

**FOR DENTISTS SEEKING TO MAXIMISE THE
VALUE OF THEIR PRACTICE AT SALE TIME**

Unlocking Your Dental Practice Exit Strategies



**A plain English guide to creating the perfect
Dental Practice Exit Strategies**

JAN GRAY

Australia's Most Trusted Authority on Dental

Practice Preparation, Sales, & Patient Management

Unlocking Your Dental Practice Exit Strategies

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Dedication

Harry Craven BDS Adelaide

This book is dedicated to my late friend Harry Craven BDS, an Adelaide dentist with so much foresight, kindness, and generosity. He created unique and obscure surgeries in outback Australia, and gave me the task to find people capable of continuing with his dream. Sadly, and suddenly, he was taken from us before the dream was realised.

Harry, luckily you had the foresight to have both a Plan A and Plan B. It wasn't perfect but it worked in the time we had.

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Foreword

First things first. Thank you for opening this book, and taking the time to consider *Unlocking Your Dental Practice Exit Strategies*. Hopefully it will help you make some good decisions that will make life easier when the time comes to sell the most precious asset you have.

I have endeavoured to write this account in such a way as if we were sitting down discussing this subject. Over the past 40 years I've discovered most people like complicated things to be explained in plain English, or as some would put it: "I just want milk that tastes like milk".

At some stage, you will want to sell your practice and move on. Unfortunately, this part of the process can become hellishly difficult, complicated and confusing. How then do we do it? Well, friend, like dancing through the minefield, it ain't easy" but it is possible, especially with me as choreographer.

Introduction

Remember when you were starting your business? If you're like most of us, odds are you didn't know exactly what you were doing all the time, and had to learn "on the job". Yeah, it was probably fun, but you may have also said to yourself: "If only I knew then what I know now..."

That's exactly what you don't want to have to say after you've sold your business. By not properly preparing your exit, you may leave yourself open to all sorts of unpleasant scenarios: unforeseen selling or succession issues, paying more tax than necessary, issues with your family or employees, and future plans falling apart. Once you sign on the dotted line, there's no going back.

However, tackling the exit planning process early puts you in control of the timing, increases your options, improves transition outcomes, and allows you to reap the rewards you deserve. All of these are tangible benefits that improve your personal and professional life now, and into the future.

Chapter 1

Definition of ‘business exit strategy’

Common exit strategies for selling a dental practice

Investopedia 2017 defines ‘business exit strategy’ as:

An entrepreneur’s strategic plan to sell his or her investment in a company he or she founded. An exit strategy gives a business owner a way to reduce or eliminate his or her stake in the business and, if the business is successful, make a substantial profit. If the business is not successful, an exit strategy enables the entrepreneur to limit losses.

Common exit strategy options for selling a dental practice

In today’s business world, all planning documents carry a precise exit plan that outlines your most likely exit strategy from day one. Go to any bank and ask for a loan against the business, and you can be sure they’ll drill down until they find the exit chapter of the application.

You might ask: why do it now? Why this soon? Simply put, your exit plans need to be clear in your mind because it will affect how you run the practice, that is to say whether or not you take the long-term view of things. It is also the smart way of protecting the principals and the business against unforeseen difficulties.

For example, if you plan to get listed on the stock market, you’ll want to follow certain accounting regulations from day one that would otherwise be non-essential and potentially cost

prohibitive, especially if your ambitions are to quickly sell the practice to a more established competitor in your industry.

If you plan to pass the business to your children, you'll need to start training them and get them invested in the company from an early age. Here's a look at some of the available strategies for principals who want to build a business exit plan into their early planning process:

Selling outright

This is the easiest method of exit from a dental practice. In most cases the buyer would expect a de-risking period of six to twenty-four months. Alternatively, you can "take the money and run". You may also negotiate to leave funds in the buying company, allowing you to earn interest afterwards. So it is obviously in your interests to ensure your practice is a good fit for the buyer, and therefore more likely to prosper.

Sell your shares

This works particularly well in dental and medical practices that are partnerships. When you are ready to retire, you can sell your equity to the existing partners, or to a new employee who is eligible for partnership. In this way you leave the practice cleanly, as well as gaining the earnings from the sale. This process can be initiated up to five years out from sale.

Merge

Sometimes, two practices can create more value as one entity. If you believe such an opportunity exists for your practice as a business exit plan, then a merger may be your best option. If you're looking to leave entirely, then the merger would

certainly call for the principal of the other involved practice to stay on and take over the newly formed entity. If you don't want to relinquish all involvement, then you can consider staying on in an advisory role.

