

# Managing Professional Risks

## ADA Guidelines for Practice Success™ (GPS™)

### ADA Tip Sheet on What to Do When Selling a Practice

There are a lot of factors to consider once you've decided to sell your dental practice, regardless of the reason behind that decision. While this tip sheet presents an overview of key steps to keep in mind, the ADA [Practical Guide to Valuing a Practice](#), a publication from the American Dental Association (ADA), provides a balanced view of practice valuation process and discusses many of the legal and tax issues that can occur when selling an entire practice, a portion of a practice, and when planning a future buy-in or buy-out. Content includes:

- ✓ Definitions of key terms
- ✓ How to select a person to perform the valuation
- ✓ How to choose the valuation method that is right for you
- ✓ Examples of sales documents and contract provisions
- ✓ Detailed explanations of various valuation concepts, such as the capitalized earnings, discounted cash flow and net asset methods
- ✓ Case studies
- ✓ Sample sales agreements

General tips to consider include:

- Determine how motivated you are to sell and whether you prefer to accept a lower price for a faster sale or if you're able to allow more time in order to reach a broader market of potential buyers.
  - ✓ The general rule of thumb is that the ideal timeframe from listing the practice for sale to closing is between four and six weeks.
    - Key benefits to a short time frame are that it could reduce the number of patients who search for a new dentist and keep more of them as patients of record for the incoming dentist, thereby protecting the practice's revenue stream.
- Assemble a team of competent professionals to advise you on different aspects of the sale. They can include:
  - ✓ A dental practice valuator to assist in developing an independent and objective assessment regarding the actual worth of the practice, the patient population, equipment and, if applicable, real estate.
    - You may want to consider hiring a valuator who specializes in dental practices.
  - ✓ A qualified attorney who is experienced in dental practice sales can ensure that the process and all related contracts comply with applicable laws.
    - Your attorney may also be able to assist you in collecting any outstanding debts prior to the sale.
  - ✓ A certified accountant who is experienced in dental practice sales can help you maximize different aspects of the sale including such opportunities as appraising any equipment that might enable you to take a tax credit.
  - ✓ A financial advisor to assist in assessing how best to invest the proceeds from the sale
- Interview and retain a broker experienced in selling dental practices.
  - ✓ Get information regarding how they will promote and list your practice including promoting listings and information regarding showings, including whether those will be actual visits to the practice or if they will involve "virtual" tours.
  - ✓ The broker may also be able to help you obtain a real estate appraisal.
  - ✓ Understand the fees that will be charged to negotiate the sale.

- Determine whether you will negotiate the sale or if an attorney, or broker, will represent you in the sale.
  - ✓ A key benefit to engaging a professional is that it may be easier for them to remain objective during negotiations.
  - Delegating those duties may also allow you to continue to focus on providing patient treatment and care.
  
- Determine what improvements or changes could make the practice more attractive to potential buyers. Are there opportunities to:
  - ✓ Enhance the practice's physical footprint
  - ✓ Improve recall as a way to boost revenue and value
  
- Make a list of people and businesses to notify of the sale and determine how, and at what point, they should be notified. That list could include:
  - ✓ staff
  - ✓ vendors and other suppliers
  - ✓ your professional liability carrier
  - ✓ representatives of any dental benefit plans with which you hold contracts
  - ✓ dentists to whom you have referred patients or who may refer patients to you
  - ✓ utility companies
  - ✓ landlord
  
- Conduct the necessary due diligence which, while it may seem time-consuming and tedious while you're doing it, can minimize delays in finalizing the transaction.
  - ✓ Be thorough and honest in your assessments.
  - ✓ At a minimum, documents you may need might include:
    - practice accounts, including financial statements and balance sheets
    - federal tax returns
    - staff employment contracts, if applicable, job descriptions, and a report of all staffing expenses
    - an inventory of all dental and general office equipment, including:
      - brand name
      - model number or type
      - serial number
      - year of manufacture
      - owner's manual
      - description
      - bill of sale
      - warranty
      - maintenance record/repair history
      - inspection record, including any licenses and/or permits
    - documents proving compliance with federal, state and local regulations
    - documents relating to the practice's facility, including mortgage, lease, upgrades, etc.
    - data regarding demographics of the patient population, including:
      - number of active patients
      - dentist and hygiene production
      - total number of hours worked per month for the dentist and hygienist(s)
      - accounts receivable
      - number of new patients per month and data of referral sources
      - case acceptance rate
      - percentage of recare scheduled
      - collection rate
      - fee-for-service/managed care ratio

- Structure the sale and carefully read the contract to ensure that terms are satisfactory; you'll want to pay special attention to language regarding:
  - ✓ patient records and access to patient records
  - ✓ whether there are restrictive covenants
  - ✓ the transitioning of good will
  - ✓ tax consequences
  - ✓ collection of accounts receivables
  - ✓ each party has or is suggested to have an attorney review the contract of sale
  - ✓ identification of the current office lease terms
  - ✓ which existing equipment is owned or leased and identity of owner and/or lessor
  - ✓ whether current employees will be retained by the new owner and, if so, for how long
  - ✓ provisions to ensure the proper delivery of continued patient care and active cases that require retreatment.
    - have a threshold in place for any retreatment patients may need.
    - set up a "basket" for continued patient care or ensure there is an agreement in place under which the buyer of a practice cannot hold the seller liable for every case received.
    - differences of opinions regarding whether or not certain cases require retreatment may be given to an arbiter for review and final determination.

Before making this change:

- ✓ Take a comprehensive and objective look at the practice's operations and financials.
- ✓ Consult an attorney early in the process to ensure your assets are protected and that you're in compliance with any relevant state and federal laws.
- ✓ Contact your professional liability company to see if they have recommendations or suggestions to help guide you through the process.
- ✓ Be mindful of the potential risks
- ✓ Develop actionable plans to eliminate, or at least lessen, any challenges you could encounter along the way.

**Resource:**

- The ADA [Practical Guide to Valuing a Practice](#)

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