

# 14 Steps In Your Practice Sale

For General Dentistry Practice

## Success Steps



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As you approach your practice sale, you will need to decide whether: (i) you will utilize the services of a dental practice broker; or, (ii) try to sell your practice yourself, without the assistance of a broker. To make this decision correctly, you should familiarize yourself with the steps that are normally required in general dentistry practice sales, to gain insights into what must be done, in what order, and how much work might be involved. This will help you decide if you want to undertake the sale process without the assistance of a broker.

In this report we outline the steps of the practice sale process. These steps are typical for sales to buyers that are dentists or that are dental practices with multiple locations but owned by dentists. Sales to DSOs are different animals. Outlining the steps of sales to DSOs risks being wrong in terms of the steps included and / or the order of the steps, because DSOs differ significantly, from one to the other, in terms of how they evaluate practices, consider them, and approach the sale process.

If you utilize a practice broker, your broker should be able to conduct many of the steps in the sale process for you. For those that your broker cannot personally conduct for you, and that you must perform yourself, your broker should be able to provide considerable help, making the process easier for you.

If you elect to try to sell your practice yourself, without the assistance and guidance of a broker, and hope to have success, there are 14 steps in every sale process that you must conduct correctly. Since every sale is somewhat different, there can be additional steps required in any specific practice's sale and / or the steps might need to be performed in a slightly different order. If you don't have the desire to perform each of these steps, or don't think that you have the ability to perform them all correctly, you should consider utilizing the services of an experienced dental practice broker.

## 14 STEPS IN THE PRACTICE SALE PROCESS

1. **Information Collection** – Gather the information, tax returns, software reports, and additional information that will be needed to:
  - Thoroughly and correctly present your practice to potential practice buyers;
  - Provide information that potential buyers' accountants and / or consultants may want to

- review and analyze; and,
- Supply to banks for analysis in considering a potential buyer's purchase loan application.

2. **Establish The Correct Asking Price For Your Practice** – If you underprice your practice, you obviously shortchange yourself. If you overprice it, it can result in either potential buyers quickly rejecting your practice or a buyer is found that is willing to pay the asking price but, as you move forward, the buyer's bank will not loan your buyer the amount of your asking price.

Using rules-of-thumb, such as some percentage of collections, can easily result in over or underpricing your practice. To establish a reasonably correct asking price, you must either:

- Study your practice's annual cashflow generation and calculate the highest sale price that would allow a buyer to: pay all operating expenses; make purchase loan payments on a loan in the amount of the asking price; and, still leave the buyer with a pre-tax cashflow profit that is a percentage of your practice's collections that is reasonable relative to the amount of dental production that a buyer will need to do annually to sustain your practice at its current level of performance; or,
  - Have an experienced dental practice broker provide you with an appraisal / valuation for your practice.
3. **Prepare a Practice Information Package** – that you can send to potential buyers who inquire about your practice. This information package must, at a minimum, contain at least 3-years of your practice's tax returns along with a significant amount of the software reports that you gathered in Step #1 above. It should include a pre-tax cashflow analysis prepared from data taken from your most recent year's tax return. Expenses for things that are elective and not required for operation of your practice should be removed. Non-cash expenses (expenses that you don't actually pay) such as depreciation or amortization should be removed. Expenses related to providing a personal benefit to you, such as your (not your employees') medical insurance expense should be removed. If you have interest that you're paying on any loans, it should be removed. In place of your interest expense, you should add in the expense for the annual loan payments that a buyer would have to make in relation to the loan a buyer would need to get to pay your asking price. If prepared correctly, the cashflow analysis should show the buyer the pre-tax cashflow that might be obtained after paying all required operational expenses and making the loan payments on a buyer's purchase loan, if the buyer maintains the same level of annual collections that you had in the most recent calendar year.

Two things about the pre-tax cashflow analysis:

- (i) Not many dentists can correctly prepare the cashflow analysis. If you are selling your practice yourself, without a broker to prepare this analysis, it would be wise to have your accountant prepare it for you; and,

- (ii) Disclaimers should be added to the report, making it clear that you are not projecting that, or guaranteeing that, a buyer will realize any specific level of income from operating your practice after purchasing it.

The information package must also tell the buyer about your dental office (real estate) including what the monthly rent is if you lease your office or, if you own your office, your proposed rent and / or purchase price for your real estate.

