



FOURQUADRANTS™

The Multimillion Dollar Secret for Dentists

PRACTICE TRANSITION GUIDE

YOUR LEGACY IS YOUR PRACTICE

Do you know how to find the right partner and/or successor for your practice? Or is the idea so frightening that you're procrastinating, hoping the problem goes away? Most dentists wait until it's too late to start planning their practice transition. Don't make that mistake.

Across the country, dentistry is changing. According to the American Dental Association¹, there's increasing supply, meaning that a lot more dentists are working, but not enough demand. After a few years of stability following the Great Recession, the ranks of practicing dentists have swelled, growing from 59.8 dentists per 100,000 population in 2008 to 62.0 in 2018. Meanwhile dental care use continues to drop among adults.

When Should I Start Planning My Practice Transition?

According to a 2010 survey done by the ADA, dentists under 40 plan to retire at age 61, however when dentists over age 40 were asked the same question, the average drifted up to 67**. We see this happening on a daily basis at our firm. Once dentists really start thinking about what it actually takes to retire and what must happen before getting to the point of a transition, they realize a great deal of planning needs to go into a proper transition strategy.

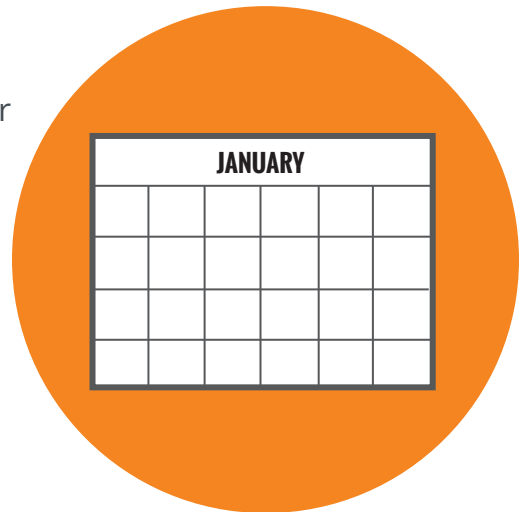
Most dentists wait until it's too late to start planning their practice transition.



We suggest starting the process 10 years before you want to retire

This still leaves all options on the table and allows for you to find the right successor. Even if you do everything right, what happens to your practice immediately after you sell it and retire is up to you.

You can have a custom transition process, and ensure that everything is executed to your liking; this is not a square-peg/round-hole situation. A custom transition allows you to find the partner who's best suited to carry on your legacy, and to protect the parts of your practice that you most value.



Knowing when you're ready to retire or transition your practice requires some soul-searching. Ask yourself these questions:

- Am I burnt out?
- Am I comfortable with the new owner/partner?
- Am I comfortable handing over my practice to this person and releasing some control?
- Financially, can I afford to sell?

THREE TYPES OF DENTAL TRANSITIONS

- A tiered, two-part, transition—this is where portions of the practice are sold over a period of time (i.e. 50% now and the second 50% in the future).
- A “walkaway sell”—this is when the heir apparent is brought in, the transition done, and the host dentist leaves all occurring within a 12 month period typically.
- A combination transition— a combination of the previous two options.

We prefer the tiered option for a few reasons. Monetarily speaking, a tiered transition will net you the most for your retirement and is most affordable to the successor. It's also the best option for your patients, as they get to know your partner and future owner. However, many dentists cannot afford this type of transition or wait too long to plan for it, or some simply do not have the personality for it. There are many factors to consider, which we will discuss later on.

Planning a Transition & Exit Strategy

If you come to an expert with your symptoms, with some analysis, they would probably tell you that the source was one of these pains. But as a business novice, you're unlikely to root them out yourself – so here are some of the more common pains that could be behind the financial symptoms you see. As you may expect, one pain can have many symptoms and each symptom could be caused by more than one pain.



Before any sale, you will need to know a few basics:

- What is your practice worth?

This involves a two-sided valuation process. How much do you want to sell (maximum profit) vs. How much does the buyer want to pay (minimum cost). A two-sided valuation process should find a figure somewhere in the middle, where both the buyer and seller come to an agreement. We do in-house valuation as well as utilize external 3rd party valuations based on the needs of the client and the dynamics of the transition.

- Will you need a broker?

A dental valuation may be conducted by a private individual or a broker. Some dentists resort to using a broker if they don't have a buyer lined up or they haven't planned for transition, or any number of reasons. If you use a broker, you will have to pay a hefty percentage of the sale to the broker. (Typically 10% of the

sales price.) We want to get people on the track of a good transition to a partner/associate so you can avoid using a broker. There are situations where using a broker can be helpful but most times there are better avenues.

- Knowing your market is key.

The location of your practice will determine how easy or difficult it may be to sell when the time comes. If you're in a rural, isolated location it may be more difficult to find a partner/associate or potential buyer who wants to relocate, compared to a more populated area.

