

SELLING YOUR DENTAL PRACTICE

*If you fail to plan...
you should plan to fail!*



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WHY SHOULD I CONSIDER SELLING MY PRACTICE?

The first, and perhaps the most important, question you should be asking! But, in order to fully appreciate the answer, we must first discuss the only real reason that dentists sell their practices... CHANGE!

Like death and taxes, change is just a fact of life. The process of change is an important and natural part of the great cycle of life. And because dentists are people too, they are not immune to the effects of change. As dentists grow older, their circumstances and needs evolve. Eventually, their capabilities also change as emotional and biological clocks begin winding down. This fact is aptly confirmed by ADA statistics, which show a stunning 42.8% decline in average practice gross collections for dentists moving from age 55 to 65.

Dentists sell their practices in order to either facilitate or accommodate change. Those who are trying to facilitate change usually have some specific goal or objective in mind. For these doctors, the sale of their practice is a carefully planned event... an integral part of an overall plan toward economic freedom. On the other hand, there are those who are attempting to sell their practices in order to accommodate or fix some sort of unexpected change in their circumstances. They may be experiencing a divorce, an IRS judgment, a disability; or they may just be burned out. Whatever the reason, something drastic has usually occurred in their life, which has precipitated the need to sell. Selling under such circumstances is an accommodation to the crisis of the moment. The crisis dictates the course of events and everything is more difficult.

Practice sales thus occur in two broad categories: *planned* and *unplanned*.

Planned transitions are preemptive. They anticipate the future and allow for the realization of specific goals and objectives. Planned transitions facilitate and direct the desired course of events. And when properly structured and managed, they are financially and emotionally rewarding for the doctors, the staff, and the patients. Unplanned transitions arise out of crisis, and typically occur when there is a sudden or unexpected event. They are reactive rather than proactive. Unplanned transitions are defensive in nature; a response to events or circumstances outside the status quo. Unplanned transitions are much more difficult and much less profitable. There are several important points to be made about this:

- First, change is a fact of life. But these subtle kinds of changes we are talking about are like periodontal disease... you probably don't feel any pain as the disease slowly progresses. And like any dental patient, unless you are made aware of the consequences of failing to seek proper treatment, you probably wouldn't even know there is a problem.
- Second, the personal and practice changes in store for dentists 50 and older are more acute and difficult than at any other time of life. That's why dental incomes begin declining rather dramatically about this time. Even if everything in your life

seems to be going great now, (no, especially if everything is going great now) plan on dramatic changes over your next decade.

- Third, the opportunity to facilitate and direct the course of change always precedes the need to accommodate it. (Read that again, carefully.) In other words, just like a Periodontitis patient, the opportunities to plan and direct the course of your life diminish over time. The longer you wait, the more likely you are to have to accommodate. (Accommodation is reluctantly doing the right thing for all the wrong reasons).
- Fourth, facilitation is invariably more pleasant and profitable than accommodation. When a transition is facilitated properly, there is time to plan; time to seek the right candidate; and there is the opportunity to do the right thing for all the right reasons.
- And finally, inaction is accommodation. Doing nothing about the changes that are occurring in your life and your practice, or denying that they are even happening to you, allows those changes to dictate the course of your life. Just as untreated periodontal disease will inevitably lead to a loss of one's teeth, so the process of change will gradually eat away at the life of your practice until it too is worthless.

Now that you have a context for understanding why you should consider selling your practice, let's be a little more specific.

You should consider selling your practice if (or because)...

- You wish to truly take control the process of change that is occurring.
- You have no immediate plans to quit practicing and need to maintain your current income from dentistry.
- You would like to convert the equity tied up in your dental practice into an interest bearing cash investment, but you still want to maintain control over your practice and your future.
- You wish to be able to take quality time off from your practice without worrying about the overhead.
- You wish to relieve yourself of the total burden of financial and emotional responsibilities associated with owning a practice.
- You really don't want your spouse and family to have to deal with the trauma of selling your practice if you die or become disabled with no transition plan in place.

- You would like to lock in the value of your practice for estate planning purposes.
- You wish to convert your practice equity to an interest bearing investment. NOTE: a 10% compounded annually investment will double in value about every 7 years. A 50 year old who sells a practice for \$300,000 net today, will accumulate over \$1,300,000 for retirement at age 65 merely from practice equity alone. (More on this later)
- Less than 5% of all dentists are able to comfortably retire by age 65, and you would like to be a part of those 5%.
- You look forward to the opportunity of working with a younger doctor who will bring a fresh infusion of energy and enthusiasm to your practice.
- You wish to broaden your interests and activities outside of dentistry such that when your time as a dentist is over you have lots of life to live.

