

Practice Ownership 101:

Career Options and Navigating the Journey Towards Practice Ownership



Agenda

- Ownership vs. Employment
- Career Income Potential Examples
- Where to start when buying a practice
- Factors Impacting Practice Value
- Questions & Answers



About Me



Practice Ownership

Benefits:

- Perform the type of dentistry you want
- Hire, promote and dismiss staff at your discretion
- Set your hours & take vacations as you schedule
- Build equity in a practice
- Higher income potential
- Tax advantages

Drawbacks:

- More HR & administrative responsibilities.
- Limited ability to move to new city or state without impacting career.
- Less “Stability” of a salary & benefits structure.
- Less chance to work with other dentists.

Most of all, owning your practice allows you to control your own destiny.



Thoughts on Corporate Dentistry

- DSO's (Dental Service Organizations or Corporate Dentistry) are here to stay
- Concept vs. Reality with DSO's – Impact of Private Equity Ownership
- What happens when majority of dentists become employees vs owners?
- How do practice owners level the playing field?



Career Income Potential Examples



Career Income Examples

Key Stats	Associate	“Average” Practice	“Excellent” Practice	“Fixer Upper” Practice	“Million Dollar” Practice
Yr 1 Doctor Production	\$500,000	\$500,000	\$500,000	\$500,000	\$1,000,000
Associate Comp:	33%	N/A	N/A	N/A	N/A
Yr 1 Hygiene Production:	N/A	\$200,000	\$200,000	\$200,000	\$200,000
Purchase Price:	N/A	\$450,000	\$600,000	\$450,000	\$750,000
Overhead %:	N/A	70%	60%	70% ---> 60%	70%
Career After-tax Income:	\$5.3M	\$6.2M	\$8.3M	\$8.3M	\$6.9M



Example #1: Employee Dentist

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10 Year Totals	20 Year Totals	30 year total
Dr. Production	\$500,000	\$550,000	\$600,000	\$618,000	\$636,540	\$655,636	\$675,305	\$695,564	\$716,431	\$737,924			
Dr. Salary (33% of Production)	165,000	181,500	198,000	203,940	210,058	216,360	222,851	229,536	236,422	243,515			
Federal Taxes (30%)	(49,500)	(54,450)	(59,400)	(61,182)	(63,017)	(64,908)	(66,855)	(68,861)	(70,927)	(73,055)			
State Taxes (6.7%)	(11,055)	(12,161)	(13,266)	(13,664)	(14,074)	(14,496)	(14,931)	(15,379)	(15,840)	(16,316)			
Take home cash flow	\$104,445	\$114,890	\$125,334	\$129,094	\$132,967	\$136,956	\$141,065	\$145,296	\$149,655	\$154,145	\$1,333,847	\$3,153,959	\$5,225,539

Assumptions:

- \$500k of dentist production in year 1, \$550k in year 2, \$600k in year 3
- 3% annual growth dentist production years 4 to year 20. Flat production years 21-30.
- 33% of Production Salary
- 30% Federal Taxes and 6.7% State Taxes

Results: After 30 years, cumulative after-tax compensation of \$5.2 million.



Example #2: Owner Dentist “Average Practice”

