



Inside

- Developing your exit strategy
- Preparing your practice for sale
- Understanding practice value
- Transitioning to retirement

Practice Success Series for Dentists Selling your Dental Practice

Wells Fargo Practice Finance



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Wells Fargo offers a wide variety of business products and services to help you through every stage of your practice transition. Let's talk.

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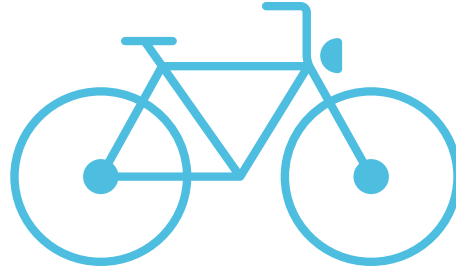
1-888-937-2321



Preparation

is the key to a
successful sale

Introduction



Let's face it; your practice may be the largest investment you have, and the biggest contributor to your retirement plan. And for that plan to support the secure and comfortable lifestyle you envision for your retirement, you need to get the most out of all of your investments.

This workbook is designed to help you achieve that goal by focusing on the successful and profitable sale of your practice. The exercises and suggestions here were developed to help you create and execute a plan that makes sense for you, your staff, and your patients, putting you one step closer to initiating your transition.

How we can help



We want to see you get the most out of the sale of your practice.

That's why we've taken our experience working with dentists like you to create tools that guide sellers and buyers through the process of a practice transition.

Call us. Let's talk about what you need — and figure out how to make it happen.

***Call 1-888-937-2321 or email
practicesuccess@wellsfargo.com***

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Business skills for successful sellers

To realistically plan for retirement you need to be clear on your strengths. Complete this assessment to determine your readiness to make the transition.

Answer the questions below, circling the number on the scale that you feel best describes you.

1. Careful planner:

I have thought through my practice transition and have a plan for the sale of my practice.

1 2 3 4 5
Strongly Agree Agree Strongly Disagree

I have researched buy-in and buy-out strategies and understand which option works best for me.

1 2 3 4 5
Strongly Agree Agree Strongly Disagree

2. Realistic:

I have worked with a professional to understand the value of my practice in realistic terms.

1 2 3 4 5
Strongly Agree Agree Strongly Disagree

I have had the practice professionally appraised.

1 2 3 4 5
Strongly Agree Agree Strongly Disagree

3. Financially sound:

My retirement is not based only on the sale of my practice. It is a separate investment that I have built throughout my career, especially for retirement.

1 2 3 4 5
Strongly Agree Agree Strongly Disagree

4. Good business person:

I am fundamentally a good business person and have managed my practice effectively and efficiently for years.

1 2 3 4 5
Strongly Agree Agree Strongly Disagree

Business skills for successful sellers

5. Operate with integrity:

I have a win-win plan for selling my practice that fits my personal values and practice needs ensuring my patients continue to receive outstanding care.

1	2	3	4	5
Strongly Agree		Agree		Strongly Disagree

Total your score: _____

Scores from 7 – 17:

Congratulations! You have a workable plan and are well positioned for a successful practice sale.

Scores from 18 – 27:

Excellent! You are almost ready to make your transition. Take a look at the statements you disagreed with and consider how you can improve your score.

Scores from 28 – 35:

You may not be quite ready to transition your practice. Study the statements above and determine where you can improve.

What specific activities will you undertake to get your practice ready for sale?

Developing your plan

An important key to a successful sale is the amount of advanced preparation you do to position your practice in the best possible light. Most practice owners expect to receive a premium price for their practice when it comes time to sell. To achieve top returns on the sale of your practice it is important to maintain a well-run and well-managed operation. Let your investment in your practice work for you.

Upgrades to equipment for example may seem like an unnecessary expense, but remember that potential buyers, especially those who completed their education in the last 5 - 10 years may be accustomed to working on the latest equipment. They may not be able to afford upgrades after the sale so you may command a higher price due to the added valuation from new equipment. Consider investing in upgrades, such as new equipment that might help ensure your practice is set up to achieve top returns on the sale.