Be acquired by a corporate

At present many, in the corporate world would like a piece of a dental or medical practice. Why? Because they are usually stable and trusted revenue streams that offer more money up front to buy the practice, but impose some heavy penalties if things don't go to plan. In nearly every case I have been involved in, the principal has reconsidered this move somewhere down the track ... and regretted it.

The initial up-front offer may be fantastic. Nevertheless, what you lose by way of freedom, income, and penalties if things go pear-shaped can be dramatic. In extreme cases, some principals have walked away and given back substantial amounts of money for the privilege. One also needs to consider the new culture that may include key performance indicators (KPIs) and other governance tools you may have not employed under your ownership.

Corporate acquisition is weighted heavily towards corporate buyers because their intention is usually to go public once they have the required practices. Other companies might want to acquire your business, and keep its value for themselves.

By making sure the offered price meshes with your business valuation, you may even seek to cultivate potential purchases by courting companies you think would benefit from such a deal. If you choose your purchaser wisely, the value of your business can far exceed what you might otherwise earn.

Liquidate

This means you sell everything at market value and use the revenue to pay off remaining debt. This is a simple approach, but also likely to reap the least revenue of any business exit plan. Since you are simply matching your assets with buyers, you probably will be eager to sell and therefore be at a disadvantage when negotiating. I have only seen this option used where the practice is basically worthless, or in small town where the retiring dentist just wants out.

Chapter 2

Why?

The practice readiness/exit plan is not thoroughly complete... It's that simple!

In this chapter, I would like to offer you some valuable insights from my team that in some cases has helped ensure top value and a successful exit strategy on the principal's terms.

What exactly is practice readiness/exit planning?

You know how to start a Practice – you've done it. You know how to run a practice – you're still doing it. But do you have any idea how to leave a business? Because most of us don't.

In fact, leaving a business is a subject that's ignored until it can be ignored no longer. And if you're a "baby boomer" then this information is even more relevant!

Practice readiness/exit planning is the strategic process that helps you successfully transition out of your business, on your terms, while allowing you to reap maximum rewards for the time and effort you've invested over the years. It's a comprehensive approach to optimising the value of your practice while preparing well in advance for the personal, corporate, legal, financial, and tax considerations of saying goodbye to it, and hello to the next adventure in your life.

Practice readiness/exit planning aligns with your personal and corporate realities to create a plan that gets you as close as possible to realising your ideal outcome. It also leaves as little to chance as possible by building in contingencies to help you

deal with the unexpected. This is known as reverse due diligence, and we will cover it in a later chapter.

Important statistics: baby boomer entrepreneurs will retire in record numbers

It is predicted that over 75 percent of baby boomer owners – the ones that currently own 65 per cent of small businesses – plan to transition out in the next decade. This mass exodus is the natural result of the largest generation in history reaching retirement age.

However, this mass exodus will likely occur in a more compressed timeframe because many have already delayed selling their businesses due to the 2008-2009 recession and stock market plunge volatility which we are only coming out of now. The result will be a flood of businesses hitting the market at once.

The question is, therefore, will there be enough buyers and capital to purchase these businesses (and that includes our dental practices)? The answer: NOT LIKELY! We all know what happens when supply outstrips demand: prices fall and marginal businesses don't sell. So only the best and most well-prepared practices in their class will achieve a successful outcome.

Most small practices are not saleable

Research indicates that 90 percent of practice owners are depending on the proceeds of their businesses for retirement security, but fewer than 10 percent of those same business owners have a formal practice readiness/exit plan in place. According to the US Small Business Administration and the International Business Brokers Association, over 80 percent

of general businesses aren't saleable because owners haven't addressed critical flaws or prepared properly. (We call that business or practice readiness/exit planning!) Nine out of ten principals need to get top dollar for their businesses, but only one in ten has a plan in place to achieve that. They are facing a critical process that will affect the rest of their lives, and most have little idea what their practice is worth, or even if they're saleable in their present state.

Most former practice and business owners wish they had prepared better

Price Waterhouse Coopers interviewed over 300 business owners who had sold or exited their businesses within the previous 12 months. Surprisingly, 75 percent regretted their decision to leave and only five per cent were happy with their net proceeds.

Why?

Some thought they might have left money on the table. Others worried that their timing had been off, that they should perhaps have exited earlier, or maybe even held on longer. A third group reported not understanding their options, or not employing the right advisors.

Chapter 3

Why Preparation Is Key

Preparation for sale assessment and action plan:

If you want to succeed in selling your practice, being thoroughly prepared is essential. All it takes is one seemingly insignificant or overlooked item to kill a deal. Conversely, when you've anticipated every detail and prepared well, the deal usually goes smoothly and you ultimately increase both business value and the speed of the selling process. It works like magic, and it's one of the smartest investments a practice owner can make to ensure a successful and lucrative sales transaction, regardless of whether it's a dental practice or a bakery.

