Frequently Asked Questions:

What makes a good associate dentist position?

Answer: The most important factor in an associate role is how busy are you expected to be. The primary goals of most associates are 1) to earn an income and 2) get excellent experience, both of which are more easily achieved if your chair is full.

Are you targeting private practices, DSO's (corporate dentistry) or a group practices, maybe all of them? Do you need a full-time role, or would you consider multiple part-time positions? Click for here and download our Associate & Partner Question List for some more ideas of questions to ask with when interviewing for an associate position.

Employment agreements are generally more beneficial for employers vs. employees. These should be detailed and specific. Terms including compensation, length of the agreement, benefits, work schedule, non-competition clauses, and other parameters require careful attention. Get an understanding of other important questions like what patients will you see, are you replacing former associate, is owner cutting back, is this a DSO or smaller private practice, are there marketing plans for your arrival, would you have a daily minimum or minimum salary? If you and the owner are talking about the potential for a buy-in, agree to certain timelines and conditions to start the buy-in process so you are not blindsided by a change of heart and restricted by terms of your employment agreement.

How big does a dental practice need to be before hiring an associate?

Answer: There are a couple different meaning of "big" to talk about, including: office footprint, number of patients, and practice production/collections. There are exceptions to all these rules but here are a few benchmarks to consider within those segments.

- Office Footprint: A two doctor practice would ideally have 6 or more operatories to allow the doctors to work at full capacity. One alternative to this limitation is to have extended hours with only one doctor working at a time and expand from the traditional 32-36 hour weekly practice schedule.
- "Active Patients" refers to the number of individual persons which have visited the office in the last 12 or 18 months and are known to still be in the area. An "Active Patient" is not the number of patient visits or number of patient records. Before adding a second full-time associate, a Practice should have a minimum of 1,500 active patients and a plan to increase that number if both intend to work full-time.
- Production/Collections: Annual collections should be approaching $1 million or have a strong plan to grow towards $1 million before hiring a second full-time doctor.
    - Helpful tip: "Approximate active patient capacity" = (Hygiene visits per day x Total hygiene days per week x number of weeks per year) / (number of patient hygiene visits per year)

- For Example: Hygienists see average 8 patients in a day, Practice has 7 hygiene days per week, Practice is open 46 weeks per year, Strong recall system (>90% of patients come every 6-months)
- Calculation: 8 patients per day x 7 days per week x 46 weeks per year) / (2 patient visits per year) = “Approximate active patient capacity” of 1,288.

When should buyers start looking for a dental practice?

Answer: Some dentists have purchased a practice before even completing dental school while many wait 5+ years before venturing into practice ownership. Depending on the specificity of a buyers search criteria and how actively they are looking, the process timeline can vary significantly. Buyers should talk with family, professional advisors and colleagues’ months in advance of actively searching, so they can identify the type of practices which fits their interests, needs and capabilities. Listen to dental podcasts such as Shared Practices and do research on Dentaltown so you become a more educated buyer.

Ask yourself, are you ready to buy? If the answer is yes, then be prepared to quickly act. Many buyers complain that it is a “seller’s market”. That has been true for practice acquisitions in recent years as dentists are working longer and the annual number of retiring dentists is smaller than the number of new dentists. Another factor is the increasing impact of DSO looking to acquire practices. Once you are ready to buy, you better be serious because sellers and brokers will move with only the serious and qualified buyers.

Be aware of some of the most important factors to make you an attractive acquisition and financing candidate.

- How do your clinical skills and experience match with the practice?
- How are your personal financials? What is your credit score, do you have any existing cash, savings, amounts and types of existing debt?
- Do you have a viable plan for your ownership of the practice?
- Do you understand the business of dentisty?

What determines the value of a dental practice?

Answer: That is a loaded question. As a Certified Valuation Analyst, we define the fair market value of any business as, *the price at which a business would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.* Practically though, a business is worth whatever someone will pay for it.