The information package must, upon first review, give a potential buyer the information needed to understand your practice's operation and performance. The tax returns and software reports should be scanned into your computer as Adobe PDF documents that are easily readable on almost all electronic devices, and then joined into one large file that can be emailed to inquiring potential buyers. You should store this file in a section of "My Documents" on your computer that is dedicated to your practice sale, where you can easily obtain this file and attach it to an email for use in Step #7 below.

4. [Advertise Your Practice](#) --- You must develop ads that describe the basics of your practice in terms of location (town, city, or area of the city), annual collections, numbers of operatories, whether your office (real estate) can be leased or purchased or either one, software that you have, technologies that you have in use, and other basics about your practice, along with a method to contact you (email address or cell phone number). The ad should tell enough about your practice to interest potential buyers that would consider your location but should not answer all of their potential questions. You want potential buyers to need to contact you to learn more about your practice.

In describing your location, you have to be careful. If your description is too specific people may recognize that it is your practice that is for sale and result in a sale rumor reaching your employees and / or some of your patients. Balancing with that, if the location is too vague potential buyers, who would consider your practice, may not respond to your ad because they do not realize that your practice is in an area that they would consider.

Among the places or ways that you might advertise include: (i) state dental associations' print and online classified ads; and, (ii) direct mail to dentists licensed for your state that are in the age group most likely to buy practices. In most states, a mailing list for dentists can be obtained by getting a list of licensed dentists from your state's dental licensing board. These lists of licensed dentists typically contain mailing addresses for each licensee.

5. [Field Inquires](#) – Field emails or cell phone calls from those that respond to your ads. You must be prepared to catch phone calls and check for voice messages and check your email daily. Your responses to inquiries should be quick.
6. [Obtain Confidentiality Agreements](#) – Before you release your name or exact location, or provide

information on your practice, some of which is confidential in nature, you should have inquiring buyers complete and return a confidentiality agreement. If you use a broker, your broker will have confidentiality agreements for this purpose. If you are not using a broker, your attorney should be able to prepare a confidentiality agreement for you. The confidentiality agreement should have a section that gathers the potential buyer's name, email address, cell phone and other information that will help you determine if the potential buyer is likely to be a serious and qualified buyer, such as: his / her year of dental school graduation, years of clinical dental experience, whether the potential buyer is currently working as an associate or is a practice owner, the level of annual collections that the potential buyer wants a practice to have, and the level of annual income that the potential buyer will need in the first year after purchasing a practice.

7. [Send Your Practice Information Package](#) – Once the confidentiality agreement is returned to you, you will need to email your practice information package (Step #3 above) to the potential buyer.
8. [Follow-Up With Potential Buyers](#) – Give the potential buyer a few days to review and absorb the information in your information package. Then, follow-up with the potential buyer by email or telephone to gauge his / her level of interest and to answer questions that the potential buyer might then have. **Important:** If a buyer is not interested after reviewing your practice information, don't be upset or discouraged. From our many years as a practice broker, we can tell you that it is not uncommon to go through 2, 4, 6, 8, or even more buyer inquiries before the actual buyer for a specific practice is found.
9. [Buyer Office Visit](#) – If, but only if, a potential buyer shows serious interest after his / her review of your Practice Information Package, arrange for the potential buyer to meet with you, at your practice, after hours or on a weekend, when your staff is not present. The purpose of this visit is twofold:
  - A chance for the potential buyer to see your facility, location, and equipment; and,
  - A chance for the buyer to ask you questions, to learn more about how you operate your practice.
10. [Verbal Offer](#) – After a buyer has visited with you and had a few days to consider what was learned doing the visit with you, contact the potential buyer again. Your goal now will be to obtain a verbal offer to buy your practice. It can be awkward for dentists to conduct this step, since most have not had experience in dealing with potential buyers, but this step often must start with a simple question, such as: “Do you want to buy my practice?”
11. [Negotiations](#) – If the potential buyer indicates a desire to buy your practice, to start negotiations you must ask your buyer what the terms of his / her offer are, regarding basic elements of the

sale, such as:

- The purchase price the buyer is offering;
- If you own your dental office (real estate), the buyer's proposal in regard to your real estate, in terms of either the purchase price that the buyer proposes for your real estate or the monthly rent and lease terms that the buyer proposes;
- The buyer's proposal for your role in transition, such as proposing that you walk away immediately after the sale, or stay a few weeks to assist in transition, or work for the buyer after the sale – in which case you'll need to find out what the buyer proposes in terms of how long you'll work for the buyer, how many days a week, what hours of each day, and how you'll be paid; and,
- Other aspects of the sale that are important to you.