Obviously, not all of the above factors will apply in every case, but if you peruse the list and discover that at least five of these statements apply to you, then you should seriously consider selling your practice through a well planned and properly structured practice transition process.



HOW WILL I KNOW IT IS THE RIGHT TIME TO SELL?

For most dentists, the sale of their practice is something they think will happen far off into the future when they are ready to quit and have plenty of money to retire. For some, the mere thought of selling is so repulsive that they proudly announce to their staff and patients that they will never retire. These doctors rationalize by thinking "no sense in worrying about something so far off into the future, right?" Why think about a practice sale now? After all, there are so many pressing things to worry about today; like training and motivating your staff, finding new patients, keeping current patients, fending off managed care, OSHA compliance, competition, taxes, computerization, and having enough left at the end of a day to go home and have a life. With all those things to worry about, who has time to think about transition?

Patients with periodontal disease don't typically worry much about their 9mm pockets either, until someone carefully explains what is going on and what will happen if they do not seek treatment. The key to timing the sale of your practice is to first understand and acknowledge your present circumstances. At such time as a little probing along the gumline indicates that the disease is either present or progressing, then it is time to begin the treatment.

A key indicator for timing a practice sale is whether your practice gross income has flattened out or started to decline. Since a major part of your practice's value depends on the amount of verifiable recent collections, a drop in revenue often means a significant loss of practice value. From a purely financial standpoint, the right time to sell is before your practice stops growing.

Perhaps the best indicator, however, is how motivated you feel inside. Would you describe yourself as more of an increaser or a decreaser? Increasers and decreasers have distinctively different needs, and should approach the transition process from totally different angles. If you can't wait to get back to the office on Monday morning; if you still enjoy managing and motivating your staff; or if you are constantly looking for ways to grow your practice and see more patients, you are an increaser. On the other hand, if you find your body in the practice while your mind is on the golf course; or if you have seriously entertained thoughts of cutting back your time at the practice due to stress or fatigue; or if you are bored with practice and just marking time, you are probably a decreaser. In addition, all of you will reach the point where you will begin to sense that your body is beginning to feel the effects of the constant stress and punishment which dentistry hands out. If that's you, then you are also a decreaser (you just haven't admitted it to yourself yet). This is true even if your practice is currently prospering and growing.

If you are a decreaser, time is not on your side, and many thousands of dollars in practice equity are at risk. Decreasers rarely become increasers, no matter how hard they try to talk themselves into it. And the longer they wait... the worse it gets. However, once the burdens of ownership are taken off their backs, we have seen many decreasers really begin to enjoy dentistry again!

And the more they enjoy it, the more relaxed and productive they become. Perhaps it is because they can take a stress free vacation for the first time. Perhaps it is because they don't have to see every untimely weekend emergency patient. Perhaps it is because they can really focus only on the quality patients in their practice. Perhaps it is because they can now take more time pursuing their other interests besides dentistry. Probably it is a little bit of all of these reasons.

A decreaser's primary motive in beginning a transition would likely be to enhance his quality of life by making the most out of his remaining time in dentistry. His secondary motive would be to lock in the value of his practice before it declines, and convert that value into an interest-bearing asset. By so doing, the typical doctor can have four or five times the amount of money (from the sale of his practice) he would have otherwise received by waiting until his actual retirement date to sell (more on this later).

If you are an increaser, the primary reason to consider selling any portion of your practice would be to bring in another equally committed doctor to help manage the growth. Associates are not equally committed doctors. That's why they leave. That's why increasers who bring in associates eventually give up on their vision of how good life could be with another committed pair of hands in the practice. But it doesn't have to be that way, and increasers simply need to learn how to structure a practice opportunity for a young doctor that is worth committing to.

If you decide to sell, you don't have to quit (we will address this in greater detail a little later). You just need to know how to structure the right kind of relationship with a new "partner". Most dentists equate selling their practice with retirement, or a loss of control and status, and therefore often wait too long to begin the process. Across the country, we see more and more dentists selling their practices ten or more years before retiring from dentistry. If properly structured, these "pre-sale" arrangements can be an excellent mechanism for locking in your practice equity while maintaining your income until retirement. As with any long-term relationship, bringing in a young equity partner will require more effort than simply walking away, but the quality of life and financial rewards are well worth it.

We are not talking about a small amount of money here either. A 50 year old dentist with a practice worth \$300,000 can easily have over \$1,000,000 more capital available at retirement, just from the sale of his practice, than the dentist who waits until age 65 to sell. Moreover, the "pre-sale" doctor will have more control over his practice schedule; more time to do non-dental things; and an income comparable to, if not better than the practitioner who does not sell. So what's the catch? You must be willing to enter into a Win / Win relationship with a younger doctor. That's it. Could you do that for an additional \$1,000,000 available for your retirement years?