There are dozens of sub-categories which impact the value of a dental practice however we highlight two primary factors:

1) The geographic location of the practice
2) The history & future projections of cash flows.

The impact of geographic location comes down to supply/demand. Two practices might have the same exact office footprint, financial history, and patient base demographics but if one practice is in Austin, TX and the other one Topeka, KS, you can bet the Austin practice will sell for a higher price because more buyers are interested.

Cash flow is the most important financial figure for a dental practice, more so than production/collections. Cash flow is typically calculated as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) or Owners Discretionary Earnings. For more information on these terms and calculations, click for here and download our Financial Definitions

Reference. If a practice has a steady history of cash flow generation, it is less risky and more valuable than a practice with variable or declining cash flow.

Who is involved in the sale of a dental practice?

Answer: We advocate that buyers and sellers each obtain their own set of experienced professional advisors in the transition of a dental practice ownership. A good lawyer and CPA will be valuable advisors and help their clients avoid costly and irrevocable mistakes such as doing a “Stock Sale” as a buyer, or 50/50 Fixed Asset to Goodwill purchase price allocation as a seller.

Practice Brokers & Transition Specialists can be very valuable resources for both the buyer and seller, however its important to know their role in the sale. Most brokers are paid a commission by the seller for their services in selling the dental practice. They have put in a lot of up-front work with the seller in getting the practice prepared for sale, as such they want to quickly sell the practice for as high of a price as possible. The buyer may also choose to hire an expert/broker to help with the sale, see below for more on brokers.

In addition, to CPAs, Lawyers and Brokers, you may need to work with other professional depending on the nature of the sale. Insurance brokers (malpractice, business & disability), bankers, dental insurance companies, real estate professionals, credentialing specialist, landlords, practice consultants, supply reps, equipment appraisers or other professionals may be involved.

Who does the broker represent in a dental practice sale?

Answer: Typically, the broker works as a representative and fiduciary agent of the seller and working on their behalf in the sale of a dental practice. This aligns the interest between the seller and their broker, the broker earns a commission on the practice sale.

Buyers may choose to hire their own broker or financial/valuation analyst to review the practice information, validate the purchase price and aid with the sale process. The scope of services for buyers representation can vary but these professionals should be charging a flat fee or hourly rate vs. a commission structure, their focus should be on providing you with an independent and expert review of the information, not incentivized for a higher purchase price.

Lastly, some brokers engage in “dual representation” where they claim to represent both the buyer and seller, and each pays a fee or commission to the same broker. Although legal in most states, we do not believe in dual representation as it presents an inevitable conflict of interests.

Why wouldn’t I just get a “free valuation” vs. paying a fee?

Answer: With a “free dental practice valuation” they probably do not get you on the $19.99 shipping and handling however you can safely assume there is a “catch”. The “catch” comes as either 1) a bogus valuation that takes little thought or effort to complete or 2) very restrictive conditions about the use and long-term engagement of the broker in the sale of your practice. Considering the potential value dental practice and the intimate connection of a dental practice to its owner, we think you deserve better options.

A high-quality valuation from an analyst, broker or accountant which is certified in business valuations and focuses on dentistry is a valuable tool. This will provide you with an expert breakdown of how your practice compares to regional and national averages, understanding of a practice’s strengths and weaknesses, analysis of the financial and operational metrics which really matter, knowledge of the local industry dynamics.

Click for here, and download our article 5 Reasons for a Practice Valuation for some more thoughts on the matter.

What is goodwill?

Answer: Goodwill is the value of a business which exceeds the value of the equipment and other fixed assets. The value of dental practices is typically 70%-85% made up of Goodwill & Intangible Assets. For Example, if practice value is $500,000 and the equipment & fixed assets are worth $100,000, the goodwill & intangible assets are valued at $400,000.

Understanding goodwill is important because as a buyer, this the majority of what you are buying and hoping to preserve in your ownership of a practice. For both the buyer & seller, the allocation of the purchase price to goodwill vs. fixed assets has tax impacts which are worth understanding.

