

A BUYING DENTIST'S GUIDE



JOURNEY TO DENTAL PRACTICE OWNERSHIP



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OVERVIEW

So you are ready to start your own dental practice! Congratulations! You should be feeling confident and empowered as you embark on your Journey To Ownership. You may also be feeling overwhelmed, anxious, and unsure of how to proceed.

The decisions you make now will impact the rest of your life. It's a big deal. Your finances, staff and patients, even family and friends will be affected by this one decision. It's best to have a trusted adviser by your side.

Each year, thousands of dentists buy dental practices. Did they make a good decision? Did they pay the right price? Was the location optimal? Was it the right time? Luckily, you have this book, so you've found a guide for your journey.

Together - we are going to look at all aspects of buying a dental practice:

- What to do before you purchase
- Finding a practice
- Valuation process and due diligence
- Becoming a business owner

Ready to get started?



THINGS TO DO BEFORE YOU PURCHASE

Before you buy, it's important to understand what it means to be a business owner. Dental school probably didn't hit on this much, but the nuts and bolts of practice ownership are where profitability lives and dies. Commit yourself to fully understanding what it means to be a successful dental practice owner.

First, ask yourself if you honestly want to be a business owner. Your clinical skills are obviously important. Running a successful business is another animal entirely. You will need to deal with the building, location, staff, hiring and firing employees, operations, marketing, financial statements and taxes, and much more.

On top of that you'll be the boss. CEO, CMO, CFO, and DDS all at the same time! You need to consider yourself both a dentist and a business owner.

Luckily, you can hire specialists to assist with the business of dentistry and practice ownership.. The best part? You will have complete control of your destiny. You will have complete control of your dentistry.



FINDING A PRACTICE

You are committing to a location and a patient base. The success of your practice is reliant on some things you can control, and some things you can't. The location, competition, demographics of your patient base, insurance options, etc. are things you can't control. Depending on what practice you choose to buy, these can either work for or against your new business.

How do you find the right practice? It can be overwhelming and frustrating. We get it. It's probably the least enjoyable part of the buying process. As a buyer, you will typically find yourself in one of two scenarios. One, you have several options in practices to buy and will have a hard time choosing one. Two, you can't find a practice and have no idea where to start!

Your best recourse in either situation is to start networking. Consider the size and reach a firm like Engage Advisors has with dentists all over the country. You can build your network, too. The alumni of your school, local study club and societal events are a way to get your feet wet. Call local dentists and ask them for a happy hour or to lunch. Tell them you would love their insight and advice with next steps.



Finding the right broker is an important decision as well. Engage Transitions has locations nationwide, so we make finding the right practice much easier. Join our mailing list to receive our listings, in a number of locations, right in your inbox.

Equipment / supply reps are a valuable resource as well. If you know where you want to settle down, reach out to local dental reps in that area. They are highly connected to the dentists and practices in your area.

Ask them to lunch or to grab Starbucks. They will know the ins and outs of the practices already operating in the area. It's worth it for them to invest in you.

You are a potential new account, let them do some of the heavy lifting!





VALUATION & DUE DILIGENCE

One major misconception about dental practices is that there is a magic formula for calculating the practice's sale price. The process is similar to how a home is appraised. Some valuation expert takes a bunch of numbers and puts them in a magic calculator and voila! We have a fair purchase price. Valuing a business is much more detailed and in-depth.

A variety of factors and percentages await you in the abyss of practice valuation. Having a rep for you, the buyer, who is also a dental CPA, can help ease your worries of paying too much for a practice.

Key factors for an accurate valuation:

Collections: There has to be enough money coming in to justify owning the practice. You will also be dealing with the work of owning the practice and all expenses and responsibilities that come with it.

A tremendous value in working with a broker and dental CPA is that you can delve deep into the numbers to truly understand what you are buying.

Analyze the top procedures by revenue. Do you feel ready to take those cases on? How much of collections is coming from the hygiene department? Is it overstaffed or understaffed?

How can you maximize your profitability? What percentage of collections are from insurance?



This kind of analysis will give you a better understanding of the business you are purchasing and your day-to-day experience as the owner.

Profit: Aside from just how much money is coming in, you have to understand how much remains after all expenses are paid. Typically, a dental practice will operate at 55-60% overhead with around a 40% profit margin. If profitability dips below 40%, it's time to start looking at expenses and staffing. Systems and operations may need updating. Equipment and ops may need to be upgraded.

