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5W's in Buying a Dental Practice - Volume 42

by David Chong Yen

Buying a dental practice is likely one of the most expensive purchases you will ever make. Knowing what to do in advance will reduce your stress during the entire process. Below is a practical guide for buying a general dental practice.

Where should I buy?

- Location/Location/Location: Determine the population of the area and the number of dentists serving these patients. Consider that a dentist usually needs more than 1300 active patients to be gainfully employed. Identify any major employers of the area. Consider identifying which top 5 employers appear in the patient charts you review. Are these employers stable or facing bankruptcy?

Where do I consult?

- Brokers: Call/visit one of the dental practice brokers and find out what is available in the area of your interest. Obtain the appraisal report of the practice that interests you. Ask your accountant, banker and lawyer to review the appraisal.
- Advisers: select your team of advisers i.e. lawyer, accountant, insurance agent, financial planner and banker etc at the early stage of the process. Members of your team should be intimately involved with the dental industry.

What to look for in a dental practice?

- Determine the demographics of the patients including age, insurance, and whether they are inactive/active (recurring patient). Does buyer speak the language of the vendor's patients?
- Untapped revenue: Is there a hygiene program in place?
- Fees/Collection policy: Is the current dentist collecting the co-payment? What fee guide is being used?
- Years practice in existence: Has practice changed hands recently? If yes, what are the reasons?
- RCDSO standing: Has the practitioner ever been sanctioned, reprimanded or suspended by the College? You can obtain this information from the RCDSO website.

- Intention of practitioner: Determine why the vendor is selling. Retirement, sickness or opening up new practice in the immediate area? Dental reps are a great source for this type of information; also, if someone graduated 10 years ago and, claims they are retiring, I would be skeptical.
- Associate: Any associate(s) currently working at the practice and reason why they are not interested in acquiring the business.
- Buying assets vs. shares: buyers prefer buying assets as they will enjoy a greater tax write off. Sellers prefer selling shares as they enjoy the life time capital gains exemption, i.e. pay less taxes when they sell. Sometimes a compromise is what is required to make the deal transpire. In a vendor's market, there might not be much room for negotiation.
- Buying assets vs. shares: what is your tax exposure in a share purchase? How much is the extra costs in acquiring assets? If you buy shares and the tax department audits a period prior to you becoming the owner, you, the buyer, could be responsible for the amount owing to the tax department.
- % of ownership: Is practitioner selling 100% now or gradually over the years? If the sale is in chunks, how do you protect yourself? How best should you structure the purchase?
- Premises Lease: what are the remaining years, the lease rate, terms of the lease agreement? The term of the lease might hinder your ability to obtain financing to acquire the practice.
- Dental building: is the building available for sale now or later? How do you secure a chance to purchase the building in the future if and when available? If it is for sale now, how best to structure the purchase?
- Equipment: Consider getting a dental rep to examine the equipment; Consider that the equipment may comprise a small portion of the practice's value. Do you have to assume the equipment leases? Confer with your advisors as this could be costly.
- Financing: How to arrange and how much financing is required? What interest rate is being charged? What are the terms of repayment? Is the repayment flexible enough to meet your needs?
- Severance (existing employees): what is your obligation /liability / exposure in dollar terms?
- Transition: work with the vendor to ensure a smooth transition.
- Work with your lawyer to secure an appropriate and reasonable non solicitation and competition agreement; this will protect your practice.

Why is a chart count necessary?

- Number of active patients: Determine the number of patients required to keep your business afloat. A chart audit should provide more insight. The goodwill which includes the patient charts usually comprises 70% or more of the purchase price.
- During the chart audit, please consider the Privacy Act issues (Piepida). Discuss this issue with your advisor prior to the audit.
- Determine what type of work is being referred out. Could you do some of this work?

When should I tender notice to leave my current associateship?

- Not until you have “secured” the deal including but not limited to removal of all conditions including financing and the chart count.
- Review the non competition/non solicitation clause of an associate agreement you have signed.

Having a team of advisors who know the dental industry intimately and a game plan will make this a smooth and exciting process.

David Chong Yen, CFP, CA with an international firm background and more than twenty-four years of experience, advises healthcare professionals and owner-managers. Additional information can be obtained by phone (416) 510-8888, fax (416) 510-2699, or Email david@dcy.ca.

This article is intended to present tax saving and tax planning ideas and is not intended to replace professional advice.