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10 Year Totals	20 Year Totals	30 year total
Dr. Production	\$500,000	\$550,000	\$600,000	\$618,000	\$636,540	\$655,636	\$675,305	\$695,564	\$716,431	\$737,924			
Hygiene Production	200,000	206,000	212,180	218,545	225,102	231,855	238,810	245,975	253,354	260,955			
Total Production	700,000	756,000	812,180	836,545	861,642	887,491	914,116	941,539	969,785	998,879			
Practice Expenses	(490,000)	(529,200)	(568,526)	(585,582)	(603,149)	(621,244)	(639,881)	(659,077)	(678,850)	(699,215)			
Owner "Profit"	210,000	226,800	243,654	250,964	258,493	266,247	274,235	282,462	290,936	299,664			
Depreciation & Amortization	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)	(22,500)	(22,500)	(22,500)	(22,500)	(22,500)			
Loan Interest	(19,272)	(17,075)	(14,778)	(12,375)	(9,861)	(7,233)	(4,483)	(1,607)	-	-			
Taxable Income	145,728	164,725	183,876	193,589	203,631	236,515	247,252	258,355	268,436	277,164			
Federal Taxes (30%)	(43,718)	(49,417)	(55,163)	(58,077)	(61,089)	(70,954)	(74,176)	(77,506)	(80,531)	(83,149)			
State Taxes (6.7%)	(9,764)	(11,037)	(12,320)	(12,970)	(13,643)	(15,846)	(16,566)	(17,310)	(17,985)	(18,570)			
Practice loan payments	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	-	-			
Take home cash flow	\$89,432	\$99,261	\$109,086	\$112,831	\$116,674	\$112,361	\$116,408	\$120,560	\$192,420	\$197,945	\$1,266,978	\$3,548,052	\$6,217,684
Owner vs. Employee	(15,013)	(15,629)	(16,248)	(16,263)	(16,292)	(24,595)	(24,657)	(24,736)	42,764	43,800	(\$66,869)	\$394,092	\$992,144
Assumed Practice Overhead	70%												
Practice Price	450,000												
Loan Term (In months)	96												
Interest Rate	4.50%												

Assumptions:

- Same Dentist Production & Tax Rate Assumptions as Example #1
- \$200k Hygiene Production in Year 1, 3% growth thereafter
- 70% of Overhead Percentage
- \$450,000 practice purchase price, 7-year loan @ 4.50% interest

Results: After 30 years, cumulative after-tax compensation of \$6.2 million, ~\$1 million more



Example #3: Owner Dentist “Excellent Practice”

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10 Year Totals	20 Year Totals	30 year total
Dr. Production	\$500,000	\$550,000	\$600,000	\$618,000	\$636,540	\$655,636	\$675,305	\$695,564	\$716,431	\$737,924			
Hygiene Production	200,000	206,000	212,180	218,545	225,102	231,855	238,810	245,975	253,354	260,955			
Total Production	700,000	756,000	812,180	836,545	861,642	887,491	914,116	941,539	969,785	998,879			
Practice Expenses	(420,000)	(453,600)	(487,308)	(501,927)	(516,985)	(532,495)	(548,469)	(564,924)	(581,871)	(599,327)			
Owner "Profit"	280,000	302,400	324,872	334,618	344,657	354,996	365,646	376,616	387,914	399,552			
Depreciation & Amortization	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)			
Loan Interest	(19,272)	(17,075)	(14,778)	(12,375)	(9,861)	(7,233)	(4,483)	(1,607)	-	-			
Taxable Income	200,728	225,325	250,094	262,243	274,795	317,764	331,163	345,009	357,914	369,552			
Federal Taxes (30%)	(60,218)	(67,597)	(75,028)	(78,673)	(82,439)	(95,329)	(99,349)	(103,503)	(107,374)	(110,865)			
State Taxes (6.7%)	(13,449)	(15,097)	(16,756)	(17,570)	(18,411)	(21,290)	(22,188)	(23,116)	(23,980)	(24,760)			
Practice loan	(89,447)	(89,447)	(89,447)	(89,447)	(89,447)	(89,447)	(89,447)	(89,447)	-	-			
Take home cash flow	\$116,885	\$130,259	\$143,640	\$148,928	\$154,360	\$148,930	\$154,662	\$160,550	\$256,560	\$263,926	\$1,678,699	\$4,720,131	\$8,279,641
Owner vs. Employee	12,440	15,369	18,306	19,834	21,393	11,974	13,598	15,254	106,904	109,781	\$344,853	\$1,566,172	\$3,054,101
Assumed Practice Overhead	60%												
Practice Price	600,000												
Loan Term (In months)	96												
Interest Rate	4.50%												

Assumptions:

- Same Dentist Production & Tax Rate Assumptions as other examples
- Same Hygiene Production as example #2
- 60% of Overhead Percentage
- \$600,000 practice purchase price, 7-year loan @ 4.50% interest

Results: After 30 years, cumulative after-tax compensation of \$8.3 million, ~\$3 million more.