Chapter 4

The Hidden Benefits of Early Preparation:

You may be surprised by the multitude of hidden benefits derived from timely preparation for sale. The process of analysing the value, viability, and saleability of your business from the perspective of a potential purchaser or successor will likely change the way you look at it.

For many owners, that analysis is the wake-up call they need to transition from an owner-centred operation into a more autonomous and saleable enterprise. By following proper advice, not only will you increase the value of your practice, but you'll probably have more time to spend doing things you haven't previously had time to enjoy! By starting early, understanding the factors that create business value, and designing your business to be as attractive and business ready as possible, you can be one of the fortunate few who exit successfully.

You'll join an exclusive club of practice owners who aren't prepared to settle for what the economy, the market, or fate throws their way. You'll have taken charge of your business and your future in a way that will allow you to earn more, keep more, and cash out of the practice that you've built, and on your terms.

Chapter 5

Thinking of selling your practice?

Selling a practice or any business for that matter really is a big deal. It's far more complex than most owners realize, which is why roughly 85 per cent of business owners won't succeed, and even if they are successful, 75 per cent will be unhappy with the result. So how do you beat these dismal odds?

The key to success is the right plan, executed with plenty of time in reserve to implement the strategies required to increase value, selling potential, and ultimately the net proceeds you earn. In some cases, we have worked with the principal for up to five years in advance of sale.

So, what are those strategies?

I call them practice readiness/exit planning. A well-crafted exit plan is your playbook to reap maximum benefit from the hard work and risks you took to build your practice. It's effectively a comprehensive business exit plan, much like the one you had when you started your business, but this ensures that you'll be able to leave on your terms with as much return as possible.

The key to success lies in planning and preparation. You can never start too early, and the more prepared you are to exit, the better. Experts say you should begin your exit plan the day you start your business, and that's true. If you don't already have a practice readiness/exit plan, you'll want to begin preparations at least two or three or (ideally) five years before putting your business up for sale.

You'll also want to add six to 12 months to that time frame, which is typically how long it takes to find the right buyer and get the deal done. I know we can sell a practice in as little as a couple of months, but we are planning for every conceivable scenario here.

Chapter 6

When should you sell your practice?

You'll reap maximum returns on the sale of your business when planning, preparation and timing all come together. Assuming you've left sufficient time for all the financial, tax and strategic preparations involved in enhancing the value, saleability and net proceeds of your business, there are three all-important factors that determine the right time to sell: personal timing; business timing; and market timing.

Personal Timing

This is all about you. Do you still have the drive and energy to take your business to the next level? How's your health and vitality? Does a new business challenge still get you fired up, or would you rather be spending more time away from the business and enjoying the fruits of your labour? If you're simply not into your practice the way you used to be, for whatever reason, it's probably time to think about letting it go before its viability starts to decline.

Here's an excerpt from a Forbes story by Kate Harrison, contributor, with permission.

Which do I have more of: passion or exhaustion?

People who are thinking about starting their own businesses often ask me what I feel is the single most important thing they need to be successful. I always answer "passion." When you are involved and invested in a start up, you will need to spend so much time and energy on your project that if you do not really care about it, you will simply not be able to sustain yourself through the work that it requires.

I have always cared deeply about the environment and created a company dedicated to helping people decrease their impact on the planet. My desire to create change fuelled me for four long, exhilarating, exhausting years. Along the way I sacrificed money, personal time, and family time, but I for most of that time, I did not feel a moment of regret.

Then one day recently I woke up and realized I was just tired. I was burnt out and even a weeklong vacation without my computer did not revive me. My scale had finally tipped from passion to exhaustion. If you are tired and cannot revive yourself, it might be time to find a new principal or make the difficult decision to sell.

I cannot really add much more to this. It tells the complete story. I speak with so many principals at this point of the cross roads and it normally is the beginning of the end for them.

I think it is also wise to consider the possibility of sudden ill health. I was recently involved in a sale of a practice in which the principal suddenly became very unwell, and didn't have a practice readiness/exit plan in place, or the time to create a "Plan B". Consequently, that practice sold for less than half its value, purely because of the timing.

Business Timing

This is about where your practice is in its life cycle. Most businesses experience cycles of growth, plateaus and decline. Are you still seeing revenue and profit growth, or have revenues plateaued or even dropped? Similarly, where's your practice relative to the market potential? Is it full of fresh new opportunities, or is the industry saturated, hyper-competitive, and declining?

