



Practice Transitions Made Perfect™

Newsletter Article Reprint

Practical Steps: Preparing a Practice for Sale

Timothy A. Brown - President & CEO of ROI Corporation & ROI Capital
July/August 2008

Many clients ask what steps they should take when preparing a practice for sale. Common wisdom suggests that a little planning can yield big results if the owner of a practice is committed to the succession planning process.

Even with one year or less before an anticipated sale, the following steps, if taken, may result in a higher sale price and a smoother transaction.

1. Confirm Your Premise Lease Renewal Option(s)

Most leases contain an option to renew, once the current term expires, but the tenant must confirm the presence of such an option or risk being faced with the following situation: the tenant failed to notice that the landlord had intentionally deleted the option to renew clause. The practice was put up for sale, but the dentist had yet to approach the landlord to discuss the matter of the renewal option. When an offer was presented, the buyer insisted that the landlord confirm, in writing, that the lease may be renewed. This was eventually accomplished, but not without delay, additional cost and frustration for all parties involved. It could have easily been prevented had the tenant carefully reviewed the first lease he signed, an easy and relatively inexpensive task. In the event the landlord was not as cooperative, this condition may not have been satisfied, resulting in a failed offer.

Today's buyers and their bankers normally demand the right to remain in the existing premises for a period of time equal to the acquisition loan. Banks are reluctant to finance a practice sale if the office has to be moved on short notice. If your lease does not include adequate renewal options, or stipulate your ability to assign your present lease, your landlord will control your ability to sell your practice. You may consider contacting your landlord in advance of the sale to ensure that you will have a lease that can be easily transferred to a buyer. You may want to consult with your broker or lawyer before doing so.

2. Prepare Your Financial Records

Most practices use computer software that tracks practice statistics. However, some of our clients are unfamiliar with their software and do not always have adequate reporting functions for income, hours worked and the various procedures performed or patients referred. Buyers wish to understand the unique nature of a practice, and often ask to see the procedure analysis to determine if their skill set is compatible with that of the owner. If you do not have computerized records (yes, about 20 %to 30% of dental offices are still using one-write systems) it is suggested that you retain the day sheets for at least 12 months, to demonstrate your appointment protocols and the procedures provided in your practice.

3. Protect Your Practice from Employee Fraud

Sadly, a growing trend in business is employee theft. While dentists are not usually victims of this crime, when compared with retail businesses, it is apparent that some staff are discovering methods of exploiting the inherent weaknesses of dental practice management systems. Longstanding and trusted employees have been involved in cases of dental fraud. Employee fraud in dental practice appears to be a growing trend – one that may be very damaging to the value of your goodwill.

Here are a few ways to help 'fraud-proof' your practice:

- Request a copy of each day-end report and examine the billings and deposits
- Cross-check the daily billings with appointed patients indicated on the day-sheets
- Examine the deposit book for checks received and compare to the bank or computer deposit slips
- Randomly examine patient charts and compare the procedures recorded with those found on the patient ledger
- Day-end reports may be changed at any time – so cross-check them with month-end reports to verify no backdating or reversals have been made.

Practice Transitions Made Perfect™

Licensed Real Estate Broker and Exclusive Florida Broker for ADS - Nationwide

ADS Florida, LLC | 5100 Tamiami Trail North, Suite 106 | Naples, FL 34103 | <http://www.ADSflorida.com> | (800) 262-4119



Practice Transitions Made Perfect™

Newsletter Article Reprint

Some sophisticated software has accidentally provided a complex means to hide or erase data and make employee fraud easier. The major software companies though, have been modifying their programs to prevent changes to financial records. It is not yet a foolproof system. Any dentist who does not know how to use his or her dental software properly is open to fraud. To protect your investment it may be necessary to hire a professional fraud examiner.

4. Review and Update Contracts and Agreements

Purchasers demand accurate details of the contracts you have in place. Ask your associate(s), partner(s), landlord and any other suppliers for a current version or copy of your agreement(s). We often receive copies of important contracts that are not signed, current dated or valid. The owner has enjoyed a positive working relationship with the other party for many years and no one thought to revisit the agreement to be sure it accurately reflects the current relationship. Lawyers, accountants and bankers are becoming more skeptical and thus more protective of their clients. They do not enjoy the benefit of familiarity and trust that you have with your suppliers and other parties.

A lack of up-to-date contracts may substantially reduce the sale price of a practice, and in some instances it may prevent a sale altogether.

Timothy A. Brown is the President & C.E.O. of ROI Corporation & ROI Capital, companies that specialize in dental practice appraisals, brokerage, consulting, locum placements, associateships and practice financing across Canada.

Practice Transitions Made Perfect™

Licensed Real Estate Broker and Exclusive Florida Broker for ADS - Nationwide

ADS Florida, LLC | 5100 Tamiami Trail North, Suite 106 | Naples, FL 34103 | <http://www.ADSflorida.com> | (800) 262-4119