If the buyer's proposals are acceptable, you can move to the next steps. If they are unacceptable, you'll need to make counterproposals and then negotiate, hopefully reaching terms of the sale that are acceptable to you. If acceptable terms cannot be reached verbally, you may have to step back and await an inquiry from another potential buyer.

12. **[Bank Loan Applications](#)** – If your negotiations were successful, the next step is to have your buyer apply for a purchase loan with a bank and lender and get approved for the loan necessary to buy your practice. It doesn't make a lot of sense to start incurring significant legal fees related to sale contracts and agreements, until you and your potential buyer both know that the buyer can get the money needed to pay your purchase price. If you are using a practice broker, the broker should know which banks to guide a buyer to in order to increase the chance that the buyer gets a loan approved and does so with an acceptable interest rate and acceptable repayment terms. If you are not using a broker, in advance of starting your sale project, familiarize yourself with the banks that are routinely providing practice purchase loans as of the time that you want to sell. As examples, as of the time that we prepared this report, banks such as U.S. Bank, Bank of America, First Citizens Bank, and PNC Bank are among those actively making practice purchase loans.

Expect that you will be contacted by the bank and asked to provide numbers of pieces of information that the bank will need in order to consider your buyer's loan application.

13. **[Contracts / Written Agreements](#)** – If you are not using a practice broker, the first drafts of the binding sale agreements will need to be prepared by either your attorney or your buyer's attorney. You'll need to supply notes to your attorney, outlining things that you and your buyer

have agreed upon during negotiations. You are likely to incur more legal expense if your attorney prepares the first drafts, but it is possible that you'll get a little more control of the sale process and contents of the agreements if your attorney prepares the first drafts.

Regardless of which attorney prepares the first drafts, expect that there may be several rounds of review and revision of the agreements, back and forth between you and your attorney and the buyer and his / her attorney. Developing first drafts of the agreements that are acceptable to all parties, without several rounds of changes and revisions, is extremely rare.

During this phase, make sure that your accountant reviews the drafts and has a chance for input that might impact the amount of tax that you'll have to pay on your sale.

Agreements and documents that are commonly required in practice sales include the following:

- **Asset Purchase Agreement** (the practice sale contract);
- **Covenant Not To Compete & Transfer / Assignment Of Goodwill;**
- **Assignment & Assumption Agreement** – to transfer some of your practice's contracts to your buyer (as just one example: your practice management software's maintenance and technical support agreement);
- **Patient Records Custody Agreement** – to transfer your patient records to your buyer's custody;
- **Bill Of Sale;**
- **Consent Agreement** – if you are not a sole-proprietorship. Via the consent your corporation or PLLC grants permission, to you personally, to act on its behalf to conduct the sale;
- **Closing / Settlement Statement;** and,
- **Seller Employment Agreement** – if, but only if, your transition plan includes you working as the buyer's associate for a period of time after the sale.



14. **Closing Preparations** – Once the drafts of the agreements are in forms acceptable to you and your buyer, and both of your attorneys, the Asset Purchase Agreement can be signed and preparations for the closing of your sale can begin. Preparations include, among other things, establishing the date, time, and location for your closing, as well as determining who will conduct your closing. The closing is usually conducted by either the buyer's or seller's attorney. During the preparations for the closing, work with the buyer's bank will be required to arrange how your sale price will be paid to you on the day of closing. To avoid surprises at the closing, a preview of the closing / settlement statement should be circulated to you and your buyer days before the closing is scheduled, for you to check and preapprove all disbursements.

**IF YOU HAVE QUESTION ABOUT ANYTHING IN THIS REPORT** – Feel free to contact our Company. Dr. Stollings will personally address your questions.

**IF YOU ARE CONSIDERING UTILIZING A PRACTICE BROKER** – Compare our services with those offered by other practice brokers. Contact us to request a brochure, detailing how our brokerage services work, along with information on the services and help that we can provide for you as a seller.

**25+ Years Experience**  
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