Click for here, and download our resource Tax & Purchase Considerations for Dental Practices for more specifics and charts on purchase price allocations.

What is a DSO or Corporate Owned Dentistry?

Answer: A DSO is short for Dental Service Organization. These are also known as DPM (Dental Practice Management Company) or Corporate Owned Dentistry. Per the ADSO, DSO's contract with dental practices to provide critical business management and support including non-clinical operations. DSO's do not typically own the dental practice, the practice remained owned by "friendly" providers underneath the DSO umbrella. The practices contract with the DSO for the management of the practice which effectively extracts all the profits of the business. DSO have experience significant growth in recent years in part driven by private equity companies investment in DSO's, their ability to take advance of scale and high level of business acumen.

There several different models & strategies within the DSO industry, however the difference between a DSO and a group practice or partnership is the level of systemization, capital markets capabilities, investment horizon and outside ownership interests. Most dentists which work for a DSO are an employee dentist, few are equity owners in the practice or the DSO.

What is EBITDA?

Answer: EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization. This is a common calculation to determine the cash flow generated by a business. EBITDA can be an important metrics for the investor, banks, and a passive practice owner not working at the practice daily.

For solo doctor practices, Owners Discretionary Earnings is usually a more relevant cash flow calculation. This is the total pre-tax & pre-debt service cashflow that a business generates and is available to the owner after deductions for only the necessary operating expenses. Sometimes this is called the "Net Profit".

Formulas:

- EBITDA = Collections – Adjusted Expenses (excluding Interest, Taxes, Depreciation and Amortization) – Adjusted Owner Compensation
- EBITDA = Net Income + Tax Expense + Interest Expense + Depreciation + Amortization
- Owner Discretionary Earnings = Collections – Adjusted Expenses
- Owner Discretionary Earnings = EBITDA + Adjusted owner compensation

Note: Adjusted expenses indicates discretionary and one-time may be excluded or additional expenses added in to better reflect the normalized operations.

How long does a dental practice transition take?

Answer: No two transitions are the same, so the entire process timeline can vary significantly. As a seller, ideally this has been in the plans for many years and you have spent the last 3-6 months organizing reports, updating a practice valuation, and preparing for the marketing & sale of the practice. Depending on the specifics of the practice, how reasonable the price is, the types of marketing methods, and the level of interest in your geographic market, the practice might get strong offer in days or it may take several months.

Once a buyer is serious, they generally submit of Letter of Intent (LOI) to formally make their initial offer. The LOI is non-binding however this includes some of the major terms of the acquisition including the price, plan for financing and post-close plans for seller to stay-on or exit the practice. From an agreed upon and signed LOI to close, the process should take 1-2 months, but delays may occur. See the next question below on the transition process for more details.

What is the process for a dental practice transition?

Answer: As you know, no two practice transitions are the same. That said, most well-planned practice acquisitions have an organized order of operations which drives the process.

- Sellers should get a practice valuation completed and might consider engaging a broker to prepare them for the due diligence and practice marketing process. At this point, the seller agrees to the price range and acquisition structures they would consider for a sale.
- Marketing the practice and finding the right buyer comes next. The seller and their representatives can implement a variety of marketing methods including classifieds on websites like Dentaltown.com, state and local dental associations, contacting study club members, dental school alumni networks, and other resources and avenues.
- A serious buyer will submit a Letter of Intent (LOI) outlining offered purchase price some of the major terms and conditions for the practice sale. The LOI also highlights the timeline for the due diligence process and other terms of the sale. Once an LOI is signed by both parties, the practice is effectively taken off the market.
- The next four steps tend to occur concurrently with one another:
    - Due diligence is the period when the buyer and their representatives take a thorough look at all aspects of the practice. Primary 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.
    - Financing commitments should be in place well before close to assure that the buyer will have the capabilities to purchase the practice. Most dental specialty lenders and provide commitments and terms within 10-15 business days once they get the necessary practice reports. SBA loans take longer to be approved.
    - Locking down the real estate lease/sale plans is also important. Is the property being sold, leased by the seller or leased by a third-party landlord? Getting the lease assigned, transferred or a new lease agreement in place can take some time, especially if there are third-party landlords involved who don’t have the same interest is closing the transaction.

