

Seven Misconceptions Dentists Have About Selling Their Dental Practice

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Thomas & Fees Practice Sales

I'm always amazed how many misconceptions most dentists have about selling their dental practice, but I really shouldn't be. After all, most dentists have never sold a dental practice before, and no classes are offered on the subject. Most dentists depend on the rumors they hear from their buddies. And like all gossip, most is a collection of half truths. Let's talk about some of the misconceptions dentists have.

First is price. Years ago, you could sell a practice at one year's gross income. If you grossed \$400,000 per year, that would be the sales price. But the truth is, practices shouldn't even be evaluated on gross income, but rather true net income. True net is not necessarily what the tax return shows. To get the true net you must add to the bottom line additional items such as amortization, depreciation, owner benefits such as medical insurance, automobile expense, etc. Most appraisers use a multiplier of net income, approximately 1 ½ - 2 ½ times. If your true net income was \$100,000, then the approximate sales price would be \$150,000 - \$250,000. And here's another point, don't be suckered in by some fast talking salesman that promises an unrealistic price. I've seen this happen and the outcome can be gruesome. In one case, it took over a year to sell the practice and when it did, it was well below market. Another time, the inflated sales price was based on false practice numbers which ended up in a lawsuit.

Second, many dentists think they have to carry a note back. Actually, a full service dental Broker can almost always get the Seller 100% cash, unless the Seller specifically requests otherwise.

Third has to do with how long you'll have to stay in the practice once it's been sold. This is less predictable. The length of time your services will be required depends greatly on whether you are selling a general practice or a specialty practice such as orthodontics. In general, the general practitioner can shut the door on his way out, other than a brief consulting period in which the Seller usually stays in the background. The specialist usually has to stay 1-2 months. The length of stay also may be negotiable. The Buyer may want you to work one or two days a week.

Fourth, most dentists think they have to spend thousands of dollars to "fix up" the office before selling. This is not the case. It doesn't make sense to replace the carpeting, repaint the office or replace wallpaper when the new Buyer may not like your color scheme. In addition, don't buy new equipment - you'll never get your money out of it. However, it is a good idea to tidy up and make the office look neat and professional.

Fifth, it is a misconception the practice should sell in a month or two. The fact is that most practices take 5-6 months to sell. Even if a Buyer is procured within a couple of weeks, it takes 4-6 weeks to get a loan for the Buyer. Landlords are notorious for taking their sweet time to either assign an existing lease or present a new lease. It is also very important to check with your Broker whether or not to get a new lease prior to

listing your practice for sale. Do not automatically think you should sign a new lease.. And it takes time for your Broker to consult with accountants and lawyers for both Buyer and Seller to pull all the pieces together. An important transaction should be done carefully and professionally. All angles should be looked at before signing on the dotted line, including considerations to minimizing taxes for the Seller.

Sixth, I can sell the practice myself and save a commission. While this is true, so is the following story that actually happened to me. I had a patient come in and was very proud that he had “pulled” one of his own teeth. He went out of his way to show me how nicely the “gums” had healed. He told me he had saved \$250. I complimented him and told him I’d do him one better by taking an x-ray of the area for no charge. You guessed it – the radiograph showed half the root still remained. He ended up going to the oral surgeon and it cost him \$750. Why should selling a dental practice be any different. There are many considerations to deal with and unless you have sold a practice before and have a legal background, you may be looking at a future lawsuit.

Seventh, and most important is that all Brokers are not the same. When selecting a Broker ask yourself these questions:

1. Will you be dealing with a Broker or some salesperson? There is a difference.
2. Will you be talking to the same person each time you call the firm?
3. What does Broker know about dentistry? Selling land or houses is totally different than selling a dental practice.

4. Does the Broker have a good working relationship and constant contact with experts in the dental field?
5. Does the Broker have your best interests at heart or is he or she just looking for a commission?
6. And lastly, what does the Broker know about the tax consequences of selling a practice? Does he know to structure the deal to avoid taxes? Well, he had better, because most dentists depend upon the sale of their practice to fund a majority of their retirement income.

You wouldn't consider choosing a surgeon from a sign on the side of a taxi. Do your homework. Investigate. Choosing the right Broker is THAT important.