

Ask the Broker

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Q

I am planning on selling my practice in the next 5 years.... what can I do *now* to optimize my future transition profit?

Richard C.

The single most important factor in a practice

sale is the practice production of the last calendar year. Lenders and Buyers like to see a stable practice without large variances from year to year. The poor performance of one out of three years *should* not affect pricing, **unless it is the last calendar year which shows a significant drop**. Therefore, with 5 years to go, try to maintain a steady practice, make sure you finish strong and make all your December deposits for the last year that you will be filing a tax return for!

Practices are priced based mostly on gross receipts. Therefore, spending large amounts of money for new technology will not necessarily return the investment unless it helps to increase the production. However, this being said, purchasing new equipment may increase your enjoyment of practicing dentistry and therefore be a worthwhile investment.

With 8-10 years remaining to practice, modernizing the practice with the latest and greatest is generally a great idea. Leasehold improvements typically last 5-8 years, so making the investment at this time to spruce up the office will enhance the desirability of the sale. It may also give you greater satisfaction of working in a first-rate environment for the entire duration of the leasehold improvements. However, if you have only 2-3 years left, it is not worth putting too much extra money into the practice. In this case, I would advise finishing strong, especially to reflect on your tax return to be considered.

Here's an interesting demographic to consider: Seven years ago, the JADA published an article concerning the baby boomers' retirement, which may affect those in the 4-7 year timeframe. Most of us in the industry believe that the "baby boomer" phenomenon coupled with the current sellers' delayed frame-of-mind might result in a significant inventory glut. This may slightly reduce practice price multiples.

This phenomenon will favor practices that have updated their technology to induce the younger buyers. Therefore, those of you planning to retire in the next 4-10 years, your strategy should be to consider making the investment now in order to position yourself in front of the competition when the glut of practices comes about.

Most importantly, keep working to keep your numbers up!

Questions? E-mail wps@succeed.net

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