Example #4: Owner Dentist “Fixer upper”

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10 Year Totals	20 Year Totals	30 year total
Dr. Production	\$500,000	\$550,000	\$600,000	\$618,000	\$636,540	\$655,636	\$675,305	\$695,564	\$716,431	\$737,924			
Hygiene Production	200,000	206,000	212,180	218,545	225,102	231,855	238,810	245,975	253,354	260,955			
Total Production	700,000	756,000	812,180	836,545	861,642	887,491	914,116	941,539	969,785	998,879			
Practice Expenses	(490,000)	(529,200)	(527,917)	(543,755)	(516,985)	(532,495)	(548,469)	(564,924)	(581,871)	(599,327)			
Owner "Profit"	210,000	226,800	284,263	292,791	344,657	354,996	365,646	376,616	387,914	399,552			
Depreciation & Amortization	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)	(22,500)	(22,500)	(22,500)	(22,500)	(22,500)			
Loan Interest	(19,272)	(17,075)	(14,778)	(12,375)	(9,861)	(7,233)	(4,483)	(1,607)	-	-			
Taxable Income	145,728	164,725	224,485	235,416	289,795	325,264	338,663	352,509	365,414	377,052			
Federal Taxes (30%)	(43,718)	(49,417)	(67,346)	(70,625)	(86,939)	(97,579)	(101,599)	(105,753)	(109,624)	(113,115)			
State Taxes (6.7%)	(9,764)	(11,037)	(15,041)	(15,773)	(19,416)	(21,793)	(22,690)	(23,618)	(24,483)	(25,262)			
Practice loan payments	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	(67,085)	-	-			
Take home cash flow	\$89,432	\$99,261	\$134,791	\$139,308	\$171,216	\$168,539	\$174,271	\$180,160	\$253,807	\$261,174	\$1,671,959	\$4,699,629	\$8,259,138
Owner vs. Employee	(15,013)	(15,629)	9,457	10,214	38,250	31,583	33,207	34,863	104,152	107,029	\$338,113	\$1,545,670	\$3,033,599
Assumed Practice Overhead	70%		65%		60%								
Practice Price	450,000												
Loan Term (In months)	96												
Interst Rate	4.50%												

Assumptions:

- Same Dentist Production & Tax Rate Assumptions as other examples
- Same Hygiene Production as other examples
- 70% of Overhead Percentage in Year 1, improves to 65% in year 3 and 60% year 5
- \$450,000 practice purchase price, 7-year loan @ 4.50% interest

Results: After 30 years, cumulative after-tax compensation of \$8.3 million, ~\$3 million more.



Example #5: “The Million Dollar Practice”

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10 Year Totals	20 Year Totals	30 year total
Dr. Production	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000			
Hygiene Production	200,000	206,000	212,180	218,545	225,102	231,855	238,810	245,975	253,354	260,955			
Total Production	1,200,000	1,206,000	1,212,180	1,218,545	1,225,102	1,231,855	1,238,810	1,245,975	1,253,354	1,260,955			
Practice Expenses	(840,000)	(844,200)	(848,526)	(852,982)	(857,571)	(862,298)	(867,167)	(872,182)	(877,348)	(882,668)			
Owner "Profit"	360,000	361,800	363,654	365,564	367,531	369,556	371,643	373,792	376,006	378,286			
Depreciation & Amortization	(75,000)	(75,000)	(75,000)	(75,000)	(75,000)	(37,500)	(37,500)	(37,500)	(37,500)	(37,500)			
Loan Interest	(32,120)	(28,459)	(24,630)	(20,625)	(16,436)	(12,054)	(7,472)	(2,678)	-	-			
Taxable Income	252,880	258,341	264,024	269,939	276,095	320,002	326,672	333,614	338,506	340,786			
Federal Taxes (30%)	(75,864)	(77,502)	(79,207)	(80,982)	(82,828)	(96,001)	(98,001)	(100,084)	(101,552)	(102,236)			
State Taxes (6.7%)	(16,943)	(17,309)	(17,690)	(18,086)	(18,498)	(21,440)	(21,887)	(22,352)	(22,680)	(22,833)			
Practice loan payments	(111,809)	(111,809)	(111,809)	(111,809)	(111,809)	(111,809)	(111,809)	(111,809)	-	-			
Take home cash flow	\$155,384	\$155,180	\$154,948	\$154,687	\$154,395	\$140,307	\$139,946	\$139,547	\$251,774	\$253,218	\$1,699,385	\$4,252,336	\$6,937,714
Assumed Practice Overhead	70%												
Practice Price	750,000												
Loan Term (In months)	96												
Interst Rate	4.50%												