- How long will a transition take?

Again, it is different for every practice, but six months to a year would be a reasonable benchmark (not too fast, not too slow) once a suitor is selected.

Tax Implications of Starting a Dental Practice Transition

The way your practice is structured as a business will have a major impact on your tax obligations after selling.

There's a significant difference between what you'll owe after selling an S-corporation and what you'd own from selling a sole proprietorship, for example. And that all needs to be taken into account before making the sale.



There are two ways to sell your practice – by selling an ownership interest or stock, or by selling off the practice's assets. Generally, you as the seller will prefer the first option, as it carries with it a capital gain treatment of 15-23.8%. The buyer, on the other hand, will prefer a sale of assets, because then they will reap the benefits of depreciation. If it is not pre-determined by the transition structure in place, you can negotiate with your buyer, and find a level of price and sale type that suits you both the best.

You'll also need to negotiate the method of financing your buyer will use. In the

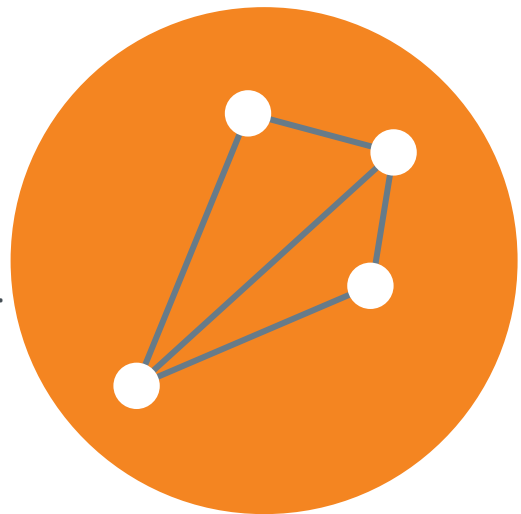
event that they cannot or prefer not to go through a bank, it's possible they could pay through seller financing – that is, essentially you would hold a note on the purchase price as negotiated, loan the money to the buyer, and they would pay you back over time. Both sides get the benefit of keeping the bank out as a middleman, plus you make a little interest over time. The flip side to this option, however, is that you lose the time value of money of getting that money to work for you in the market which is worth much more over time. There are times when seller-financing is ideal, but for the most part, it is not the first choice by anyone because it muddies the relationship between partners.

But when negotiating price, remember this – you won't be keeping all of the money paid, no matter what. Even if the bank's not involved, it's income and you will be taxed for it.

4 Questions to Ask Yourself Before Hiring an Associate

75% of new associates hired in Dentistry never become a partner.

There are a lot of reasons behind that, but one of the primary ones is that many practices fail to devise and implement a good transition strategy. Not enough preparation is accomplished beforehand to make sure the hiring and the full transition process goes smoothly from the beginning.



1. Can I afford it?

How many practices do you know that hired an associate who was gone in less than a year? Don't bring someone in hoping your finances will improve or a huge influx of new patients would happen. If you don't have the money or the patients currently to support the hire, the time isn't right.

2. How will the associate buy in?

There has to be a "carrot" to motivate the associate. Triggers should be in place that activate the associate's transition to partner, such as the time they have worked in the practice, a production goal, or a combination of the two.

3. What happens to pay after buy-in?

Once the associate has bought in, they will need a pay increase since they will have a new big loan from their recent buy-in. You need to know already how much of a jump that is going to be, and how it will affect your salary as well. The pay increase needs to be enough to cover the loan payment and then some because if not, why buy-in in the first place?

4. How will my stake be treated?

The endgame is for you to retire. Full control then will be turned over to your new partner. You need to decide ahead of time at what price you'll sell your remaining stake in the practice to your partner. You should also clarify when that's going to happen and what will trigger that sale.

It's absolutely key to make sure the partnership is equitable – no 51-49 percent splits. The associate has to be treated as an executive from day one. With the massive debt today's dental school graduates incur you won't be able to compete with corporate dentistry if you aren't offering a stable salary from the start.

They have to be treated as your equal as much as possible to make the transition smooth when you do eventually leave. If done right, all of this planning will help your staff, patients, and revenue make it through the transition cleanly. But if not, you're likely to end up looking for a new associate.

Conclusion

They say that negotiation brings out the worst in people. If you've saved and planned properly, you'll be in a much better negotiating position when the time comes to sell your practice. Treat the practice transition as icing on the cake to supplement what you have saved and planned for not the big payday at the end that makes or breaks your retirement.

If you're not on pace to hit your retirement now, it is time to consult your team of advisors. If you can implement these ideas in your practice transition planning you will be well ahead of the game and able to transition on your terms. Keep in mind, this is a transition not a transaction. You've worked too hard building your practice to hurry into a poorly designed transition.

If you're unsure about hiring a new associate or have additional questions about a custom dental transition plan, contact us today.