Plan your practice sale well in advance — not weeks or months, but three to five years — to ensure you can exhibit as many of the following key attributes as possible before putting your practice on the market:

- Consistent levels of productivity
- Proven track record of stable revenue and net margins
- Proficient in the latest dental services and techniques
- Well-equipped with current technology
- Staff that understands the importance of patient management
- Contemporary and attractive office

The steps outlined below provide a road map that will help ensure a smooth transition that ends your career on a high note.

The practice sale process



As a reminder of where you are now and what to expect next, refer to the flow chart below. Your transition team will help you define and develop your retirement strategy with the objective of focusing on your long-term goals and making disciplined choices that support your plan.



Developing your plan

Seller checklist



The checklist below will help you prepare your practice and staff for the sale. Taking action to prepare will help the transition go smoothly for all.

	Done & Acceptable	Done & Not Acceptable	Not Yet Done	Not Applicable
I. Facility				
1. My facility is in tip top shape for showing to potential buyers (painted, shampooed, windows cleaned, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. I have obtained lease copies and/or relevant documents for the buyer's review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Since I own this building and will lease to the buyer, I have drafted a sample lease	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. I am prepared to possibly negotiate some cosmetic fixes to my office during the negotiating process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. I have obtained a formal equipment valuation for the buyer's review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
II. Patient records				
1. I have computer or manual reports documenting the number of "active" patients seen in the past 12 months	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Our patient records have been purged so "inactive" are separate and not mixed in with "active" patients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. I have documented the number or percent of patients who are current in our hygiene recall system	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. I have documented the amount of dentistry that has been presented, but not yet started on patients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. I have documented the number or percentage of "active" patients grouped by age	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. I have documented the percent of total office production of the types of dental procedures completed annually	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
III. Computer hardware/software				
1. I have copies for the buyer's review of our dental software maintenance agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. User guides and/or training manuals for the dental software are available for the buyer's review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Warranties for computer hardware are available for the buyer's review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IV. Advertising/marketing/new patients				
1. I have prepared a packet containing copies of all marketing activities my practice has conducted in the past two years (i.e. websites, social media, brochures, new resident letter/lists, charity efforts, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. I have documented the total number of new patients per month for the past two years, categorized by age	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. I have logs or reports for the buyer's review of all new patients joining the practice in the past year, which display the referral source, amount of dentistry diagnosed and amount of dentistry accepted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. I have drafted a patient letter that announces the new dentist owner in an enthusiastic way, with the intent to minimize patient loss from the transition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
V. Staff				
1. I have a plan for how and when to announce the practice sale to my staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. My personnel policies and procedures are documented in writing (vacation and sick days, working hours, rates of pay, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The personnel files for all staff members are current (including annual performance reviews) and available for buyer's review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. I intend to arrange for the buyer to meet the staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VI. Additional comments				

Assembling your transition team

Assembling your transition team is amongst the most critical aspects of the sale. Working with professionals who specialize in dental practices can help save you time and money – and add the value you need to retire successfully.

Selecting your transition team



Your team of advisors will help you position your practice for sale and present it to serious buyers. Be sure your team includes at least the following:



Attorney

Name: _____

Company: _____

Accountant

Name: _____

Company: _____

Insurance broker

Name: _____

Company: _____

Financial advisor/retirement specialist

Name: _____

Company: _____

Practice broker

Name: _____

Company: _____

Commercial Real Estate Broker (CRE)