In summary, our experience over many years suggests that any doctor over age 50 who does not have a plan underway for the transition of his practice is jeopardizing one of his most valuable assets. Far too many doctors wait too long and receive much too

little. This is a highly individual and complex issue worthy of very careful planning and consideration... involving you and your family. A thorough and realistic evaluation of your individual situation can be invaluable in assessing your options and making the best decision.



CAN DEMOGRAPHIC TRENDS AFFECT MY PRACTICE VALUE AND MARKETABILITY?

Dental practices sell because established practitioners have what young dentists need; access to patients. These doctor-patient relationships are commonly referred to as "goodwill," and comprise about 75% to 80% of the value of a dental practice. Medical practices, on the other hand, rarely sell for more than the value of tangible assets. In other words, there is no market value for medical practice goodwill. This is because young physicians can usually start their own practices from scratch, join a large group practice or associate with a hospital and enjoy an immediate patient (and income) flow.

Over the past decade, the number of U.S. dental schools has decreased by ten percent (60 down to 54), and the number of annual admissions to each school has declined by almost thirty percent (105 down to 74). The most immediate impact of this severe contraction in dental graduates has been to open up more opportunities for these young doctors to start from scratch and survive. Just a few short years ago that would have been considered financial suicide. We are beginning to see many more startups that are making it, although a practice purchase still remains by far the best option.

As the time fully arrives again where young dental graduates can successfully start their practices from scratch, dental practice values will continue to decline. A slight decline in practice values actually began in 1990, with average values off 8-11% across the country since that time. We believe this trend is due primarily to the lower number of dental school graduates looking to buy practices, and opting instead to start from scratch.

Demand may be off somewhat, but the supply side outlook is even more ominous. Between 1994 and the turn of the century, one in four (25%) of all practicing dentists will reach age 65. As more and more of this group put their practices on the market, there will be an oversupply of opportunities courting fewer young buyers. Needless to say, this does not bode well for maintaining current practice values in the years ahead. If you have plans to sell in the next several years, it will be well worth the time and effort to begin the planning process as early as possible toward the transition of your practice. This is one time where waiting too long to act will cost some doctors hundreds of thousands in lost equity.



WHAT ARE MY OPTIONS?

The first option is to do nothing and hope that your case will be different; that your practice value will not continue to decline; and that you will be one of the 5% of all dentists who make it all the way to age 65 fully prepared for retirement. Just remember, while you may get away with procrastination in the short run, transition will eventually happen regardless. The only question is whether you want to take a proactive role in facilitating the positive things transition can bring about, or a reactive role where you struggle to minimize the negative impact of the change.

Whatever your decision, understand that the winds of momentous change are upon us, and there is now a significant cost associated with waiting too long to take action.

If you opt to do nothing and still plan to retire in the next ten to fifteen years, don't factor in the current present value of your practice when planning your resources for retirement. It will be a costly mistake.

To give you some idea of the financial cost associated with waiting too long, we ran an analysis of two dentists of the same age with identical practices who took different transition paths.

Dr. A sold his practice at age 55 and continued to work as the associate for the purchaser for the next ten years. Dr. A retired at age 65. Dr. B sold his practice and retired at age 65.

Our analysis assumed that both Drs. A & B sold their practices for the exact same \$200,000. (It is actually highly unlikely that Dr. B would have sold his practice 10 years after Dr. A for the exact same value. Dr. B's practice value realistically would have dropped dramatically given the aforementioned demographic trends.)

Who made the right decision? You decide. Both doctors received the exact same take home income through the years from age 55 to 65, Dr. A as an associate and Dr. B as an owner. Dr. A invested his practice sale proceeds and accumulated \$518,748 for retirement by age 65. Dr. B received a \$40,000 down payment at age 65 and a note representing \$24,000 (principal and interest) per year for 10 years.

Both of these doctors worked the same number of years in dentistry. Both did the same number of amalgams and crowns throughout their careers. Both took home the same incomes during their careers.

Was Dr. A really that much smarter than Dr. B? Maybe he was!

When the time arrives for you to seriously consider a transition, you should know that there are two basic ways to sell a practice. You can sell all of it, or you can sell part of it.