It's best to sell a business while you're still going strong, and growth and profits are still steeply curved upwards. Don't wait too long because buyers simply won't pay as much for a business that has flat or declining profits.

Market Timing

This is a tricky one. You'll want to look at the economy, financial markets, and the pool of potential buyers to determine if the markets are in an upswing or downswing.

It's sometimes tough to gauge, but it's always best to sell in a market upswing. I guess in the dental industry we are a little insulated in the fact our market is reasonably stable. Having said that, we need to make sure our practice readiness/exit planning is always current.

FACT: THERE ARE 5,600 DENTISTS UNEMPLOYED IN AUSTRALIA AS AT JANUARY 2017.

To summarise, the ideal time to sell your practice is while it's still growing, before your enthusiasm fades, and early in an economic cycle when your health is good. Is that easy to do? No. But being fully aware of the factors you can control and being ready — when the time is right — can make a huge difference to your net proceeds.

Every owner also needs to be aware of the anticipated mass exodus of baby boomers. As this demographic — that owns 65 per cent of small businesses — begins to exit in record numbers, experts predict a buyer's market with only the best and well-prepared businesses in their class holding their value.

Smart owners are preparing now, so that they can take full advantage of optimal timing while ensuring their businesses

are well positioned for a successful sale in any circumstance that may present.

Want Maximum Value for Your Business?

Maximizing the value, selling price and net proceeds from the sale of your business requires planning and foresight. It also typically takes time to implement value enhancements, saleability preparation, and tax minimisation strategies.

That is why it is imperative to have an ongoing practice readiness/exit planning strategy in place always. It's the cheapest insurance policy you will ever invest in.

Chapter 7

Do you know the answers to these 10 questions?

1. What your practice is currently worth?
2. How saleable or attractive it is?
3. What are the most critical value drivers for your practice?
4. What type of buyer would most likely be interested in buying your practice: private or corporate?
5. Do you have a potential partner or investor?
6. How can you make your business as attractive as possible to them?
7. What changes you need to make to get maximum value?
8. How much tax would you pay if you sold?
9. What strategies would minimize the taxes you'll have to pay when you do sell?
10. Do you have any idea of the net figure you would be left with after the sale?

These are just a few of the questions you'll need to answer before you can put a strategic plan in place to maximize your practice's selling potential, value and net proceeds.

Practice readiness/exit planning deals with all these questions and more, to ensure the best possible outcome from your hard work as a practice owner. Many principal owners aren't aware that the value of a business is largely based on its performance in the three years preceding sale. That means the ultimate benefits you reap from the sale of your business will be driven by your efforts to maximize its performance and profits immediately prior to sale.

If your compensation is based on a multiple of your business profits or earnings before interest, taxes and amortisation (EBITA) every extra dollar of profit comes back to you many times over when you sell. This means as you approach the end of your business ownership marathon, you'll need to pick up the pace rather than slow down. Sure, that requires additional focus and tenacity, but the extra commitment will pay huge dividends!

Chapter 8

How do you ensure success?

The correlation between the number of business owners who achieve success in selling their businesses (less than 10 per cent), the number of business owners who have a formal exit plan in place (about 10 per cent), and the difference in attractiveness, saleability, value and net proceeds for those strategically prepared businesses is often huge.

Which group would you like to be in?

If the biggest regret of most business owners who have successfully sold their businesses is that they wish they had been better prepared, imagine the regret of those who have to sell their businesses at huge discount, or at all.

Following a structured practice readiness/exit planning process is the smartest investment of time and effort that any practice owner can make. Not only will it pay huge dividends in the value and transferability of your practice, but you'll also sleep better knowing that you've done everything possible to ensure your full and just returns

As I have stated earlier, if you want to succeed in selling your practice, being thoroughly prepared is essential. All it takes is one seemingly insignificant or overlooked item to kill a deal. Conversely, when you've anticipated every detail and prepared well, the deal will go smoothly and you will ultimately increase both business value and the speed of the sales process. It works like magic, and it's one of the smartest investments a business owner can make to ensure a successful and lucrative sales transaction.

Chapter 9

Top nine value enhancement insights

Enhancing the value of your business can be accomplished in many ways. The most strategic approach is to assess your specific practice and its unique value drivers against tried and true principles of value.

In the case of JT Gray & Associates, we use reverse due diligence, and a comprehensive information memorandum to create a bullet-proof practice readiness/exit plan which ensures premium value is recognised, and that there will be no mistakes or surprises down the track.

While there are core business value factors that apply across the board, dental and medical practices are a sufficiently apart from the mainstream as to require a more comprehensive approach to selling.