Work with a dental CPA to ensure you understand the true profitability of the practice. Any expenses related to the selling doctor should not be included in your calculations (salary, payroll taxes, expenses, etc.).

Rent & Building Costs: Real estate and rental pricing will vary depending on where you are geographically. If your practice is in an older part of town, don't think that a resurgence of new patients will come beating down your door because a new dentist is setting up shop. That's not how it works. Make sure your patients enjoy the location, and rent is acceptable for the long term.

Staff Expenses: An average practice is going to have around 25% of collections to cover employee costs. This number includes salary, benefits, payroll taxes, etc.

Supplies & Lab Fees: Supplies and lab fees should run about 8 to 10% of collections. These numbers are fluid and will fluctuate month to month. Fees will also change based on the type of practice you are buying. For example, an orthodontic office is going to have higher supply costs than a general practice. All things to keep in mind!



Other Important Items: Check the schedule and the patient communication tools in the office. Is there a large number of recall patients? What does attrition look like? Are patients getting a great experience? Are they accepting treatment? Why or why not?

The schedule should be booked for the next three weeks or so. Check and see how far out the doctor is booked. How are they handling emergencies? What's hygiene look like and how many chairs are they running?

It's also important to get to know the team and the equipment in the office you're considering. Is the equipment acceptable and usable? Can you do all of the dentistry you want to do? Is there room to expand? If any equipment needs to be purchased or replaced, how much will that cost?

What about the team? Are they aware of the pending transition? Are they on board? Remember, these people will be working closely with you. It's important for everyone to feel comfortable.

Lastly, consider the practice's marketing status and needs. Is the website outdated? What is the patient experience like overall? What is being done internally to build the brand and drive referrals? What is being done externally to connect the practice with the community? Is social media happening?



Once you settle on the practice to buy, you will need to submit a letter of intent to purchase the practice. The LOI does not bind you to the deal. The LOI will lay out the negotiated parameters of the deal. Points of the deal are negotiated before any legally binding documents become involved. One major perk of an LOI is that the seller will remove the listing while you work through financing and due diligence with your dental CPA and advisors.

Due diligence is diving into the data to make sure things are as they are said to be. It's a thorough evaluation of the practice you are looking to buy. Your CPA will perform a fee analysis, patient analysis, review the profit & loss statement, verify tax returns, look over the lease or real estate, etc. Basically, you get answers to all of the questions you have about the office.





BECOMING A BUSINESS OWNER

You found a practice. You received an accurate valuation. You completed your LOI. Negotiations have happened. You have your loan(s) approved. You are about to be proud new owner of your dream dental practice! This is the time to lean on your advisors.

There are a few other steps you can take to make the final push less stressful. Get your life insurance and disability insurance policies. The bank is going to have some requirements. You should also speak with your CPA to ensure you have enough coverage to care for yourself and your family in the event it's needed.

This process can take some time, so it's best to get ahead of it. The team at Engage Advisors can provide buyer's representation, valuation, CPA services, insurance and more under one roof! It's the ultimate all-in-one solution for today's thriving dentists!

- Get your personal, business, and malpractice insurance.
- Get your license in order. This is a no-brainer, but a very important step. Get your state license so the bank can lend you the money you've requested.
- Create your business entity. Work with your CPA to establish the best entity for your situation.
- Setup bank accounts.
- Setup your credit card accounts.
- Review and sign your new lease.
- Setup payroll.



Engage Advisors offers payroll services to make your life easier and less stressful. There are also third party vendors who can take care of this for you.

If you are doing it in-house, discuss payroll with your CPA and make sure you have your state IDs setup.



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CONCLUSION

While the contents of this eBook present everything at a very high level, remember that you are not alone on this journey. You are now the CEO of your company. It's important to have a trusted adviser, financial professional, marketing professional, business coach, and CPA. What's even better is having them all under one roof!

We designed Engage Advisors for the modern dental practice owner. Operating a profitable practice takes year-round effort in a variety of disciplines. Our nuts and bolts approach helps you build a solid foundation, in every aspect, that you can build on.

We hope you found this eBook helpful as you navigate your Journey to Ownership! Feel free to schedule a complimentary consultation with us to discover what's next.

SCHEDULE A CALL