5 Stages of Practice Transitions

Guest post by Brian Pender, President & Founder of Fairway Healthcare Partners

The process of buying or selling a dental practice can be intimidating and exciting all at the same time. Although no two transitions are the same, here is an overview of the *Five Stages of Practice Transitions* to help both buyers & sellers.

1. **Search:** As a buyer, start your search with three filters: location, clinical mix, and practice size/philosophy. This allows buyers to focus on practices that support their family, lifestyle and professional ambitions. For sellers, filters include a buyer's level of interest, financial history, desire to maintain patient care, and alignment with the seller's post-close plans (retire, stay short-term or long-term, etc.).

2. **Letter of Intent (LOI)**: A LOI is a non-binding agreement between a buyer and seller on certain sale terms. The seller agrees to take the practice off the market and the buyer agrees to the price and some of the major terms of the sale. The buyer and seller should both have an attorney and a professional financial review completed before signing an LOI. This is important because although an LOI is non-binding and terms may change, it serves as the baseline for major deal terms.

3. **Due Diligence:** This is a period where the buyer and their advisors take a detailed review of every single aspect of the practice. Due diligence categories would include financial, operational, and legal; with dozens of sub-categories and information requests within each. There is typically an agreed upon diligence period of 30-60 days. A prepared seller should have already completed a thorough diligence preparation process with the help of their advisors and have the necessary documents and answers organized in advance. The seller can also make sure the buyer is serious about the purchase and appropriately plan their exit.

4. **Financing and Business Planning:** Concurrent with due diligence, the buyer should be getting financing commitments and building a business plan for their ownership of the practice. Consider multiple financing options and structures to determine which is most appropriate for the deal. Each practice transition is different; however, we encourage dialogue between the buyer and seller during this period. Are both sides working towards a successful outcome for all involved? Think about questions such as:
   - Which employees are staying on?
   - Which insurances will be accepted?
   - What is the status of the lease or real estate? Are you upgrading the space or equipment?
   - Is the practice being renamed or rebranded? What is the marketing plan?
   - How will you tell patients?
   - Is the seller staying on? In what capacity?

5. **Legal Documents & Close:** The deal closing comes together in many parts. Standard legal agreements include the Asset or Practice Purchase Agreement, Loan Agreement, Corporation filing, DBA filings, and Lease Agreement or Real Estate Purchase Agreement. In addition, the buyer must have

funds available for the purchase, be licensed and credentialed to practice in that state, and have malpractice/life/disability insurances in place. The seller is often required to sign an Employment Agreement or a Non-Compete Agreement to protect the buyer's ability to retain patients.

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