



# Selling Your Dental Practice

## your retirement future

Over the next 15 years, an unprecedented number of dental offices will go up for sale as our generation of Baby Boomers reaches retirement age. Are you counting on the proceeds of your office sale to finance a significant portion of your retirement years? If so, some of the trends occurring in our field may cause you to think differently about your exit strategy.

In 2003, there were more than 180 new dental offices built throughout Arizona (Sources: Sky Financial Solutions, HPSC, Matsco). Some were relocations but most were new office “start-ups.” Why are new dentists opting to open their own practices rather than purchase established ones with active patient bases? There are several reasons.

The average new dental start-up office costs between \$450,000 and \$550,000 to complete. We’re talking about a nice 2,000-square-foot facility with five or six treatment rooms, two fully equipped to start. Over 90% of these offices are using digital x-rays and the majority use intra-oral cameras. Both of these types of equipment are powerful educational and patient motivational tools.

This \$450,000 to \$550,000 also includes some working capital and marketing allowances. New dentists realize that marketing is no longer an option. It’s a necessity. As Phoenix continues to sprawl, new population growth dominates the outskirts of the city in Surprise, Northwest Phoenix, North Scottsdale, Gilbert, Chandler, East Mesa, Queen Creek, Ahwatukee, Litchfield Park, Avondale, etc. First, the homes are built and people move in. Then the infrastructure for new businesses in the form of shopping centers and professional complexes follows. Dentists are waiting in line for these golden opportunities for a new start-up with instant new patient bases and little competition. If they then market these areas, it becomes like it was in the 1960s where you simply hang up your shingle and in several years you have all the patients you could possibly treat.

### Consider This

What does all of this mean to you? Put yourself in a young dentist’s shoes. Would it make sense to purchase an existing dental office if the asking price rivaled or exceeded the cost of a start-up? On top of this cost, would you soon have to replace most, if not all, of the decades-old dental equipment? Since you realize that digital x-rays are here to stay, and could even become the standard of care, you now have the additional expense and headache of converting a traditional film-based system to a digitized one. If you, the seller, live in a smaller Arizona city, you have even more to be concerned about. They can simply build a start-up down the street. If you can’t find a buyer for your practice, they won’t have to market because they’ll eventually get your patients anyway.

The market dictates that if buying your practice makes less business sense than a start-up, there will be fewer dentists interested in all of these Baby Boomer practices for sale. Asking prices will drop with less demand. What can you do to increase your chances of selling your practice?

### Resources

My first recommendation is to purchase “Valuing a Practice: A Guide for Dentists” from the American Dental Association (see box). Read it, learn it, memorize it! For instance, you will see that your practice will probably sell for between 40% and 65% of the average of your last three years of gross income (Source: “Valuing a Practice: A Guide for Dentists”). Many factors can raise the value upward toward the 65% range. And, many factors can lower it toward the 40% range. Find out what those factors are and plan accordingly. You would also be wise to hire an independent dental office appraiser to make your asking price more credible to the buyer (Source: “Valuing a Practice: A Guide for Dentists”). Asking the broker who is selling your practice and receiving the commission for it to establish this price makes most buyers become leery.

You will need at least 3-5 years for your exit strategy. Put your plan in place to make this an attractive option for our new generation of dentists. For instance, consider replacing some of your aging equipment and making the office more high-tech. Today's students are already learning on it and will be looking for it after graduation.

Meet with your accountant to explore ways you can benefit from Section 179 of the new tax code (see box). It has quadrupled the amount of dental equipment you can deduct, and certain amounts over that can be depreciated much faster. This tax break currently runs through 2007.

Next, when your practice is ready, sign up as a "Provider" in AzDA's Associate Placement Program. Accept the fact that there will be a limited number of experienced dentists available, so hire an eager young dentist fresh out of school. Become a mentor as both dentist and business person. Introduce him or her to your patients over a long transition period to increase patient retention after the sale.

Establish an asking price for your practice before this associate joins you (Source: "Valuing a Practice: A Guide for Dentists"). To establish an asking price after this associate helps you to increase the gross income and value of your practice is unrealistic and unfair. They will look elsewhere.

## Just Like You!

Would you rather have an experienced dentist take care of your patients after you move on? Sure. But guess what? Most are already in private practice or partnerships, just like you.

Are these young dentists coming out of school going to be slow performing most procedures until they build up their speed? Of course, just like you were.

Are you going to have to take time out of your productivity to teach them the ropes? You bet! But what are your alternatives? Embrace these youngsters. They are your retirement future!

**Dr. Gordon Osterhaus Chairs the Associate Placement Program for the Arizona Dental Association and represents New Office Start-Ups and Equipment Sales for Valley Dental Equipment Co.**

## Resources

- "Valuing a Practice: A Guide for Dentists" is available from the American Dental Association's Catalog Sales and Service Department at (800) 947-4746 or online at [www.adacatalog.org](http://www.adacatalog.org)
- "Directory of Dental Practice Appraisers and Valuers Sixth Edition" is free for ADA members. Download from [www.ada.org](http://www.ada.org)
- For information and publications on tax laws, visit [www.irs.gov](http://www.irs.gov) and use the search functions for maximum efficiency in locating what you need. Online documents include "2002 Tax Changes for Business Taxpayers," "Frequently Asked Tax Questions" and "Small Business Tax Calendar: A Roadside Check" among many others.