Assumptions:

- \$1 million Dentist production in every year
- Same Tax Rate Assumptions as other examples
- Same Hygiene Production as other examples
- 70% of Overhead Percentage
- \$750,000 practice purchase price, 7-year loan @ 4.50% interest

Results: After 30 years, cumulative after-tax compensation of \$6.9 million



Practice Ownership Takeaways

- Owning a practice maximizes a dentist's career income potential.
- The purchase price of a practice is important. Finding the right practice is more important.
- Controlling overhead costs has a bigger impact on profitability than maximizing production.
- Purchase window – Dentist who work as associates for 7+ years are unlikely to ever own.



Where to start when buying a practice



10-things to consider when buying a dental practice?

- Location, Location, Location
- Professional Advice
- Clinical Fit
- Building a Target List & Initial Due Diligence
- Buy vs. Partner vs. Build
- Financing / Structure
- What are you Buying?
- Pulling the Trigger: Making an Offer
- Final Due Diligence & Important Contracts
- Setting up for Success



Information Requests

Data Requests:

- Financial statements
- Tax Filings
- Procedures mix
- Number of active patients
- Number of hours worked
- Number of patient visits per provider
- Number of new patients
- Production adjustments and write-offs
- Production by provider
- Receivables report
- Balance Sheet

Other Requests and Discussion Points:

- Why is practice for sale?
- Philosophy of the practice
- Information on the community & competition
- List of equipment and furnishing
- Pictures or video of office
- Types of Insurance Accepted
- Patient base demographics and changes over time

Request data for minimum of the last 3-years



What is a dental practice worth?



**Whatever someone will
pay for it!**



Factors Impacting Practice Value

- Stability of historical and projected earnings.
- Ability and willingness to transfer practice
- Overhead percentage
- Size of practice
- Number of active patients (range over time)
- Number of new patients and degree of patient turnover
- Stability of practice and community
- Competition
- Fee Structure
- Practice location
- Demographics of patients
- Ability to expand
- Collections / Gross and Age of Receivables
- Parking
- Recall System and hygiene production
- Quality of records
- Quality and experience of staff and degree of turnover
- Effectiveness of management systems
- Likelihood of staff will remain
- Ability and talent of staff



Factors Impacting Practice Value

- Facility design and square footage
- Number of treatment rooms, age, conditions of equipment
- Overall appearance
- Reputation
- Number of hours worked
- Amount of time taken off
- % of patients covered by insurance
- Assignability and terms of lease and availability for purchase of facility
- Legal and accounting records
- Treatment mix
- Practice maturity
- Practice profitability
- Associate/Dentist contract
- Financial policies
- Technology
- Dentist scheduling
- Patient Acceptance %
- Treatment Acceptance %
- % of cases referred out



Final Thoughts

- If practice ownership is in your career path, start planning early and be methodical.
- Build your team and network, don't go it alone.
- Don't make assumptions when it comes to purchasing a practice, upfront and open communication is vital.
- Don't just own a practice... own the practice of your dreams.



Final Thoughts





About us

Fairway Healthcare Partners helps dentists buy, sell, protect and grow their practices.

Key Values

- Integrity
- Expert Advise
- Provider focus
- Giving back

Key Areas of Service:

- Buyer Representation
- Seller Representation
- Business Valuations
- Partnerships, Mergers and Alternative Transition Planning
- Bank & Financing Advisory Services
- Practice Consulting



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Q & A



