

When to Sell for Peak Profit

You often hear people say that your practice won't be a significant part of your retirement assets. Unfortunately, many times that may be correct. Doctors often allow their practices to lose a significant portion of their value by waiting too long to sell. If the doctor recognizes that is happening and is ok with it, then so be it. Chances are, that doctor has determined he or she doesn't need the practice asset to contribute to their retirement comfort and security. Many doctors, however, are not aware of the impact of waiting too long. They often are expecting the practice worth to contribute to their golden years, but fail to recognize how that worth may be compromised. So, if you are interested in maximizing the value of your practice upon sale, when should you make the move? When should you sell for peak profit?

Well, let's look at what makes up the value upon sale? The buyers want to know the following:

1. What is the practice grossing?
2. How profitable is it now and what is the profit history for the past three to five years?
3. How many new patients in the past year and how many active patients?
4. How long have the team members been with the practice and do they intend to stay?
5. What percent of the production is contributed by hygiene?
6. Is the lease favorable and assignable?
7. Is the office clean, modern and up to date?
8. Are there associate, partner or space sharing doctors?

In terms of significance, the profitability as a percent of the gross is numero uno. So the number one factor that dictates the best time to sell would be when the owner has great energy and focus on operating the practice efficiently and profitably. Many times we see situations where the doctor has lost energy, interest or become distracted and allowed the numbers to fall off. The percent of profit drops, the doctor cannot or doesn't want to pump up his effort to bring the profit back up and the value is diminished.

Sometimes the doctor has backed off on his marketing efforts and is riding along on the patients that came to the practice from years before. This is demonstrated by the new patient numbers falling off and a reduction in the active patient count. We will often hear excuses like, "the HMO's are taking all the patients these days" or "patients don't want quality care any more". Often, however, there is a practice right down the block that has an energetic, engaged doctor

with exemplary new patient numbers. The truth is that the complaining doctor either can't or won't compete in the current marketplace.

Team training and longevity is a measure of the leadership evident in the practice and reflects on the potential of the practice to retain patients upon sale. Much of the transferable goodwill is held in the relationships that exist between team members and patients. The doctor may leave, but the patients will stay to give the new doc a chance if they like the team. This is especially true of the relationships that exist with the hygienists. That is why the percentage of production that is contributed by hygiene is so significant. It is one of the best indicators of the value represented by the sale price. A practice may have big production numbers and not much hygiene. Such a practice stands to lose a bigger percentage of patients when the doctor leaves, hence, may sell for a lower multiple of net.

The terms and transferability of the lease to a buyer are important to consider when judging value. If the lease will not become significantly more expensive for the buyer during the term of the loan, he or she, can expect to realize higher profit from operations and therefore can afford to offer more to acquire the practice. If, on the other hand, the lease amount will rise, the value will be less.

If the office is compelling physically in appearance and style, in other words, if it has good curb appeal, it will attract a more aggressive buyer. Nearly all of the buyers today want to see a practice that has been kept current on technology. A sense that the office is up to date and modern will support a higher value.

The presence of additional dentists in and around the practice is a negative in the value equation. Buyers see associates, partners and space sharing doctors as competitors for the available goodwill of existing patients. They also feel that those doctors will be competing for the potential new patients. They may also believe that the team members may be influenced by doctors that have existing relationships in the office.

When do you sell for peak profit? In a perfect world the answer would be the following: When the selling doctor has great focus and energy that has allowed him or her to create a modern, profitable, well led practice that has good new patient flow, great team members, a lot of hygiene, no associates and a favorable lease. Why would you sell a practice like that? If you feel that you can't or don't desire to keep it going much longer and you want to maximize your asset.