The top nine value enhancement insights

1. Grow revenues and profits
2. Have a proven and repeatable business development process
3. Diversify your customer base
4. Reduce your practice reliance on one or a few key people—especially you
5. Document your business systems and procedures fully
6. Find the waste in your operations every business has them
7. Reduce supplier dependence
8. Eliminate unnecessary or obsolete inventory and equipment

9. Get your books and records in order

Top nine preparations for sale strategies

Our first recommendation in preparing your business for sale is to think about the Top 10 Value Enhancement Insights. Assuming you've already done that, here are nine additional tips that will help you achieve the best results when it comes time to sell.

1. Complete reverse Due Diligence
2. Build a saleable practice
3. Choose the right team
4. Get your books and records in order
5. Thoroughly prepare for sale
6. Set the right price
7. Have a professional marketing presentation and a comprehensive Information Memorandum
8. Aim for confidentiality
9. Should you try to sell it yourself

Chapter 10

What is Reverse Due Diligence?

Investopedia – What does Reverse Due Diligence mean?

Reverse due diligence can also be called “vendor due diligence”, “sell-side due diligence” or “seller due diligence”. It refers to when a company performs due diligence on itself to assess its readiness for sale before being presented to prospective buyers. This ‘self’ due diligence is usually performed by a third party on behalf of the company.

Reverse due diligence can also refer to when a seller performs an analysis of a potential buyer to assess their ability to close the transaction and if they are suitable partners/investors/buyers. Just as potential buyers conduct careful evaluations of a selling firm and a target company’s operations, selling firms also initiate due diligence for potential buyers and offers.

Investopedia explains Reverse Due Diligence

Reverse due diligence, in the context of internal due diligence of the seller prior to a divestiture, would include quality of earnings, quality of assets, tax due diligence, commercial due diligence and operational due diligence.

Vendor due diligence usually will not reduce the due diligence requirements or procedures of a prospective buyer. It may however, increase the efficiency of the buyer’s due diligence if all information required is organised, and more easily accessible.

Reverse due diligence, by contrast, is used to assist the selling firm in making strategic and informed decisions regarding the selection of prospective buyers, partners or investors. Reverse due diligence is important in situations when a seller is retaining a portion of its equity or receiving contingent or share consideration as part of the purchase price.

In the context of due diligence on a would-be acquirer, the selling company would assess the strength of the acquirer's balance sheet and the strategic plans for the target post-acquisition.

Chapter 11

Build a saleable practice:

Easier said than done

We know you have been building this asset for many years and we know its running like a Swiss clock as far as you are concerned, but there are so many little points that get overlooked by practice owners and practice managers.

A classic example if a buyer was to ask what your patient return rate was, can you answer that question straight off the bat. I can tell you now so many principals have concentrated on acquiring new business they forget about this issue.

I had a case recently the practice was over 40 years old, the principal had over 25,000 patients on Dental 4 Windows yet he was about to embark on an advertising programme informing the local community of their new opening hours and enhanced services, the surgery was at 45 per cent daily capacity so there was plenty room to move.

We completed a practice readiness programme and looked at what we had in front of us and where we could make some inexpensive changes that would produce greater revenue and activity for the sometimes-idle dentists.

Cut a long story short!

We employed a contract telemarketer and set about fixing this major oversight before we bothered going any further, this was top priority that would make a difference of upwards of \$500,000 – \$700,000 increased revenue, we had the capacity

to absorb the extra work and the contracted dentists were excited for the increased fees as well.

We gave the telemarketer a script which basically told the patient we wanted to update our files and stay closer in future. Lo and behold, they were totally behind us, so there was no problem in receiving all the information we asked for. In fact, we found that we also started filling the appointment book up again because people just needed that little prod to remind them.

So over the next few weeks we:

- Updated all the files and inputted missing email address change of address and so on
- Created a basic monthly newsletter template to be emailed to patients and surprisingly we received 85 per cent acceptance rate
- Cleaned out all the inactive files of people that had moved on for whatever reason; and
- Set about planning future campaigns to engage the patient base more actively with the surgery.

Amazingly, we received a great many referrals and updated details on family members without even having to ask for them. Another interesting point is that this whole process cost less than \$10,000 but still yielded \$275,000 in increased revenue over the ensuing six months. And with that, the principal and his staff were energised to ensure the practice's sale price would be significantly greater. So, the take-home from all of this is: **COMPLACENCY CAN COST YOU A FORTUNE!!!**

Chapter 12

Choose the right team:

Heaps of people ask me: how do I build the perfect team? I always respond: “When you figure it out let me know.” I have found over the years that this problem is “the most talked about” subject in dental practice ownership. Those who have created the near-perfect team have all told me it’s taken many years and lots of money.

