

GETTING YOUR PRACTICE READY TO SELL

Not all practices are salable and fewer are salable every year. While the national average sales price is 60% of practice receipts, practices with high overhead or that are very small or are in rural or less desirable parts of town will bring less if a buyer can be found at all. Large practices also can be difficult to sell.

The individual buyer, usually a recent graduate, often has student debt in excess of \$100,000. These graduates have opportunities to go to work for chain dental clinics for \$75,000 to \$100,000 a year. In order to purchase a practice, enough revenue must be generated to allow them to pay the practice note payments and student loan payments and have earnings similar to employed dentist compensation. This usually means that the practice must earn at least \$150,000 pretax for the buyer to qualify for a practice purchase loan. A number of financial firms specialize in making practice acquisition loans and they will loan the full purchase price plus operating capital if there is sufficient cash flow. The most desirable practice size for the individual purchase is one with \$400,000 to \$550,000 in receipts. With 60% overhead, these practices will generate at least \$160,000 income and enable the buyer to pay the loan and have earnings sufficient to support themselves and their family.

Large practices, those with over \$750,000 in receipts, are much more difficult to finance. The practice loans with operating capital requirements will exceed \$500,000 and lenders are reluctant to loan this amount unless the buyer has either substantial assets or several years' experience including some management responsibility. Most of the practices with receipts in excess of \$1,000,000 will require internal financing and involve an associate buy-in for an interest in the practice. Usually the prospective partner will come to work with an employment agreement that includes terms and conditions of employment and an option to purchase. After the new associate works for a period of time, often one year as an employee, then a buy-in over a 7-year time frame commences. At the retirement of the senior doctor, the younger associate then acquires the other half of the practice, locates another junior associate, and sells the new associate half of the practice.

Things you can do to make the practice more salable:

1. Keep the practice growing
2. Try to keep overhead below 60%
3. Install a modern electronic Dental Practice Management System
4. Keep office décor attractive
5. Update dental equipment and take advantage of tax credits for such updates
6. Do not overspend on office building (Taj Mahal's can be difficult to sell)
7. Have the practice appraised by a professional and implement suggested changes to improve practice appeal