Name: _____

Company: _____

Assembling your transition team

Team	What they do	Why they're important
Attorney	<ul style="list-style-type: none">• Negotiates and drafts contracts• Reviews documents related to the sale	<ul style="list-style-type: none">• Represents your interests as your advocate• Assures contracts and legal documents comply with legal requirements
Accountant/CPA	<ul style="list-style-type: none">• Develops tax projections, plans, and estimates• Prepares and files tax documents• Can help establish financial and collection procedures• Advises on tax and accounting implications of business decisions	<ul style="list-style-type: none">• Helps establish the value of the practice• Makes sure your books and accounts are set up to positively reflect the value of the practice• May be able to help with retirement planning
Insurance broker	<ul style="list-style-type: none">• Evaluates existing coverage	<ul style="list-style-type: none">• Ensures that current coverage is up to date and will protect you during the sale
Financial adviser/retirement specialist	<ul style="list-style-type: none">• Evaluates your financial needs to achieve your retirement plan	<ul style="list-style-type: none">• May be able to help understand the proceeds from the sale• Provides consultation to determine a realistic budget for your retirement
Practice broker	<ul style="list-style-type: none">• Helps negotiates transaction• Can offer valuation services• Can help structure transition and coordinate financing	<ul style="list-style-type: none">• Provides consultation and support throughout the transition process
CRE broker	<ul style="list-style-type: none">• With attorney, generates sample agreements of CRE portion of the sale.	<ul style="list-style-type: none">• May help create structure for the deal.

Helping your buyer understand and prepare for the acquisition process can give you peace of mind.

We have resources for buyers to help them make this important transition to ownership. Ask us for more information including "Acquiring A Dental Practice," a workbook geared specifically for practice buyers. 1-888-937-2321 or practicesuccess@wellsfargo.com



Securing practice value

As you prepare to sell your practice, it is critical that you maintain or increase its value in order to support a healthy sales price and reap the benefits of your career long investment. Follow these tips for maintaining practice value:

1. Maintain production levels

While it may be tempting to slow down production as you approach retirement, doing so can potentially result in a devalued practice at the time of sale. It's critical to maintain production levels through your very last day at the office to preserve the practice value you've worked hard to build over the years.

2. Keep technology up to date

Updating your office with current technology may help increase its appeal to potential buyers. Consult with your equipment supplier on the types of equipment new dentists are looking for now. But before making a significant investment in technology upgrades, make sure they will deliver meaningful benefits to your practice today, such as:

- **Enhanced patient care.** While new technology can make your practice more appealing to a potential buyer, it should ultimately enable you to provide a higher level of care for your patients. If your patients do not in some way benefit from your new equipment through improved outcomes, greater convenience, or more efficient service, it may not be worth the investment.
- **Greater efficiency.** A truly worthy technology investment will maximize efficiencies so you can get more, and better, work accomplished with less chair time.
- **Higher staff morale.** When your practice is up to date and operates more efficiently, your dental team and staff are likely to feel more energized and empowered – which, in turn, can lead to a positive impression on your patients as team members project enthusiasm for their work.

3. Leave potential profits

The future production potential of your practice will be well-positioned, the key factor validating practice value for a prospective new owner. Your buyer wants to know that your patient base has the ability to generate reasonable, immediate cash flow when they take the helm, and that the practice is well positioned for growth. A savvy buyer will want to see a genuine opportunity to produce meaningful cash flow, so it will work in your favor to maintain the status quo in terms of the level of daily production.

4. Keep financial books in order

As you approach retirement, be sure you are keeping your financial records properly organized with full documentation of production levels, charges and receipts, bank deposits, and tax returns. Any discrepancies in your financials may lead to deeper investigation by the buyer and potential negotiation of your practice price.

Most practice appraisers will use a "three formula process" – the average of three separate calculations based on percent of revenue, percent of revenues plus assets, and 100% of one year's cash flow.

Securing practice value

5. Invest in a professional appraisal

A professional practice appraisal accurately reflects the value of your personal investment and hard work, and is the result of significant experience, judgment, and research. A proper appraisal not only generates a valuation and final sales price – it also illustrates why that price is the most reasonable outcome. Nevertheless, it is important to understand that an appraisal is only an estimate of value. True practice value will be determined when the practice is finally sold.