It’s nearly impossible to recruit a staff of 15 people from scratch and expect them to all get along perfectly. But if everyone is committed, and understand what is expected of them, you will find that the task of team building will go all the more smoothly.

Chapter 13

Get your books and records in order

Technology abounds in contemporary dental practices, and with the introduction of applications like Dental 4 Windows managing your practice can be made much less problematic. When I am looking at the financials, I want to be able to gauge exactly what's going on within the practice. It makes life so much easier when the state of the practice is conveyed by the P&L and balance sheet. If it isn't, a sale can be lost in a flash.

The interesting point here is that dental practice financials are traditionally laid out in a different format to other businesses which can make life difficult if the accountant is unaware of this. Consequently, it may be worthwhile to seek out an accountant who specialises in dental practices.

Chapter 14

Thoroughly prepare for sale.

Ninety-nine per cent of sales failures are caused by insignificant issues that have been overlooked because reverse due diligence was not undertaken. I have been down this path frequently.

In my experience, if a principal who owns a practice worth a nominal \$750,000 takes into account quotation costs, accountant's and, solicitor's fees, broker preparation and success fees including an exit plan, a readiness plan, and full reverse due diligence, they could reasonably expect to dispose of the practice for \$850,000, \$100,000 more than expected.

Chapter 15

Set the right price

As they say, “it’s only worth what someone will pay”. There are many ways to value a practice. I have seen \$200,000 variance in the valuation of the same practice by three different brokers. And if a corporate buyer is in play you can potentially add another \$200,000 on top. So how who should you believe?

When dealing with a corporate you will need to consider all associated contingences, and make sure you are fully informed of everything including why you need to have a third party or broker involved who understands how the corporate can operate to your benefit.

If it was me, I would also refer you to some parties that have successfully sold to that corporate and ask what their experience was in relation to their tenure. I would want to speak to at least three or four principals to get a balanced picture. I would also want to fully understand how their valuation was achieved, and would request a breakdown to be provided. Finally, I would want to understand how long the offer on the table is valid for, and perhaps test the waters in the private field as well.

If you are selling to private, then things are little more confusing. Banks tend to use a multiple of EBITDA and from there the four main players in the dental/medical lending field have different ways to come up with their valuations. In general, however, they tend to be close to the same result, and considering they will lend up to 90 per cent of the purchase price, their values will have some comfort built in for them

I think in general this process is tough to understand because there can be huge variations from case-to-case. I have seen two principals fighting over a practice that should have sold for \$450,000 but the owner ended up accepting \$625,000. The surgery was nothing flash, the patient base was good, but more importantly, the location was prime. Never underestimate the real estate factor.

Chapter 16

Have a comprehensive information memorandum and professional marketing presentation

I get told all the time that our memorandum is the most comprehensive in Australia, and in some cases provides too much information. Regardless of that, it is imperative that this document projects a positive image of your practice that will stand boldly, front and centre in the reader's mind. Believe me, they will appreciate how well prepared you appear to be.

Then there is marketing. We live in a country with around 8,000 dental practices, so there are only ever so many for sale at any given time. Likewise, there are also only about 17,000 practicing dentists in Australia, and only a few of them are actively seeking to purchase a practice. So, would you not think that the six or so dedicated brokers in the dental field would have the same buyers in their data base? I always make it a point to ask buyers who else they are talking with, and then proceed to confidentiality forms.

An interesting story

Some time back I was approached by a principal wishing to sell his share of a practice. We talked on the phone for some time, and he requested I send him my proposal and a quotation. Two weeks later he called me back to say he had engaged the services of another larger broker, and had signed an exclusive for 90 days.

I asked why he had done so, and he told me my web site didn't rank on the front pages of Google, and that my presentation was too complicated.

I wished him well and said I would be happy to speak with him again if he didn't sell with the other broker. Ninety-one days later, he called me back and asked if I was happy to help him sell his share of the practice. I sent him my information again and sold that practice in less than two weeks. Interestingly, nobody bothered to ask the partner if he wanted to buy. Sometimes it's right in front of you ...

Chapter 17

Aim for confidentiality

My marketing campaigns are a little different to other brokers in this field. I reckon if you're going to sell your practice, let everyone in the dental industry know, but don't tell them who *you are* just yet.

Let's assume that I have offered this practice to those in my database who have been vetted, and that I have notes on what they are looking for and where, but none of them fit. We therefore proceed to plan B: offer it to everybody. Our database has 15,000 dentists and 7,800 personal email addresses of principals in Australia. Consequently, there's a fair chance someone will respond.

