

# Time to Sell

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**By Chris Bentson and Doug Copple, CVA**

This is my baby. Isn't she pretty?" This is not a trick question, and if you are ever asked the question by a new parent, be advised that the answer is "yes," regardless of the shape of her head, amount of hair, complexion, birth weight, eye color ... you get the idea. The question also describes how a great majority of orthodontists feel about their "business baby," otherwise known as their practice.

While it is true that you cannot practice forever, nevertheless, when it comes time to sell or transition another doctor into the practice, strong emotional attachments very similar to the parent-child relationship begin to surface. To say the least, selling your practice—the one you've poured most of your adult years into building and nurturing—has facets to consider beyond just price and terms. There is a process to selling and transferring ownership of a privately held orthodontic practice successfully to a new owner. The process is not pain-free, but neither is giving birth—or so I am told.

## **Step 1: Gathering Knowledge and Strategic Planning**

Before the birth of our first child, my wife constantly referred to the book, *Knowing What to Expect When You're Expecting*. Gathering information and knowledge prior to a significant and expected life event brings comfort and some level of confidence in the outcome. When it comes to a practice transition, there are a number of questions that owner doctors will have and need to answer well in advance of the eventual practice sale. The most common questions are:

**Can I afford to retire?** This question is complex and will require an honest look at your current and expected spending needs. Communicating and discussing your financial reality with your spouse is important and a conversation that can take years to evolve and develop into an agreed-upon time line and plan. The help of a

financial planner, wealth manager, and your CPA is suggested.

***What will I do after the sale of my practice?*** Part of preparing to sell your practice is considering what you will do with the time available to you after the sale. The void of not having the responsibility of running the practice, of not having a place to go, of not feeling like you are contributing, of being “the orthodontist,” is real and needs to be considered.

Some doctors have a long list and eagerly anticipate this new reservoir of time to do something else, while some have great difficulty in the separation that takes place after they are no longer a practice owner. Thinking through what your daily life will look like after the initial 100 rounds of golf and traveling to various destinations is a necessary component to your planning.

***How long will I work with my buyer or partner?*** Planning how you choose to leave the practice is important. While the size of your practice and the skill set of your buyer will be part of this equation, some planning on how long you want to be with your staff and patients upon the entry of a new doctor is strongly suggested.

***Who can help me?*** The resources here are varied. Many doctors ask colleagues who have transitioned before them about their experience. The AAO can provide you with a list of transition companies to interview. There is an all-day transition conference the day before every AAO Annual Session that you can attend. Articles in industry publications are available for review. Take the time to get to know the materials, the language, and the methodology around the transition process. You can begin this review process years in advance.

## **Step 2: Practice Valuation**

After gathering information and doing some strategic planning about your eventual planned transition, a practice valuation is very often the next step in the process. A practice valuation will determine the current fair market value of your practice at a specific date in time and will serve various purposes for your planned practice sale, such as:

- Provide a financial planning number that you can plug into your retirement plan. This number will also aid in verifying the time line of when to sell, as you may decide you need to work longer in order to achieve your financial goals or see that you can accelerate your plan if the valuation price is obtained.
- Provide the basis around which a transition plan can be constructed with a purchaser. This will include the length of any preassociation time period and how much you will pay the new doctor during this time period, as well as any post-sale association you may have with the new doctor or his or her corporation.
- Serve as a trust document to deliver to potential candidates regarding the financial and operational truths of your practice. The valuation would only be delivered after a nondisclosure document is signed by the candidate.

In general, orthodontic valuations look back at the last 3 years and the current year of operational (new patient exams, starts, debands, referring patterns, etc) and financial data (production, collections, accounts receivable balances, contracts receivable balances, expense structure, etc) of your practice. In addition, the practice’s systems, fixed assets, real estate matters, demographic and competitive landscape, and practice history will be examined and explained in the report. In most cases, a representative of the valuation firm will be required to visit your practice in order for the valuation to be completed and signed by a credentialed valuator/appraiser.

## **Step 3: Finding a Buyer**

The third step for the selling practice is finding the buyer. In some instances, the buyer is located prior to the valuation and is therefore interchangeable with Step 2, the practice valuation.