Schedule your practice valuation at least three years prior to your exit to ensure there is time to make changes if the value is lower than you wish. Work with an appraiser who specializes in dental practices in order to get the most from your investment. Your appraiser should understand key aspects of the dental business and be able to identify the influences that are driving profitability and growth in your practice.

Valuation document checklist



A properly completed practice valuation analyzes the financial health of your business, delivering valuable feedback that can be used both as a practice management tool and a guideline for positioning your practice for a realistic price upon sale.

Plan to collect the following information for review by your valuation expert:

- _____ Recent income statements and income tax returns
- _____ Amount of overhead and its percentage of collections
- _____ Total number of active patients and new patients per month
- _____ Equipment valuation from an independent dealer
- _____ Cost and date of all leasehold improvements
- _____ Production and collections report for each dentist and hygienist
- _____ Accounts receivable report, including percentage of accounts actually collected
- _____ Description of contractual relationships with patients, employers, or insurance companies
- _____ Practice expenses for retirement benefits, employee benefits, payroll taxes, medical reimbursement, and other overhead
- _____ Detailed description of the office including number of operatories
- _____ Copy of the lease
- _____ Any non-compete or non-solicitation agreements in place

Choosing your transition strategy

Weighted Pro/Con ranking worksheet

A weighted Pro/Con ranking worksheet is a useful way to analyze projects, such as an equipment or technology upgrade. What sets this tool apart from an ordinary pro/con list of attributes is the ranking element, which lets you rate how important each “pro” or “con” feature on your list truly is, giving you a more meaningful outcome.

How to use the tool

1. List the decision you have to make at the top of a sheet of paper.
2. Divide the page in half vertically and label one side "Pros" and the other "Cons."
3. List all of the possible positive consequences of the decision in the Pros column, and all the negative effects in the Cons column.
4. It may be obvious what direction you should head at this point. If not, take the next step.
5. Add a point value to each positive consequence and each negative effect. For example a score of +5 may be strongly favorable, while -1 may be mildly unfavorable.
6. Add up the scores in each column and subtract the total cons from the total pros. A positive overall score indicates that you should go ahead with the decision, while a negative one suggests you should change or make a different decision.

Let's say you're trying to determine whether purchasing Computer Aided Design and Commuter Aided Manufacturing (CAD/CAM) technology is beneficial to your practice. You might use the Pro/Con ranking worksheet as follows:

Pro	Con	Rank
No need for external lab		+5
Increased revenues		+8
	Expensive	-6
	Training to integrate into practice	-2
		Total: +5

In our example, “Training” has a small negative value of -2 since it takes valuable time to train staff, but the practice has had few problems with this in the past. The “Expensive” value is rated as a high negative of -6. However, the opportunities to increase revenues and avoid referring procedures to others earn positive scores of +8 and +5, respectively. With all scores added together, the final value is +5, a positive result, if not a resounding endorsement, indicating the purchase of this technology might be advantageous for your practice.

Choosing your transition strategy

There are basically three different ways you can transition out of your practice. A pro/con ranking will help you understand the reasons for and against something; the possible advantages and disadvantages of the sale or buy-in. Consider the positive and negative effects of your decisions. Whether you are considering an outright sale, partial sale or associate buy-in, it is important to understand the pros and cons of each so you can determine which best meets your particular needs.

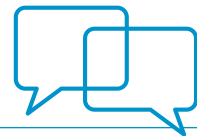
Outright sale



In an **outright sale** you sell the full practice including the inherent value of patient relationships, often called good will, and all related assets, such as equipment, inventory, patient records, building, and land. This approach fully liquidates your practice, enabling you to redirect your assets to retirement funding or other business and investment opportunities.