- Documentation of the standard legal agreements is crucial and also can drive the overall closing timeline. Documents include the Asset or Practice Purchase Agreement, Corporation filing, DBA filings, Employment Agreements or a Non-Compete/Solicitation Agreements in addition to the final real estate, loan documents and other legal agreements.

- Finally, it is time to close the deal! Click for here and download our article 5 Stages of Practice Transitions for some more additional details on what takes place with a practice sale.

Will patients accept a new dentist?

Answer: With a properly planned and communicated practice transition, most patients will give the new dentist a shot and would prefer to keep coming to the practice. Although some patient anxiety & attrition would be reasonably expected, most practices are able to retain >90% of the existing patients for at least one visit when the seller willing leaves the practice and provides an endorsement for the new dentist.

Notice the disclaimer, "*when the seller willing leaves the practice and provides an endorsement for the new dentist*". Although some negotiations, disagreements and differences are inevitable, the buyer and seller should be in alignment on some major priorities. The practice, patients, and staff are all better off if the parties share mutual respective and admiration.

Should the seller stay or leave the dental practice at sale?

Answer: Buyers and sellers need to be in alignment from the start on the post-close plans for the seller to either stay or leave a practice, if not, it probably is not a good transition match.

The most common scenario is for the selling dentist to leave the practice and retire. If the practice can support more than one full-time dentist, the selling dentist may stay after the practice sale and this works well if properly planned. If the practice is a single doctor operation, we generally recommend the immediate exit of the selling doctor.

Regardless of whether the seller stays, the new owner dentist needs to assume the position of leader within the practice. The most valuable aspect of a practice is the "goodwill" which is made up of things like the patient base, customer relationships, brand. reputation, and employee relationships. Effectively planning and communicating the sellers exit will significantly impact how effectively that "goodwill" is transferred to the new owner.

Should/will staff members stay after the dental practice acquisition?

Answer: A practice acquisition can be a stressful event for the staff of a practice, however most would like to stay on with the practice unless an individual is close to retirement themselves. A couple points we like to highlight as it relates to staffing concerns.

- We generally recommend that the staff not be told of acquisition until far along in the sale process. Sometimes it may be necessary tell 1 or 2 staff members but the fewer people that know about the sale the better. The staff will have potential for questions and concerns which will be unable to be fully addressed until a buyer is identified. Limiting the number of people which know about the sale also reduces the risk of patients or competition finding of the potential sale.
- The staff's number one question is always the same, am I going to be able to keep my same pay and benefits? Regardless of the answer, be prepared for the question. If possible, avoid major changes for the first 6-months or year of ownership when you have built relationships with the staff and have a true understanding of their place in the practice.

- A well-trained and tenured staff is one of the most valuable assets of a dental practice and important factor in for patient retention. That said, the new dentist must takeover the leadership of the practice. If a staff member is unwilling to respect and promote the new dentist, they may become more of a risk than an asset.

How does a dental practice acquisition get financed?

Answer: The most traditional practice acquisitions are based on a "100% cash deal". In this scenario, the seller receives the entire purchase price in cash at close and the buyer uses cash they have saved and/or a lender to finance the transaction. That said, there are several alternatives to a 100% cash deal.

An "earnout" structure includes a portion of the transaction being made up of cash up-front, with remaining payments based on the achievement of future targets. For example, the seller may get 80% cash at close with two 10% earnout payments each of the next two years based on profit targets. The earnout structure most commonly occurs if the selling dentist is staying on with the practice after selling to a DSO or a group practice.

