

# Preparing your practice for a successful transition

By Doug Copple, CVA

**A**re you considering selling your orthodontic practice or bringing in a partner within the next several years?

If the answer is yes, you need to take steps to prepare your practice for this transition. It is still a seller's market, with buyers outnumbering sellers. Buyers now include young orthodontists, established practices that want to expand their footprint, as well as dental service organizations and corporate groups trying to grow and increase their market share.

The abundance and diverse nature of buyers are helping to maintain or even increase the value of existing practices. Regardless of the buyer, you will increase your chances of a smooth and efficient sale with the best financial outcome by doing some practice housecleaning prior to pursuing a transaction.

The first step in any transition is to set the purchase price, which is typically based on an objective and accurate practice valuation. The value of a practice is based on many factors, with one of the most important being the practice's profitability or future income stream accruing to the owner.

Obviously, the more profitable a practice, the more valuable it is and the more a buyer is willing to pay for it. The opposite is true for a less profitable practice.

Some of the practice's expenses may be non-recurring or discretionary expenses (auto, travel, family salaries, personal insurance, etc.). These discretionary expenses should be tracked within the accounting records so they can be identified and removed to determine the practice's true profitability.

Many of our clients incur significant discretionary expenses but cannot easily identify or quantify them. Being able to quickly identify and explain these adjustments makes the valuation process more efficient, and it also helps the buyer feel confident in the value that is calculated.

When the buyer and his/her advisors ask about the discretionary adjustments made in the valuation, we can rarely put them at ease by saying the adjustments were guesstimated, or to simply "trust us" or the seller.

Other overstated expenses may be based on how the current owner chooses to operate the practice, with the most common being overstaffing or overcompensating employees. It is extremely difficult to convince a buyer, especially a younger buyer, that the practice is overstaffed and one to two employees could and should be terminated in order to get expenses down to normal levels.

If such changes could and should be made, then make the changes now. Buy-



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ers are purchasing the practice based on its current value in its current state, not on its potential value or the value they will create after buying it. Making these changes will also increase your income until the practice sells.

The age and condition of the office and operating equipment is another factor that affects the practice's selling price. Buyers want to purchase a turnkey operation that requires minimal upgrades and little additional investment.

Remember, the value is largely based on the practice's future income stream. If the buyer has to invest significant amounts of money to upgrade the dental chairs, pan/ceph machine, sterilization equipment or practice management system (or install one if the practice is still using paper charts), there will be less profit in the future to pay to the buyer and allow him/her to service the purchase debt.

In addition, the buyer has to deal with the hassle of making these upgrades and training employees on the new systems. We advise our clients to keep the office and equipment clean, updated and in good working condition, but remember not to overspend on new technologies

right before the sale, as you may not recoup all of the investment.

However, failing to keep the technology of the practice current can negatively impact the purchase price, or worse, make the practice unattractive to potential buyers at any reasonable price.

Finally, review your practice's operational data in the practice management system to ensure the figures are correct. This sounds basic enough, but it can be difficult for some practices to provide a list of active patients, case starts for the year, or accurate aged receivable balances.

The practice management system is built to track all of the key operating statistics, but the data must be entered properly and reviewed often to keep the data accurate and up to date. Buyers depend on the data within the practice management system when performing their due diligence.

If the reports cannot be relied upon, the review and negotiation process is slower.

Inaccurate practice statistics that require explanations will often give the impression to a buyer that other areas of the practice may have similar issues

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that require additional attention and due diligence.

Your practice may be one of your most valuable assets. Taking an objective look at your practice and making small improvements now will likely increase the value of your practice, make the transition process smooth and transparent, and may make your practice more profitable in the years leading up to the sale.

## About the author

Doug Copple is a member and partner of Bentson Clark & Copple and is a certified valuation analyst (CVA), a designation granted by the National Association of Certified Valuation Analysts (NAVCA) after completing specific training and testing requirements and reaching a certain level of experience. Copple ensures the firm's practice valuations are properly performed and adhere to generally accepted valuation standards. He is also integral in structuring and negotiating orthodontic partnerships and purchase transactions, and the related tax allocations between buyers and sellers.