The variations on those two basic structures are numerous. For example, you could sell all of your practice to a young doctor and simply walk away. Or you might consider becoming his associate, working when you want, on the patients you want, doing the other things you've always wanted to do but couldn't because you were tied to the practice. This can work well if the practice qualifies, and if the agreement between the doctors is carefully structured and equitable to both sides. Keep in mind that it is possible to sell your practice and maintain your level of net income, while at the same time diminishing your managerial responsibilities and time commitment. There are several ways this can be accomplished, depending on the circumstances. Some of you have practices with so much untapped potential that we can bring in a qualified buyer and have both of you extremely productive within a very short period of time. In other cases, we may need to bring a young doctor that already has some production from an associateship or small practice. Either way, it is possible for you to see your patients and earn the income you need without the hassles of management and the burdens of ownership.

Selling 100% of a practice is typically easier and far less complicated than selling part of one, and should be the preferred method of transition for all dentists who do not consider themselves increasers. On the other hand, if you are clearly an increaser, you should consider selling part of the practice now, and the rest later when you are closer to retirement. This method has proven best for middle-aged dentists who are still experiencing growth and who could use another set of committed hands in the practice. Bringing in an equity partner is far preferable to the "revolving door associateships" we see so frequently. However, each method of transition offers certain advantages and disadvantages. Careful consideration of both the opportunities and risks associated with each approach should be made before entering into any binding legal agreements. These new relationships can be very rewarding if put together properly. They can be devastating if they are not. This is not something that should be put together without sound professional advice from people who have direct experience in these types of agreements.

Remember that while taking positive action may have its risks, taking no action at all has even greater risks. If you do something positive, you have a good chance of success. If you do nothing, your practice equity will continue to depreciate. Just ask your physician friends how quickly it can go away.



IF I SELL MY PRACTICE WILL I HAVE TO GIVE UP CONTROL?

Very good question! Dentists have a well-deserved reputation for being fiercely independent, and PARAGON recognizes that the thought of actually working in a relationship with another doctor can at first seem rather scary and unappealing. But before you make a hasty decision, consider the following... just what is it that constitutes "control" in a professional practice?

Are you really in "control" of your practice or even your schedule for that matter? How many practice owners can take a two or three consecutive week vacation without getting eaten alive by your practice obligations? Real control lies deep within your staff and patient relationships, and no one can come between you and your patients until you are ready for that to happen. A properly structured agreement between you and another doctor can allow for those key relationships to remain with you for as long as you wish. Such an agreement should carefully provide for all the proper financial incentives and legal rights and responsibilities of the parties. Be aware that there are thousands of subtle little things that must be considered to make these agreements work. We have worked on this concept since 1988, and only recently have we felt like we have all the bugs out.

After just six short months in a pre-sale, one of our seller clients in this program called us up to say that he was enjoying dentistry more now than at any time in his life. He had also made more money each month since the sale than he ever had in solo practice. Maybe that helped. His only regret was that he waited until he was 60 years old before he did it!

Make no mistake, however, the tremendous benefits of a planned transition do not come without risks. Nor will they happen without a good deal of commitment and effort by all. Moreover, the structure of the transaction will need to be carefully put together to avoid unnecessary conflict and compromise.

So why make the effort?

- Because now that you understand that you can maintain control over your practice (and your income) while at the same time allowing your practice equity to double or triple by the time you retire, you are left without any good reason not to do this.
- Because you want to have a better quality of life now and when you retire.
- Because you don't really want to die at the dental chair.
- Because you want the peace of mind that comes in knowing you are in practice because you truly love it, not because you have to make money to pay your bills.
- Because you have a responsibility to your spouse and children to pass on the equity value tied up in your practice.

- Because no right-thinking dentist would ever want his spouse and heirs to have to deal with the unbelievably difficult process of disposing of a practice post-mortem.
- Because the best part of success is the opportunity to enjoy it.
- And finally, because being in solo practice isn't all that great, and having another committed colleague around might be a nice change of pace.

Many of our clients transition in order to fund their retirement plans. If it is true that only 5% of all dentists can afford to retire at age 65, then doesn't it make sense for more of you to convert your practice values into interest bearing and growing assets? The miracle of compound interest works best over longer periods of time, making the cost associated with waiting each and every year extremely high. As previously mentioned, this can be a multi-million dollar decision.

In summary, the vast majority of these properly structured transactions really do work out well for everyone. Many of our clients write to us describing their liberation from the duties and burdens of ownership and management. Perhaps one of our clients said it best when he wrote:

"I haven't always made the right business decisions with my practice, but I can say without reservation that this was by far the best thing I ever did. I must admit, however, that before we did this I was really concerned about selling my practice outright and losing control of my primary source of income. The irony is that now I realize I really wasn't in control before. My practice ran me. Now, for the first time I can take extended vacations without worrying about the overhead. I can treat my patients and pick up my check without having to deal with all the "other stuff" that used to bog me down. And I have maintained my income while cutting back my hours."