Our first port of call is other dentists in the area who may have suggested they want to expand. This is great for business, and if I call now in certain areas, they will know someone is selling. We still need to ensure that our due diligence on the buyer is sound, and that we keep confidential information to a minimum until things get more serious.

My experience tells me that most principals looking to expand are pretty serious because half the time we arrange the finance as well as brokering the sale. Even so, some people are offended when asked to complete the confidentiality forms. They should to be weeded out very quickly.

Chapter 18

Should I try to sell it myself?

Some time back, I was talking with a practice owner who was adamant he could sell his practice faster and better than any business broker, and that he would therefore save all associated costs. That was seven months ago, and funnily enough I got a call just the other week asking if I had any candidates looking to buy a practice in or near his post code.

We had a conversation that lasted about 20 minutes. It turned out he'd had 60 contacts regarding his surgery, and all were very keen to get more information which he gladly provided. He had a number of prospective buyers visit the practice, and spent many hours with what he called "tyre-kickers" who wasted his time with nonsensical propositions. Can you guess what happened?

Because he didn't complete due diligence on the candidates or get confidentiality agreements signed, one of these "tyre-kickers" set up a new surgery less than 300 metres away in the same street, offering patients great deals to try out "the new kid in town". This individual has been losing almost \$5,000 per week in revenue over the last four months, but still can't figure out why!

When he went to market, his was the only practice within a 27-kilometre radius. It boasted a large patient base, as well as 23,000 residents in the post code. He wanted to save about \$63,000 on a deal worth approximately \$950,000. His practice had been operating for 15 years, and this was to be his retirement nest egg. Now, because of poor judgement, the practice has fallen in value by at least \$250,000, notwithstanding the \$63,000 saving.

Points to consider when you're deciding if it's worth the risk to sell

1. It's not all about the money!
2. Staff can become unsettled, and leave.
3. Patients can learn of the sale and go elsewhere.
4. Insecurity leads to havoc and chaos.
5. Buyers know it's easy to unsettle a private seller who is emotionally too close to the practice.
6. Revenue can suffer because of the time dedicated to selling rather than practicing dentistry.
7. The target price is almost never achieved. I do not know of one private sale where the target price was achieved and this is because there are too many "others" involved: accountants, solicitors, finance brokers, banks, partners, spouses, all having input.

I finally asked this individual the question: "What do you want me to do?" He replied: "Get me what you can!"

Like other practice sales professionals, I have pre-qualified buyers looking all around the country at any given time. We understand confidentiality, and all the steps and hurdles including the emotional drain involved in selling a practice.

I can assure you it's worth the money for you to keep doing what you are good at and let me keep doing what I am good at.

Chapter 19

Managing emotions

Out-of-control emotions can cause the death of a sale very quickly. Selling a practice, you have spent much of your life building is not easy. But for many principals, the hardest part isn't preparing the business for sale, or finding the right time to exit.

Over time, you have developed a personal connection to your surgery, and it has become an intrinsic part of who you are. Consequently, separating yourself from the practice can be emotionally traumatic. And if those emotions are not dealt with, they can have a real financial impact on the outcome of your practice sale, to say nothing of your peace of mind. Feelings of anger and defensiveness can alienate prospective buyers and affect the conditions of sale.

As much as possible, you need to find ways to remain objective, creating space between your emotions and your decision-making routines before, during and after the sale. For the prospective buyer, it's part of the game to upset the owner, beat them down, show who's in charge, tell them it's not worth the money, and insult them. I have had people offer less than half of the asking price because they have found one small thing with which they can berate the owner. This is where the quality of your team comes into play.

They're there to defend you and your assets, to stand up to these bullies, and to have the guts to tell that buyer to move on and find something more in their price range. I have no problem in doing this, and I have learnt that you give them back what they deliver they will usually back off. If and when they return, it will be on your terms.

Before we start the sale process

We now know that it's imperative that we incorporate emotions management in our comprehensive exit strategy, long before you are ready to put your practice up for sale. By planning your exit in advance, you will be more emotionally prepared for the transition when it occurs. Your family members should also be involved in the exit planning process since the practice has likely been a major part of their lives as well.

At some point in the exit planning process, you will need to seriously consider what you will do after the sale has been finalised. Sellers who lack a solid plan for the next stage of life find it difficult to let go of their businesses and are more likely to allow personal emotions to unduly influence the process.

During the Sale

During the sale process, it's critical to remain focused on operating your practice and to let the team you have employed do what they are getting paid for. The added benefit of outsourcing this task is that the team brings objectivity to the process so that interactions with prospective buyers are based on facts, not emotions.