The balance of buyers and sellers has been in favor of sellers for the last several years. One measure of the market

is to examine the registered buyers and seekers on the AAO's Practice Opportunities Online Service (POS), a free service to any AAO member. Data from the POS in May of this year showed 174 practices listing opportunities and 452 doctors registered as seekers.

This ratio of 2.6 seekers to opportunities is down from an average of 4.5 seekers to opportunities in 2009 and 2010, and 3.2 seekers to opportunities in 2011 and 2012, according to figures provided during these years by the POS. While not all of the opportunities were for practice sales (some were for associate opportunities with no sale of equity), they provide some indication of the market and generally coincide with what our company, Bentson Clark & Copple LLC, has observed over the recent years.

While still a seller's market, geography and the financial health of your practice are also key determining factors in how long it may take to locate a buyer for your practice. If you practice in a coastal area or in a metropolitan area with a population of more than 200,000, you will generally attract and find several candidates within a 6-month time period. Practice locations in more rural environments can take up to several years to locate a candidate.

Besides the POS, other sources for locating candidates include transition companies, practice consultants, alumni associations, vendor representatives, and program chairs.

After a candidate has been identified, verifying he or she has the appropriate licensure, can obtain any required financing, and can exit his or her current employment (if already out of his or her program) are also important next steps in the process.

#### **Step 4: Transition Negotiations**

With a qualified candidate and valuation in hand, the fourth step in the process is negotiating the transaction between the parties. Typically, the high-level deal points are drafted and presented in a terms sheet or letter of intent. This is a nonbinding document, typically between six to nine pages. The following list contains many of the elements discussed in the terms sheet:

- Parties: who is selling and who is buying.
- Anticipated Closing Date.
- What is being purchased: fixed assets, accounts receivable, orthodontic contracts, supplies, patient files, Goodwill (personal and corporate), and any excluded assets.
- Allocation of the purchase price: a summary of the items purchased with a value allocated to each item, which together equal the total purchase price. The asset allocation has a tax effect for both buyer and seller, and is reported to the IRS by both parties.
- Description of purchase price adjustments: describes how fluctuations in certain key financial metrics may affect the purchase price (eg, a change in the contracts receivable balance or purchases of fixed assets prior to closing).
- Payment terms.
- Earnest money deposit.
- Assumption of liabilities and contracts: discussion of how existing liabilities will be handled in the sale of the practice (for example: existing loans, accrued vacation, certain taxes, transfer fees, prepaid accounts).
- Treatment continuation and retreatment: discussion of how existing treatment and any requests for retreatment of the seller's patients will be handled.

- Transition assistance and announcements: discussion of the seller’s responsibilities in integrating the new doctor into the practice and community, as well as how the new doctor will be announced and how long the seller’s name and signage can be used.
- Seller’s postclosing employment arrangements.
- Real estate matters: discussion of the lease or purchase of real estate associated with the practice.
- Legal matters regarding the representations and warranties by the seller, indemnification, the nonbinding aspect of the document, and the confidentiality of the terms.
- Noncompetes and nonsolicitation of employees, patients, and referral sources.

Ultimately, both parties and their advisers will work through the deal points in the document and come to agreement. In addition to the terms sheet, a cash flow pro-forma is usually provided to both the buyer and seller illustrating the expected income, after taxes and debt service, for the proposed transaction.

### Step 5: Legal Documents

The final phase in the sales process is for an attorney to translate the agreed-upon terms to a set of definitive documents for execution by the parties. During this step, the six- to nine-page terms sheet expands to 20 to possibly more than 100 pages of legal documents. Both parties should have the legal documents reviewed by their attorney, but if Step 4 has been handled well, there should be no surprises in this larger document set.

The closing can typically occur with both parties signing the definitive agreements and faxing the appropriate documents to their respective attorneys and the buyer’s lender (if applicable).

Selling your practice is an event that is inevitable for most doctor owners. The five steps outlined will help guide you through the process. It is important to start your information gathering and strategic planning well in advance of your planned transition. It can take some time to gather the necessary information for a formal practice valuation. (Allowing 90 days is usually quite adequate.)

The time required for finding a buyer will also vary greatly based on your practice’s location and other factors, and working through transition terms can often take several months. Selling your practice is a process, and ultimately, the goal is to find a doctor who appreciates the beauty of “your baby.” **OP**



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