

# Preparing to Sell Your Practice

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Selling your dental practice is one of the most important aspects of the career you worked so hard to build. There are many things to consider and prepare for when deciding to sell your practice and it is much more than just posting a “for sale” sign in front of your practice. From complex legal documents to the open house to prequalification of buyers, the list of complicated steps is endless, which is why it is important to seek the expertise of a qualified practice broker and a dental specific attorney to help you easily navigate through the process. A dental specific attorney can help you navigate the complex legal contracts and clauses, such as the letter of intent, sales agreement, associate agreement, lease agreement, covenant not to compete, retreatment clauses and more. A qualified practice sale broker can help you through every step of the way to ensure that you maximize your profits and are able to sell your practice in a timely matter. Do not leave this important decision in your retirement to chance.

There are many things that you can do to prepare your practice to sell and it is important to start the process early so that your retirement is seamless and you are able

to maximize your profits. The first step is to make sure that your financial records for the last three years are organized and up to date. A buyer or their accountant will carefully analyze your financial records, including your tax returns, P&Ls, bank statements and general ledger, so it is imperative that everything is very straightforward and does not include many personal expenses. It is a good idea to hire an industry specific accountant to make sure that each category on your tax return is in line with the industry standards, for example your dental supplies should not be more than seven percent, or your employee wages should not be more than twenty-seven percent of your total collections. Also, if you have more than one practice, you need to have separate tax returns. By keeping detailed records and working with an industry specific accountant, you and potential buyers will be able to easily analyze your practice and feel more comfortable with the purchase of your practice.

The second step to in preparing to sell you practice is to closely evaluate the health of your practice. A practice that is increasing year over year and has a healthy flow of new patients is much easier to sell than a stagnant or declining practice. It is important that you are aware of the health of your practice. If you pull your new patient report from your practice management software for the last three years, it should show at least 15 new patients per month. If you don't have a strong flow of new patients, consider analyzing and then improving your marketing systems. Another way to determine the health of your practice is to look at the net profitability, in other words what percentage of the total collections are you taking home after all expenses have been paid. Your practice should net *at least* thirty percent of your total collections. If it doesn't, then work with an industry specific accountant to see why that is and how you can improve. The net profitability of your practice is the main way to determine a purchase price and can largely effect your sale price and sale timeline. It is important that the buyers are able to see that the practice is healthy and functioning at an optimal level.

Thirdly, you should strive to maximize the efficiency of your practice. Take a careful look at the systems that you have implemented for marketing, recall, scheduling, billing, etc. Ask yourself, does every task in the practice have a system? Are all of my employees adhering to the systems I have set? Is my practice functioning at an optimal level? If you answered no, then it may be helpful to hire a practice management consultant to improve upon or help create systems in your practice. The largest and most profitable practices have systems for every iota and in turn the practice runs very smoothly. Detailed systems will not only help your practice become more organized and efficient, but it will be easier for the buyer to transition into your practice after the sale.

Fourthly, it is imperative that your practice makes a great first impression to buyers. The waiting room is the most important room in your practice and should be very modern, warm and inviting. Any items that are out of date should be replaced and the front desk should have granite countertops. It is a worthwhile investment to hire a

professional decorator to make your waiting room look perfect and to go with the flow of the rest of your practice. You want your practice to look like a “model practice” that buyers can imagine themselves in and would love to practice in. Clean out unnecessary paperwork, clutter, miscellaneous items and keep personal items to a minimum. It can make a huge difference just by cleaning up your practice. You only have one chance to make a first impression to potential buyers!

The fifth step of preparing your practice to sell is to make sure your practice is up to date with dental and office equipment. Your practice should have digital x-rays and a practice management software. The office computers should not be older than five years and the dental equipment should be between ten to fifteen years old and in good condition. Any older equipment may negatively affect the sales price of your practice and turn off potential buyers. Technology is important to a certain extent; it is great if you have it and are using the technology, but having the latest and greatest technology in your practice will not warrant a higher sale price.

Lastly, it is a good idea to create or improve upon an online presence. If you don't have a website, then think about creating a simple website so that your patients can find you. You can hire a professional website designer or easily create your own website by using a template. This will add to the value of your practice and all buyers will want a website after the sale. A strong online presence will add to the “model practice” and turnkey aspects of your practice. If you follow the steps to prepare to sell your practice, it will make a big difference in your sales price and the timeline of the sale of your practice.