Pro	Con
Pro	Con

Partial sale



With a **partial sale** you retain a portion of the practice. For instance, you might sell the practice assets only, such as patient records, dental equipment, and furnishings, while retaining ownership of hard assets such as the building, land, and leasehold. This model positions you to generate ongoing income from the hard assets.

Pro	Con
Pro	Con

Associate buy-in



An **associate buy-in** allows a practice associate or co-owner to buy full interest in the practice upon your retirement or departure. This strategy can facilitate a smooth transition for the practice, patients, and staff, but must be documented by written legal agreement to avoid misunderstandings and non-compliance.

Pro	Con
Pro	Con

Choosing your transition strategy

Helpful hints for associate buy-ins

Regardless of which strategy you choose, it is a good idea to have a conversation with your associate before going out on the "open market". Remember that your associate's interest to purchase at a future point may have been a key incentive for joining your practice in the first place. You may risk bitter feelings and litigation if the associate invests considerable time in the relationship only to be denied the opportunity to purchase.

Before initiating any kind of transition conversation with your associate, make sure your plan is set and you are fully ready to discuss agreement terms that clearly and unambiguously describe your associate's rights with regard to buying the practice. The agreement must clearly state whether your associate has the right to "buy into" or "buy all" of the practice — your associate's rights are an "option to purchase" or "first right of refusal".

Option to purchase

The right to purchase your practice at any time during a specified period regardless of the existence of other parties' offers

First right of refusal

The right to purchase the practice after a third party has tendered an offer, or before you as the seller have offered the practice to a third party

You may elect to have your attorney draft an associate buy-in agreement due to the many critical factors involved, including:

- The funding required to purchase the practice
- The method of practice appraisal
- The time at which the practice is to be valued (for example, at the time the associate began working at the practice or after a certain period of time that the associate has been employed)
- Your responsibility, if any, to help finance the purchase price

The importance of written agreements

When you have an associate interested in buying your practice, it's easy to verbally agree to a financial arrangement, shake hands, and assume everything will go well. Unfortunately, this is not usually the case. Working together on a written agreement well in advance of your departure is the best way to ensure a smooth ownership transition.

Elements of a practice buy-in agreement

Be sure the buy-in agreement includes the following:

Terms of the purchase:

Option to purchase

or

First right of refusal

When the transition will occur:

Specific date

or

Specific milestone (when the associate has been there one year, for example)

Purchase price:

Dollar amount

or

Definition of how the price will be determined

Transition communications

Now that you have selected your transition strategy its time to begin communicating with your patients and staff. Change can be difficult and the more you do to ensure a smooth transition the easier it will be for everyone. You have spent years growing and nurturing the people around you and now it is time to implement lasting change.

Patient communications



Letters from both you and the seller sent in the same envelope demonstrate that you're working together in the best interests of your patients and the practice, helping to ease concerns.

Sample transition letter from seller

Selling dentist's name
Practice name
Practice address
City, State ZIP

Date

Dear patients and friends,

It has been my pleasure to serve our community for the past _____ years as your dentist. I have had the privilege of meeting many wonderful people over the years, and have enjoyed serving you and your families. It is with great happiness and a sense of fulfillment that I announce my intention to retire at the end of this month. My last day at the office will be _____ (day/date).

_____ (name/credentials) will assume the care of my patients. Dr. _____ is a board-certified dentist who is an expert in all aspects of restorative and cosmetic dentistry. Dr. _____ attended _____ (name of college/university) for his/her undergraduate schooling and _____ (name of dental school) for his/her dental training. He/She is an outstanding dentist and will take great care of you and your family.

To ensure you receive uninterrupted care, I will turn over my practice to Dr. _____ during the next few weeks. My excellent staff will be staying to work with Dr. _____ and will continue to assist you throughout this transition. For more information about Dr. _____, events, and upcoming promotions, please visit _____ (your website address).

I appreciate your loyalty throughout the years and will take the memories of all I have experienced with me to retirement. I wish you continued good health and all the best in the coming years.