Like this client, many doctors have come to know that only after they transition their practices are they truly in control of their futures. Only then are they able to work when they want, see the patients they want, and do only the kinds of procedures they enjoy doing. Only then can they assure their spouse and family that the value of what they have worked a lifetime for will really be available if something untimely should happen to them. They eventually come to understand that their former sense of control over their lives was more of an illusion than reality.



IS THERE A COST TO WAITING A COUPLE OF YEARS BEFORE I SELL?

We have occasionally heard a dentist say: *"Everything is going quite well right now. I don't want to mess with a good thing. Besides, if I continue as I am now, over the next two years I will make about as much money as my practice is worth anyway. Why not just keep on working a few more years and then it won't matter what price I sell my practice for, right?"*

There are obviously several problems with this logic!

First, earned income should never be confused with ownership equity, especially in a dental practice where you can continue to earn an income and receive your equity. The PARAGON Presale Program was designed especially to allow a seller to take his practice equity TODAY and retire at some date in the future... and the seller selects his retirement date when he is ready!

Second, you could make that same argument just as effectively next year or the year after that, and thereby rationalize your way right on through the remaining years of your career until it is absolutely too late to do anything.

Third, none of us can ever be sure we have another two or three more years. If something happens to you during that time, or before you get around to bringing in another doctor, (and such things do happen much more frequently than you may realize) then that extra year or two will be costly indeed.

Fourth, the very best time to begin a transition is when everything is going well. Who is going to want to buy into your practice after it has started to decline?

And finally, consider the true cost of waiting just two more years. Let's say you are a successful 50-year-old dentist with a practice grossing \$500,000. If you wait until you are 52 years old and then sell for the same amount as you would have received at age 50, those two years will cost you over \$230,000! (\$234,893 to be exact, assuming a 10% annual compounding return through age 65. Since this can all be done through a tax-free retirement plan, no adjustment for taxes has been included.) In other words, if our doctor had sold at age 50 and continued to work until age 65, he would have \$230,000 more at age 65 than he would if he waits just two years. Now, how long does it take you to save \$230,000 from your practice income? We'll bet it is more than two years. For many of you, it may even be fifteen or twenty years. Think about it!



WHAT IF I WERE TO BRING AN ASSOCIATE IN FOR A TRIAL PERIOD BEFORE I SELL?

If we have learned anything over the many years of transitioning practices, it is that the odds against an associate ever buying into a practice are overwhelming! The chances of an associateship breaking up in complete disappointment for all concerned are in excess of 90%. In fact, the only reason to bring an associate into your practice without first requiring an equity investment is if, and only if, both you and the associate have short term goals and needs (meaning 90 days or so). If you hire an associate without requiring an immediate equity investment, plan the associate leaving one day... and feel very fortunate if the associate does not take patients and staff with him!

Contrary to conventional wisdom, you do not have to "live together" for a year or two to see if he or she is the ideal candidate. In fact, the longer the relationship goes without the requirement of an equity investment, the greater the likelihood that it will end in disappointment. Keep in mind that a commitment to ownership is a much different kind of commitment, and brings with it an entirely new mind set and focus for all concerned. We have seen countless sellers who have had well-paid associates in their practices for years without any problem, all the time expecting that someday they would simply sell the practice to the associate and ride off into the sunset. Virtually all of these situations have ended in disappointment and professional divorce. Some have ended tragically, costing the seller years of his retirement. Don't put you and your practice at risk! If an associate cannot or will not make a commitment to ownership now, how can you be sure that they will when you need them to?

If per chance you have an associate in your practice now, and if you think you would like to commit this associate to an ownership role, then don't do anything without first seeking professional guidance. We have found that the initial approach to the associate is critical in creating the proper environment in which to get the commitment. If you get things off on the wrong foot, it is unlikely that anyone can resurrect what may otherwise have been your best shot at getting an excellent transaction completed.

The absolute worst thing you can do is to hire someone to appraise your practice and then present the appraisal to the associate with the expectation that he will simply take it at face value and write you a check. If you really want to insure that the transaction actually happens, then get some professional advice from someone who knows how to put these things together and let that advisor make the initial presentation.



IS IT POSSIBLE TO SELL MY PRACTICE A PORTION AT A TIME?

Yes, but this approach should only be considered if your practice is large enough to support two doctors. Make sure you have adequate internal growth potential in your practice. If you do not know how to assess your internal growth potential, then seek professional assistance to get an in-office analysis of your practice potential.

For appropriate practices, the co-ownership arrangement is a very successful transition plan. It commonly involves bringing in an "heir apparent" associate and selling 50% of the practice (either immediately or on a deferred arrangement). The two doctors will then work together as co-owners until the original owner decides to sell his or her remaining ownership interest and either retires or works for several more years as an associate for the practice.

