dental specific lenders exist and are experienced with your needs. Most dentists will first approach their local bank to fund their practice loan, and although this is always an option, local banks are often generalists — and collateral lenders that see little value in the goodwill aspect of the practice. They will demand a shorter term (three to five years), which provides you with little or no flexibility to grow the practice with new technology or remodeling.

3. Consider the term of your practice loan. The term will range from five to 15 years. A longer term is preferable to minimize both the impact on your cash flow and the risk inherent in patient attrition during the first year of your practice. You should plan on keeping your loan for a minimum of five years, so consider a loan with flexible prepayment options. These vary from lender to lender, and are less important in the earlier years of practice ownership. Prepaying your loan or making additional principal payments may be possible as you grow your practice and increase your cash flow.

• Loan structure — If you prefer, loans with the first six to 12 months of interest-only payments are available.

• Interest rate — Rates can be fixed for the term or adjustable with prime or other rate indexes. Although your payment may be lower with an adjustable rate, rates will eventually rise, so your best solution is to lock in a strong fixed rate today for the next seven to 15 years.

4. Buying a practice has its advantages. Here are a few of them:

• Established patient base and patient flow

• Cash flow

• Established insurance relationships

• Staff retention — The seller was the pillar of the practice for many years and has now departed. The staff members are the face of the practice and have a good rapport with patients, which means you may need to retain the staff for at least the first year.

• Patient retention — The practice broker should walk you through the best transition strategy and will help with an introduction letter. Ideally, the seller should write this letter if you haven’t previously worked in the practice.

5. Buying a practice is not risk free. Although buying an existing dental practice has a low risk for the buyer, it is not entirely without risk. It is important to understand:

• You are buying someone else’s practice (philosophy, flow, treatment planning, staff training, systems, etc.)

• You may lose patients during the transition. Patients loyal to the former owner may look for another dentist.

• Existing staff may be paid very well based on the length of employment and tenure; you may feel they are overpaid based on their skill level or other reasons.

• The staff may not bond with you and may voluntarily leave the practice.

• The equipment and office may be outdated, and updating will require an additional cash investment.

6. Keep practice philosophy in mind. Your up-front due diligence will prove crucial to a successful transition. All your beliefs and experience, up until now, will need to be evaluated and measured when you are considering which practice is right for you. Ask yourself:

• Does this practice match your professional vision, and will it continue to for years to come?

• Do you and the seller practice the same quality of care?

• Is the practice’s type of dentistry align with your vision? Is the practice fee-for-service?

• What percentage of the practice capitation?

• What is the percentage of PPO patients?
• What is the ratio of cosmetic or restorative dentistry versus hygiene? How much business is referred out to specialists?

• Can you perform the specialty care if it has been kept in house?

Knowledge is power, and the more you know about this big investment, the better.

7. There are different types of acquisitions. Your options for a practice acquisition include:

• 100% buyout — This means you purchase 100% of the practice from the seller, who may exit right after the sale or stay on for a period of time to transition the practice.

• Buy-in — With this type of sale, you would buy in for 25 to 50% and buy the rest of the practice when the seller decides to retire.

• Associate with the option to buy — A practice owner may see the value in retaining a quality associate and offer a future option to purchase. In these cases, before you sign and agree, consult with one of your advisers on the details of such an agreement.

• Room to expand — Chances are this is your first practice and you are ready to conquer the world. If your production meets your ambition, do you have the room to expand? If not, as you begin to take your practice to the next level, a future alternative site may be an option if the existing space is holding you back.

8. Determining practice value. Often there’s a difference between what a seller believes their practice is worth and what the buyer feels it is worth. While there are several methods used to value practices, the market value (what a buyer is willing to pay) is the most common. Practices usually sell for 70 to 90% of last year’s revenue, while specialty practices may sell for less due to possible volatility with the referral sources for the practice. As a prospective buyer, put yourself in the seller’s seat for one moment, and imagine that you have owned this practice for the past 20 to 30 years. It was your livelihood and key connection to the community. You now have patients who are the children or even grandchildren of your patients. There is a high probability that the proceeds from the sale of your practice will be a significant piece of your upcoming retirement. There will often be an emotional value to the sale, regardless of the monetary value.

9. Take a slow approach to change. This is especially important when the seller leaves post-sale and does not stay on for the transition period. Take time to understand existing systems and processes before you decide to make changes. Your patients may go through some anxiety with losing their trusted dentist, so it’s important to maintain familiar faces and practices in the office. A true transition period — with both doctors working — can make or break a transition. It’s beneficial to everyone involved and helps curtail any confusion you may have about the environment and philosophy.

10. Do your own due diligence. If there is a broker involved in selling the practice, they will have done the proper due diligence to represent the seller. Take it one step further: Hire a consultant who will spend time in the practice to analyze the staff, the systems, and perform a complete chart audit/patient count. Hiring consultants may be a great idea not only during the due diligence period, but also during the post-sale transition. Consultants can advise you on Hiring and firing, as well as how to customize, establish and maintain your systems — without rocking the boat too much — are all their areas of expertise.

To learn more about how we can help you with your new start-up project, call 800.497.6076 to speak with a Practice Specialist.