Preparing your practice to sell can take between two weeks or years depending on your individual practice. Once your practice is officially listed your practice sale broker will work with you to gather many financial documents, such as all your financials, employee information, practice management reports, a practice profile and will thoroughly analyze your practice. Once all of your documents are received and analyzed then an open house will be scheduled where potential buyers will have the opportunity to meet you and to tour the practice. An experienced practice sale broker will have a rolodex of many buyers for your particular type of practice and your location. It is normal for your practice to sell within sixty days of the list date. Your practice sale broker will work diligently with you, the buyer, various attorneys, dental specific accountants, practice management consultant and landlords during the due diligence period to make sure that everyone's needs are met. Your broker will guide you through all of the steps to ensure a smooth transition. The process of selling a practice is never easy and can be very complicated, thus selling your practice should not be attempted without the aid of professionals regardless of the size or age of the practice.

When your broker has found a potential buyer, the Buyer will submit a Letter of Intent

(LOI). It is at this stage that you will need a dental attorney to help you with negotiate the terms of the sale of your office. The dental attorney will help you review the LOI to make sure that the Contingencies of the sale of your practice is fair to both buyer and seller. When the buyer and seller agreed on the contingencies, and signed by both parties and a deposit is placed, then you have officially entered into the Due Diligence stage.

Your attorney or broker may recommend the using of an escrow to assist with the Closing of the sale of your practice or simply have the transaction be handled directly through the broker and the attorney. If an escrow is used, the escrow will assist the lender/bank with any documentation besides the Purchase and Sales Agreement, and search for any liens and help sort out any lien problems or distribution of sale proceeds as a thirty party neutral party.

Your dental attorney's job is to ensure that Purchase and Sales Agreement (PSA) have fair terms and certain conditions are written and spelled out. What are some of the conditions the buyer and seller's attorneys are looking for or adding into the PSA? Here are specific things that your dental attorney is looking for: Covenant Not to Compete, Covenant Not to Treat or Derive Income, Covenant Not to Hire Employees, Covenant Not to Solicit, Retirements, Allocations, Warranty of No Disparagement, Warranty of Licensure for Seller and Buyer.

A common question would be what is a fair distance and time period for the Covenant Not to Compete? This question depends on the location of the practice. If your practice is in California, then the answer would be different from Manhattan. We usually see in California a non-compete of 10-25 miles with a minimal of 3-5 years. Covenants to not hire employees are usually at 1 to 2 years and Covenants not to treat or derive income at 5 years as well. Then the following question usually follow what happens if there is a breach of the covenants? This is where the experience of your dental attorney matters. Most buyer's attorney would prefer to see some sort of liquidated damages. Doctors usually ask, what is a liquidated damage?

Liquidated damage is best described as a set amount of restitution (payment) to the buyer in the event the seller breaches the covenants, i.e., solicit patients from the practice sold or treated patients from the practice sold. Over the years, many attorneys come up with unreasonable numbers for liquidated damages that borderline punitive damages. In contracts law, there can only be liquidated damages and not punitive damages, as seen in tort law.

Liquidated damages have to be fair, reasonable, stated in the Agreement and cannot be used as vehicle to punish the breaching seller.

Many times, in the PSA, another important factor is often missed. When a retreatment is indicated, who is responsible for the retreatment? In most PSAs, it is recommended for the seller to be responsible for the treatments rendered within the 12 month period

of the Closing Date. After 12 months, it is the responsibility of the patients. However, if retreatments are indicated, who will perform the treatment? It should also be spelled out in the PSA that if seller desires to re-treat and the patient is okay with it, then the seller can retreat the treatment at no cost to the patient and compensate the buyer with the exact costs of materials and the chairside staff's time. If the seller decides to let the buyer retreat the treatment, then it should also spell out in the PSA at what percentage of compensation to the buyer. This is where the use of an experienced dental attorney comes in handy.

When it is the day that you want to sell, it is critical to get a team that will watch your back. This team should consist of a dental practice broker, a CPA, a lender that understands the needs of dentists and an attorney that is knowledgeable in dentistry.