When is this co-ownership arrangement a good plan? If your practice has tremendous internal growth potential but you are currently doing all that you possibly can (known as your "Solo Economic Threshold"), then a second doctor will allow the practice to grow to the next level of achievement. The practice market value will also grow to the next level.

However, be careful. In any deferred buy-in arrangement, this is the point where doctors experience serious problems unless they have properly structured the relationship. As the practice grows, you will consider all of the increased value to be yours since you own the practice. The associate will consider that he or she was responsible for all of the growth and should not have to purchase it. And in a sense, both of you are right. At this point the negotiation process normally tears the relationship apart. Fair cannot be negotiated, only determined! Negotiations can be avoided, however, with proper planning and a well-designed contract.

Co-ownership (partial sale) arrangements are not for everyone, but for those practices that can adequately support the plan the financial benefits can be tremendous indeed. It is quite often equivalent to selling your practice for twice it's current market value. Find out if your practice can support a co-ownership plan and always seek professional advice before you allow any associate into your practice.



HOW LONG CAN I CONTINUE TO WORK AFTER I SELL MY PRACTICE?

The PARAGON Presale Program was designed specifically for the dentist who seeks to convert his or her practice equity to cash TODAY but who does not wish to stop practicing dentistry for a prolonged period of time. How about a contractual guarantee to work another 5 years, 10 years or even 20 years... the Presale Program provides the ultimate in flexibility!

You may not even have to cut your clinical time back after you sell if a merger buyer (an existing practice owner in the immediate area) is a possibility for your practice location!

In many cases, a seller can work as long and as much as he or she would like after the sale of the practice. The Presale Program truly is like "having your cake and eating it too!"



WHAT SHOULD MY EXPECTATIONS BE?

Every dentist who has decided to sell his practice has certain preconceived ideas about what the practice sales process entails. Sometimes those ideas and expectations coincide with reality. However, it is not that infrequent that your expectations are just simply not realistic.

It would be virtually impossible to list all of the misconceptions which dentists bring to the process, some of which cost them tens or even hundreds of thousands of dollars. Rather, here are just a few of the things you can realistically expect as the process unfolds.

- Expect the process to take time... 6 to 12 months for general practices in major metro areas and up to 36 months in smaller rural communities.
- Expect your most interested buyers to not have any money and to have questionable credit worthiness.
- If you don't know where to go to get them the money they need, expect to finance a major portion of the sale price yourself. We know of sellers who have financed 100% of the sale of their practices (not our clients).
- If your equipment is more than ten years old, expect the purchaser to tell you it is worthless and will have to be replaced by more modern pieces.
- Expect to deal with a lot of sincere but naive young doctors looking for the lowest price, and unless you have someone carefully screen each inquiry, expect to waste time and money entertaining "tire kickers."
- Unless you take the proper steps up front, expect to have every disclosure, every number, every minute detail of the transaction, and every representation you make scrutinized, questioned, and negotiated.
- And if you don't carefully coach your lawyer and accountant, expect to pay for their education in the specialized and narrow field of dental practice sales. If you choose not to coach them, but allow them to take control of the deal, expect that they will foul it up, make everything ten times harder, and still send you the bill for their magnificent performance.
- And just when you think you have everything in order, expect your purchaser and his advisors to change their minds about this or that.
- In short, fully expect the unexpected!

Get good advice (and take it!) from qualified professionals. Qualified professionals are those with demonstrated and fully disclosed or published track records of successful dental practice transitions. Find out as much as you can about the firm you hire. Check references. Know who you are dealing with.

WHAT IS MY PRACTICE REALLY WORTH?

Your practice is worth exactly what someone is willing to pay for it in your particular marketplace. This may sound like a cliché, but it's indeed a realistic fact of life. Please read on.

Buyers of general practices are paying 46% to 88% of the most recent twelve-month's collections (this range excludes duress sales for death, disability or health reasons. Studies show such distressed sales average near 30% of the prior year's gross collections). Specialists typically pay somewhat less for practices--when they can be convinced to pay anything at all. Circumstances surrounding each practice sale vary widely, from estate sales to partnership buy-ins. In general, healthy and active practices with fee-for-service patients and strong new patient flow bring higher valuations. Older practices typically bring less, even though they often represent the best opportunities for growth for the purchaser. The difficulty with realizing the full intrinsic value of older practices is often one of perception of value by the purchaser.

What someone will ultimately pay for a practice is entirely dependent on what they believe, how they feel, and in whom they trust. If the purchaser believes the valuation analysis, feels good about you and the staff, and completely trusts that the appraiser has been objective and fair and that he or she can actually make things work, then there is a high probability that he or she will pay the full appraised value.

