

Residents' Most Commonly Asked Questions

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The American Association of Orthodontists offers an initiative entitled The AAO Practice Alternatives Program. The program's purpose is to introduce residents to the various opportunities that await them after their orthodontic program is completed. The program's material presents a broad overview of common practice situations, including starting a practice, buying in, buying out, performing associate work, going into academics and examining many other exceptional opportunities that are available upon entering the orthodontic profession.

The AAO assembled a list of the residents' most commonly asked questions and distributed them to a small number of orthodontic transition companies. The answers provided by the transition companies are included in the Practice Alternatives Program informational booklet. Bentson Clark & Copple was honored to be invited as one of the few companies to contribute.

We at Bentson Clark & Copple found several of the residents' questions very interesting and want to share them (and our answers to those questions) with our readers as an insight to understanding residents and their concerns.



1. How do I know if the asking price is fair and reasonable for the practice I am seeking to purchase?

The best way is to make sure an independent valuation has been completed by a qualified expert, experienced in the valuation of orthodontic practices, who holds some type of valuation credentials, such as Accredited Valuation Analyst (AVA), Accredited Senior Appraiser (ASA), Accreditation in Business Valuation (ABV), etc. An individual who has earned such credentials is bound by strict valuation and reporting guidelines, which ensures the valuation has been properly prepared in accordance with accepted valuation methodologies. In addition, these individuals must comply with continuing education and recertification requirements in the valuation field. Most local CPA's do not hold those credentials, so be wary of the seller's personal CPA providing a value for the practice. This can point not only to a conflict of interest, but to a valuation that is not grounded in valuation methodology. Also beware of accepting a valuation that uses rules of thumb to derive value, such as a certain percentage of collections or a multiple of earnings. The value of a practice must take into account many factors, and ultimately it is the practice's benefit stream or the owner's income that you are purchasing.

A reasonably priced practice will allow the purchasing doctor to earn enough money from the practice to both repay the purchase price over a reasonable period of time (generally five to eight years) and make enough money for himself/herself personal life during the buy-in. This should be proven by having financial projections and cash flows prepared to illustrate to the purchasing doctor what his/her net cash flow from the purchased practice will be after paying all practice operating expenses and debt related to purchasing the practice.

2. How can the financing be handled so I can afford to buy this practice?

If you are entering a partnership, it is very difficult to get outside financing. The lending institution will have a difficult time figuring out which half of the x-ray machine to repossess in the event of a default. Likewise, most lending institutions shy away from "stock" purchases. Therefore most partnerships are financed by the

selling doctor using some kind of income shift for payment (adjusted to include interest on the repayment).

In an asset sale (100% buyout), most lenders will participate, but often not for the full purchase price. This decision is usually made after considering the strength of the practice, the agreed-upon price, and the creditworthiness of the purchaser, among other items. However, do not be afraid to enter into a large practice just because you have a significant amount of school debt. If the practice is financially healthy and the post-purchase cash flows are healthy, there is financing available for the purchase of almost any practice, regardless of size. Often the seller will finance a portion of the sale price, and there are a number of options of how the purchase price is paid to the seller. In any event, if the practice value and purchase price are reasonable, the purchase debt can generally be repaid over a reasonable period of time, and third party lenders, including the seller, often allow various repayment options that will meet the buyer's financing needs.

3. What is an acceptable transition period for the selling orthodontist to stay with me before leaving the practice? How is his/her compensation to be calculated?

In most orthodontic practice sales, the largest portion of the purchase price is personal or corporate goodwill. For this reason, it is advisable to have a true transition period. The customary association or transition period ranges from six months to eighteen months. This transition period allows the senior doctor to introduce the buyer to patients, referring parties, and the community, and to effectively transfer the goodwill to the buyer. The transition period may be either before or after the purchase occurs, but most often the buyer will work as an associate for the seller for six to eighteen months before ownership transfer occurs. The buyer's introduction to the dental community and patients will take place during the association period. If the senior doctor remains after the purchase, he/she is typically paid a per diem that is negotiated based on the size of the practice and the buyer's need for assistance. Whether the buyer works as an employee for the seller prior to the purchase, or whether the seller works as an employee for the buyer after the purchase, it is advisable to have both parties working in the office together for at least a few months to ensure the goodwill is adequately transferred to the buyer. This transition period will obviously vary based on the size of the practice, the selling doctor's reputation within the community, and the individual doctor's circumstances.

4. How can I intelligently evaluate associateships, partnerships, group practices, purchase of a practice, etc.?

The best method is to engage the services of an advisor(s) to ensure the purchase price is reasonable, the tax effects to both parties are addressed, and the legal documents are drafted to protect both parties. Find an expert or company that understands orthodontics and has experience in these transactions. For an hourly rate they can help you evaluate an opportunity and negotiate your position on your behalf to the seller and his/her advisors. It is usually best to keep direct doctor-to-doctor negotiations to a minimum, especially if you will be working together after the purchase, because money is an emotional but important issue for both parties involved in the transaction.

5. What do I need to do in order to prepare for the business aspects of running a practice?

There are several items that you should be aware of other than straightening people's teeth. (1) Understand the business aspect of the practice, which includes being financially literate in reading the practice's financials, managing overhead and practice expenses, and understanding financial transactions that occur; (2) understand and embrace the personal and marketing aspect of the job, which includes getting to know referral sources, patients, and their parents and being involved in the community; and (3) understand how to effectively manage people and staff or delegate that task to someone else who can. The senior doctor from whom you purchased the practice will be the best source to help you learn the non-clinical aspects of practicing. There are also numerous consultants within the orthodontic community that can assist you and your staff in specific non-clinical areas of the practice, such as marketing, staffing, scheduling, practice management, etc.

6. Do I need an accountant, lawyer, transition specialist, insurance agent, etc.?

Yes, you will need a Certified Public Accountant and an attorney to help you with the purchase of a practice to ensure all legal and tax aspects of the transaction are properly identified and accounted for. Many orthodontic transition companies have these resources available in one location. You will also need, in most cases, an insurance agent to provide adequate coverage and protection for you in the event of death or disability.

7. Is it necessary to be involved on both private practice and political levels to ensure that the best patient care delivery systems will be available for our future generations of orthodontic patients?

Bentson Clark & Copple's experience is that the best practices, ones that deliver excellent clinical results and are financially healthy, are constantly learning and evolving. This usually means that the doctor is active in local study clubs, state and national dental/orthodontic organizations, and attends meetings to learn about advances and different methods of orthodontic treatment.

8. What is a normal starting salary range for an associate, partner or buyer?

There is no hard and fast rule. Recently we have seen per diem rates ranging from \$700 – \$1,200 per day. As experience increases, so does pay. Practices that do not offer ownership and are just looking to hire clinical help will sometimes pay higher fees than one might earn as an associate. Experience, location, size of the practice and patient load are three factors in determining associate and partner income.

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