"Seller financing" occurs when the selling dentist acts as the lender and provides all or a portion the financing on a deal. The most common scenario for seller financing is with a real estate transaction, with the practice acquisition being a separate cash deal. If the selling dentist is staying on, or the sale is to a long-term associate, partner, or relative; seller financing might be considered as it allows the seller to defer some tax payments. Seller's would expect to charge the buyer a reasonable interest rate, but also needs to be aware that their note would be subordinated (second in-line) to any bank security interests if there is also bank financing.

Should I pay extra on loans or save money for buying a practice?

Answer: Paying down high interest loans including credit cards should be one of the first places to put any available discretionary income for new dentists. If you're interested in purchasing a practice, pre-paying student loans or mortgages might not always be the best option if it negatively impacts your liquidity.

Liquidity is a term used to describe how easily an asset can be turned into cash and used for a purchase. Cash is the most liquid asset, while stocks, mutual funds and bonds are also considered highly liquid assets. Real estate or being an owner/partner in a small business would be relatively illiquid assets.

Although 100% purchase price financing is available from many dental lenders, most banks prefer to see a potential buyer with 5-10% of the purchase price in cash savings or highly liquid assets so they have some cushion for paying their bills.

I have a ton of student loans, can I really buy a practice?

Answer: There are a couple of facts to know what it comes to dental finance industry.

1) Not all debt is the same. From the perspective of lenders "good debt" tends to include practice loans, real estate mortgages and student loans, "bad debt" includes credit card debt and large auto leases/loans.
2) Banks and Finance companies love lending money to dentists as they have some of the lowest default rates of any business/profession. As such, number of national and regional lenders have groups specially focused on loaning money for dental practice acquisitions, buy-ins and start-ups and understand the student loan dilemma for many recent graduates.

Couple other thoughts for people worried about student loans:

- The best way to repay large student loans.... make a lot of money.
- The best way to make a lot of money.... own your practice, don't be an employee.

What are the typical dental practice loan financing terms?

Answer: There are two primary loans used for dental practice acquisitions, 1) a conversional loan and 2) SBA loan. Conventional loans offer more favorable terms and quicker execution. Most dental and healthcare lenders will offer practice acquisition from 7-10 years in length with equal monthly payments over the life of the loan. The loan rates will vary depending on the type of loan and the credit quality of the practice & individual borrower.

Some of the specific clauses you want to be aware of include the length, rate, pre-payment/refinance options, personal guarantee conditions, lien provisions, and other bank requirements including where you maintain bank accounts and payment services. Be aware if you are doing a fixed or variable rate loan and how changes in interest rates may impact the loan payments.

In the 4Q'2017 market, many banks will lend up to 100% of the practice acquisition price plus amounts for working capital so you can finance the acquisition with no money down. As we mentioned above, banks love lending money to dentists.

Real Estate loans comes with their own set of requirements, appraisals and terms. If you are purchasing the real estate, these are typically structured as two separate loans.

How do I calculate a dental loan payment?

Answer: Calculating the payments on a loan is relatively simple once you have the primary inputs for the calculation including: Amount of loan, number of months/years, frequency of payment and interest rate. Tools like an online loan calculator are useful and be sure check out the amortization schedule to see how much principle vs. interest you are paying down. For those arithmetically inclined, the formula and example calculation for a loan payment are included below:

$$\text{Payment} = \quad \text{Loan Amount} \times \frac{\text{Monthly Interest Rate}}{[1 - (1 + \text{Monthly Interest Rate})\text{^-Number of Months}]}$$

- For example, $300,000 loan, 10-year term, monthly payments, and 5% interest rate.
- $300,000 x [(.05 / 12) / [1 – (1 + .05/12)^-120]]= $3,181.97 monthly payments

Most dental practice loans are on monthly payment schedules over a 7-10 year period. The amount of the loan and interest rate charged vary based on the practice and loan terms.