The person most qualified to appraise your practice is one who has actually demonstrated the ability to market and sell practices in your market at their true appraised values. Beware those who make more money off of practice appraisals than they do off of actually closing transactions. Remember, the appraisal isn't worth the paper it is written on if the appraiser can't back it up with purchasers ready to pay the appraised value. All too often, unrealistic ego-inflated appraisals have caused legitimate purchasers to pass on excellent practice opportunities. Most of these same sellers were eventually compelled to sell at a fraction of their original "asking price."

The moral of this story is to know who you are dealing with. Ask lots of questions, and directly check references of specific clients (buyers and sellers) who have actually closed their practice sales through a particular firm. Some firms are very open about these references and actually regularly publish names and past transactions. Other firms and / or individuals may be quite a bit more wary about giving out names. There's probably a reason. Ask.



HOW WILL I KNOW I HAVE THE RIGHT PURCHASER?

Selling a practice is typically a very emotional time in your life and you want to make sure that you have the right doctor to take over the dental care for your patients. Unfortunately, sometimes the truth is that you may not know for sure that you have the right purchaser until long after the ink is dry on the contract! Fortunately, however, most of the time the REAL purchaser is not hidden from you or from PARAGON until after the sale has been completed because there are so many “testing” points where the REAL purchaser will likely surface along the transition process.

Keep in mind that the purchaser of your practice will be asked to take on some tremendous commitments in acquiring your practice; both financially and emotionally. But, before those major acquisition commitments are assumed, there will be plenty of smaller commitments the purchaser must overcome. The acid test in determining how a purchaser candidate will handle the major commitments of ownership will be how he or she handles these smaller commitments that progressing through the practice acquisition process requires.

For example, the “right purchaser” will remain enthusiastic and cooperative with you and PARAGON. The “right purchaser” will be truly appreciative of the opportunity that is before him or her. The “right purchaser” will pay a fair market price and not try negotiating just to be negotiating.

The transition of a dental practice is a very personal and revealing process. As you and the purchaser move along the path of commitment, everyone will learn new things about each other and, more importantly, about themselves. PARAGON’s experience is that somewhere along the way (typically well before the closing) the “flakes” will reveal themselves.

Even though PARAGON tries very hard to screen all of our purchaser candidates, ultimately, the final decision to proceed to contract with a particular purchaser will be yours, not ours. You will need to spend time with a purchaser candidate so you can form your own opinions. You must also communicate your concerns or any warning signs that you sense to PARAGON immediately so we can do our own further investigations.

It may be helpful to know that PARAGON does not contract with every potential purchaser we meet. In fact, we probably only accept about 50% of these doctors as clients!

It may also be helpful for you to know some of the things we look for in selecting those dentists that we decide to work with as purchasers.

First, we look for purchaser clients who demonstrate a high degree of integrity and moral character in their dealings with us. Then we review their track record in making and keeping commitments by asking about their work history. We also examine their

ability to fully understand the comprehensive nature of the financial information we present on each practice opportunity. If a purchaser candidate can not show us that they are serious and see a practice as an opportunity and not juts a purchase price, we elect to pass on that doctor as a client. And finally, we also assess a candidate's willingness to continue their learning process beyond dental school.

PARAGON is not qualified to judge a candidate's clinical abilities. We must rely on you to satisfy yourself from that perspective. However, discussing various dental procedures and learning how this doctor would handle various cases should provide you with adequate insight into this important factor.

If all of these things are in order for both you and PARAGON, you probably have a very good candidate that will satisfy your transitional needs with no hitches.



WHAT IF THE PATIENTS STOP COMING TO THE PRACTICE AFTER I RETIRE?

One of the great myths surrounding practice transitions is that 20% to 50% of the patients will not stay with the practice after the sale. The truth is that in most carefully structured transitions, the attrition rate is actually less than 5%. Several independent studies from various parts of the country confirm this figure. In most all cases where we have seen extraordinary patient losses, the cause was directly traceable to mishandling by the staff and doctors and not a direct result of the transition.

However, practices with certain patient and demographic profiles will not transition without significantly higher patient losses. Fortunately, practices with this same profile typically perform much better financially for the purchaser in spite of the attrition. It may be important to know whether your practice fits this particular profile, as there are several steps that can be taken to improve the overall transition. However, these steps must be taken well in advance for them to be truly effective.

The very best way to keep the patients in the practice is for the seller to give the purchaser a strong endorsement in a letter sent directly to the patients. Most patients will then give the purchaser at least one shot at winning them over during a patient visit. Again, multiple studies over many years have shown that the average patient attrition is negligible in most cases.



