

BEFORE BUYING A DENTAL PRACTICE, TAKE THESE 3 STEPS

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Achieving a DMD is no light feat — years of dental school, additional years to undertake a residency and often a large accumulation of student loan debt. After this kind of investment of both time and money, many in the dental field often consider becoming their own boss and buying (or starting) a dental practice. Unfortunately, usually less than 5% of a dental program curriculum is focused on the business aspect of dentistry, much less how to start or buy a practice upon graduation.

Dreaming of ownership can be much different than looking at the reality. So, before you take any steps in your ownership journey, it's important to get your priorities in line — like connecting with a lender first to know what is feasible. You need to have a solid understanding of what you can afford and establish the right foundation to get started.

One of the most important elements as you start to consider buying a practice is having a clear understanding of your current and future goals, as well as your personal financial plan. For instance, what does your personal cash flow look like? How much do you need to live off each month? The answers to these questions are entirely dependent on you and you alone. Remember that every dentist is different, every practice is different and every plan is different — in short, practice ownership is personal.

With this in mind, you can start the process by taking three smart steps:

1. Know what kind of buyer you are and what your buyer persona means for you

The road to successful practice ownership begins with a defined idea of what you're looking for in the market, how that type of practice matches your personal goals and how it will affect your day-to-day life as a practicing dentist. To help you better understand where you fit in, here are quick summaries of the most common individual types of dental practice buyers:

Associate buyer

Associate buyers typically are already working in a dental practice, but they do not have ownership yet. If you are currently a dental associate, you may be working in a small private practice in which the primary dentist (and likely the practice owner) plans to transition out of the business at some point in the future. Conversely, you may be working for a corporate entity where the chances of you having an opportunity to buy into the business are slim.



If you work in a private practice and are interested in taking over from the existing owner, then you should know it's never too early to start the succession and transition planning conversation. There is a wide variety of options on the table — for instance, the owner may agree to transition 100% of the business to you outright, or you could decide to gradually purchase 10% of the business over the course of the next 10 years, allowing for a more comprehensive training timeline. No matter how you decide to structure the transition plan, it is critical to enlist the help of a qualified third-party team to facilitate these conversations; this team may include your dental CPA, attorney and your financial advisor.

Start-up owner or new dental school graduate

In today's market, many banks will lend to doctors with as little as six months' experience. Dentistry is the second least-likely-to-default profession, which makes dental practices safe investments in the eyes of lenders. Whether you are preparing to start your own business out of school or you're leaving a practice to start up a new one, it's key to build your professional advisory team while you're navigating the lending process so you can develop a solid business plan that reflects the reality of your personal finances and capabilities. Practice ownership is another great investment in yourself, just like dental school, so if you are set up correctly with your personal and business finances, you can use one investment to help pay off the other.



2. What practice characteristics are most important to you?

Once you have determined what type of buyer you are, the next step is to prioritize key elements of your ideal practice. What matters most for your end goal? Some areas to include and questions to consider are:

- **Staff Size:** How many people do you want to work in your office? Do you plan to staff two hygienists or 10 hygienists? Spend time thinking about your ideal staff size. Fully leverage the people you hire and know that if you build the right team, you boost your chances of long-term success. If you are a first-time owner and you're not accustomed to managing the business side of your practice, then a pivotal hire will likely be a rockstar office manager. If you have extensive business knowledge but need a team member to serve as the face of the practice and handle administrative duties, then you should search for a strong front-desk representative.
- **Patient Base and Practice Operations:** To define your ideal patient base, you need to determine the number of active patients you hope to cultivate, as well as the number of patients in your recall program. Additionally, think about the number of "ops" (or operator rooms) you hope to create. Do you want to designate one or two operator rooms to serve a smaller patient base? Or do you want to establish eight to 10 operator rooms right out of the gate? These metrics will help you identify your ideal practice size, which will also drive location.
- **Real Estate and Physical Location:** Once you have determined your patient base and staff size, then you have the essential information you need to choose a physical location. In terms of your office space, are you hoping to buy a new piece of real estate, or do you want to lease a space? Do you hope to buy a building that is already outfitted for a dental practice, or do you want to start from scratch? Nail down the answers to these questions before you enter the market.
- **Interpersonal Dynamics:** If you're an associate who is buying into a new practice or accepting a leadership role within your existing practice, then the departing owner must play a central role in your strategic planning process. Conversations around practice transitions can be highly emotional; after all, owners have spent decades pouring everything into their practice. Rely on your third-party advisory team to steer and mediate transition conversations (including discussions around ownership percentage and purchase price, among other topics). Ideally, seek professional counsel before the transition process begins so that you're prepared for difficult conversations ahead of time.

- **Business and Personal Goals:** This is an opportunity to be introspective and consider some deeper questions. How will your practice cash flow feed your lifestyle? What matters most to you personally that this step into ownership will help achieve? If you are a new dental school graduate, you may be starting your career before you have achieved other personal goals, like starting a family. That's why you need to begin the long-term financial planning process as soon as possible. No matter where you are in your ownership journey, it's never too early to start understanding the benefits of saving and planning for retirement. These milestones must be factored into the practice purchase process to ensure you aren't overextending yourself.

3. What financial documents and evidence do you need to support your purchase?

Once you have prioritized practice characteristics and attributes, it's time to start the financial due diligence process. At Aprio, we recommend our dental clients have the following items ready as they initiate the purchase process:



- Tax returns for the last few years
- Financial statements that mirror prior tax returns
- Production and collections reports (pulled from practice management software)
- Accounts receivable documents, including unsettled accounts that may carry over once you have bought the practice from the existing doctor
- Employee compensation reports

Remember that even after you've compiled all of these components, the process is still called a "transition" for a reason. You need to be intentional about your steps, get prequalified and hire the right people in your corner, who can consult with you throughout the decision-making process to avoid any missteps. We can provide the technical insights, industry knowledge, experience and strategic planning expertise you need to develop a practice that generates profitable growth.

To learn more please contact your Patterson territory representative or visit <https://www.pattersondental.com/services/practice-transitions>

About the author

Kelli Henley, Dental Services Advisor at Aprio, LLP, specializes in helping dentists navigate transition planning and practice sales, valuations and purchases. She brings to her role extensive knowledge and experience in performing income tax compliance and business valuations specific to the dental industry. She enjoys building lasting relationships with her clients and coaching them on complex financial matters so they can manage their practices and navigate transitions in ownership with confidence.