Sincerely,

_____, D.D.S./D.M.D.

Sample transition letter from buyer

Buying dentist's name
Practice name
Practice address
City, State ZIP

Date

Dear patients and future friends,

I am pleased to announce that I will be joining the dental practice of Dr. _____ in the next few weeks and assuming your care when he/she leaves for retirement on _____ (day/date). It is an honor for me to join such an exceptional practice, and I look forward to getting to know you and your families.

Dr. _____ and I both wish to make this an easy and positive transition for us all, and I look forward to carrying on his/her fine tradition of warm, professional, and personalized care. We have worked together over the past several months to ensure that the care and service you rely on will continue without interruption.

Let me tell you a little about myself. I grew up in _____ (city/state), went to undergraduate school at _____ (name of college/university), and attended _____ (name of dental school) in _____ (city/state) for my dental training. I have been a dentist in a nearby practice in _____ (city/state) for the past _____ years. I live nearby, so if you have a dental emergency, I can see you promptly.

I would like to thank Dr. _____ for this wonderful opportunity. You can count on me to continue to provide a stable and comfortable environment where you can enjoy the very best in dental care. I am excited about joining this great practice and look forward to meeting you soon.

Sincerely,

_____, D.D.S./D.M.D.



A photo of buyer will speed up the relationship building process with patients

Contact us for electronic letter templates that you can customize for your practice. 1-888-937-2321 or practicesuccess@wellsfargo.com

Staff communications



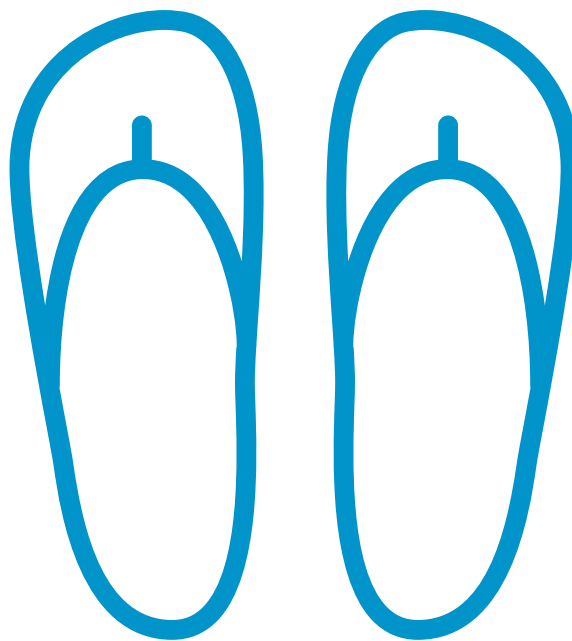
Just as you learned when you purchased or started your practice, communication is important. Patients who hear you are retiring may have concerns about the continuum of care they will experience. Staff may be concerned about their future employment.

Encourage the doctor buying your practice to spend time with the staff before they start working together. Work with the purchasing doctor to help him or her understand your role as owner in any introductions or meetings with staff.

Retirement

Congratulations on the sale of your practice! You have spent what seems like a lifetime preparing for this moment; making a financial plan, developing your practice team, increasing your patient base and still finding time to create that bucket list along the way. You selected a doctor to take over your practice that mirrors your care philosophy and you have confidence he/she will deliver the same level of attention your patients have come to expect. And you ensured a smooth transition for your staff as well, leaving them confident about their future. Your time is now your own...no more alarm clocks, coffee in paper cup or rush hour traffic. So sit back and enjoy. Travel the world, spend more time with family, teach or volunteer.

You earned your retirement; so go do whatever you want, including nothing!



We're here to help you achieve your financial goals.

Wells Fargo offers a wide variety of financial products and services to help. For more information, contact us at 1-888-937-2321 or practicesuccess@wellsfargo.com

How can we help?

Let's talk

1-888-937-2321

Monday through Friday

7:00 a.m. to 4:30 p.m. Pacific time

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