It can also be useful to consult with your peers during this process. Talk with a trusted friend who may have been through something similar and seek their advice about what they experienced during the sale of their businesses. They don't have to be a dentist, either.

Also, you should think carefully about what role you may be willing to play during the transition of your business to a new

owner. Many buyers desire that the previous owner remain with the business, on a consulting basis, for three to six months after the transaction, to help ease the transition. Make sure that you're emotionally prepared to play this role in a professional manner. It is important to recognize that key decisions will no longer be your own, and that you may not agree with all the changes the new owner is making.

After the Sale

Once they finally have time to reflect, sellers can feel a sense of loss, especially if they developed close friendships with their employees. This is called “seller remorse”, and it needs to be addressed. If you have trouble letting go, it's not a good idea to check in on the practice after the sale has been completed. Similarly, try to avoid talking about the business with your former employees in social situations since little good can come from second-guessing the new owner in front of current employees. Although the emotions you may be feeling are real, the bottom line is that you have moved on. Look forward, not behind.

Chapter 20

Hire a skilled negotiator

Can a practice be sold without using a business broker? The answer, obviously, is yes. But sellers hire brokers because they believe the broker will do a better job than they would. Selling a practice requires a different skill-set to running one.

Key functions of a broker

Business valuation

Fair market value is what a willing buyer will pay a willing seller, period. The dental industry is unique, therefore the brokers in this field need to be at the top of their game. A non-specialist business broker can't possibly know what fair market value is for a practice without having industry knowledge. An informed broker will know the value based on experience, and work with local valuation experts to assist in the process.

Confidentiality

Brokers protect the seller and buyer in every possible way, even though the selling process requires the sharing of information. Using a good broker is the optimal way to ensure confidentiality.

Packaging and marketing

Dedicated industry brokers have expertise and know what makes a practice attractive to a buyer. They can therefore identify strong selling points for each surgery, which a seller might not have considered. After all, selling a practice is just

that... Selling! Packaging and marketing are critical to the successful sale of a dental surgery

Finding prospective buyers

Dedicated industry brokers should be constantly marketing to buyers through websites, direct mail, phone solicitation, and networking. This results in a large database of interested buyers.

Buyer qualification

All good brokers screen prospective buyers in several ways. They obtain documents such as credit reports and financial statements, as well as interview buyers regarding their credentials and experience. Sellers do not want to waste time with buyers who may not have the necessary experience or who are not serious.

Consultation

A dedicated broker works with owners throughout the process regarding all aspects of the sale, including the terms of sale, financing issues, non-compete and other contract issues, customer retention, and whatever else is needed to make the process run smoothly.

Negotiations

Brokers provide important third-party negotiation skills to ensure that the deal gets done under terms that are satisfactory. This is one of the most underappreciated aspects of what a good broker provides, and could fill an entire book of its own.

Financing

Successful brokers have access and expertise in obtaining financing for the buyer so that the seller can receive cash at the close if the business and buyer qualify. In my case I refer the buyer to our lenders to get pre-approval based on their current situation. A broker can also provide guidance and valuable experience regarding seller financing issues when necessary.

Large list of current buyers

It's simple economics. Sellers can't get the best deal from one or two potential buyers they met at an industry seminar. The larger the pool of potential buyers, the better the chance of getting not only the right price and terms, but the best fit for your clients and staff.

There is a reason some brokers successfully sell many businesses each year, while others don't. Some work hard and produce results while others merely list businesses and wait. Selling a dental practice is not a simple process. It's a complex, legally binding transaction with potential repercussions far into the future.

I hope the information in these pages has given you an insight into the process of practice preparation and why it's so important to look at every angle in this extremely complex process that precedes the biggest decision you may ever make.

If you would like to discuss this subject or any issues relating to practice preparation, practice sales or patient retention, and recall effectiveness personally, I would be happy to talk with you. Please contact my office jan@jtgrayassociates.com.au



Back page

Happy and contented in your practice you may be, but one day it will occur to you that it's time to sell-up and move on. As Jan Gray explains in this highly informative guide to selling a dental practice, when that day comes you won't know what hit you – unless you're prepared. From making the decision to get out, through formulating a sales strategy, exercising due diligence, managing your emotions, and hiring a broker, *Unlocking Your Dental Practice Exit Strategies* provides invaluable insights into the complex and fraught process of selling your practice.

About the author

Jan Gray was born in New Zealand and has over 40 years' experience in various businesses including 25 years in corporate life assurance, import/export, IT, founded "The Drill Guys" dental handpiece repair equipment, and – is Australia's Most Trusted Authority on Dental Practice Preparation, Sales & Patient Management.