IS THERE ANYTHING I CAN DO TO ENSURE THE PURCHASER'S SUCCESS?

Yes! Once the practice is sold, let go! Whether you have sold 50% or 100%, whether you are staying on or moving on, let go!

This may be the hardest part of the sale process, but things will go much smoother when you give the young doctor room to make his own contribution. This may mean going along with some new processes or procedures he or she would like to implement. Keep an open mind, and always support the purchaser publicly or in front of staff. Patients will likely call you at home to express their concerns over the changes taking place. When they do, be sure to remain firm in your support for the purchaser. The more commitment the patients sense from you toward the purchaser, the more committed they will be. Resolve differences quickly, and behind closed doors.

It is always a good idea to encourage the purchaser to seek professional advice from someone who specializes in managing dental practice transitions post-sale. This person will educate and advise the young purchaser in dealing with the myriad of situations which he or she will face as an owner or partner in the practice (staff leadership and management, hiring and firing, patient retention and case presentation, regulatory compliance, financial monitoring, clear communications, etc.) Most importantly, a transition management specialist can anticipate problems in advance and help the entire practice avoid costly mistakes and detours.



IS A TRANSITION PERIOD NECESSARY OR CAN I SELL AND SIMPLY WALK AWAY?

Contrary to what you may think, it is rarely necessary for a general practice seller to remain with a practice for a transition period (specialty practices that rely on doctor referrals typically do require a one to two year introductory period).

In fact, many times the transition process is smoother and simpler if the seller simply walks away. If handled properly, patient retention will likely be very high whether the seller stays on or leaves immediately.

In some cases, the patient retention actually improves when the seller walks away. Personal introductions of the purchaser by the seller are not necessary, and more often than not are clumsy and counterproductive.

Again, your decision to remain with the practice after the sale should be viewed as an option available to you and not as a prerequisite for the purchaser's success.



HOW LONG WILL IT TAKE TO FIND A PURCHASER?

Typically, the smaller the town the longer it takes to sell the practice. It can easily take 24 to 36 months in small towns or less desirable areas of larger cities to find a willing purchaser.

If you are a specialist living just about anywhere (metro or rural) you can expect at least 18 to 24 months to complete a transaction. Certain specialist purchasers are very hard to locate.

For general dentists located in prime sections of major metro areas, expect 6 to 12 months to find a suitable purchaser and complete a transaction.

Once a qualified and interested purchaser has been found and all terms have been agreed upon, it usually takes about 6 to 8 weeks to get the transaction closed. If no bank financing is required, the process may only take 2 to 3 weeks.



WHAT SHOULD I SAY TO MY STAFF AND WHEN SHOULD I SAY IT?

Confidentiality is very important! It is always best not to say anything to anyone until the transaction is completely finalized

The best time to tell the staff is also after the deal has closed so both you and the purchaser can explain to the staff together about the practice sale. You don't want the staff to seek employment elsewhere because they erroneously think you will just pick up and leave the practice without a replacement.

However, if one of your staff members suspects something, then by all means have a confidential meeting with that staff member. Inform the staff member that you have retained PARAGON to locate a purchaser for your practice. Explain to them that one of the reasons you decided to use PARAGON is because of PARAGON's track record of finding a purchaser that best fits into the current personality of the practice. You can assure the staff member that in virtually all of PARAGON's practice sale transactions (other than merger transactions), the purchaser keeps the existing staff in tact.

Be very positive when discussing the sale with a staff member, letting them know that you are looking out for their future by seeing to it that the practice will continue as normal as possible after your retirement! Expect the staff member to be somewhat sad and also concerned about whom the purchaser will be, but you should assure the staff that you will do your best to see that a suitable replacement is located.



WHAT IF I OWN MY BUILDING?

The inclusion of real estate with a practice sale significantly complicates matters. We have seen situations where the seller has insisted upon the purchaser acquiring both the practice and the real estate. Even if a discount was offered as an inducement, our experience suggests the inclusion of the real estate turns away otherwise interested purchasers, significantly extending the time required to find a purchaser.

While it is possible to sell both the practice and the building to a single purchaser, you should know that historically, when real estate and professional practices are combined in a single transaction, the value of both are significantly compromised.

To maximize the return on each asset, many dentists sell the practice and rent the building to the purchaser under a long-term lease with an option to purchase. This allows the purchaser time to get comfortable with the practice before taking on the additional debt associated with the building and provide you with a monthly income stream in the form of rent.



WHAT WILL IT COST ME TO SELL MY PRACTICE?

If "cost" is defined as money paid to a professional firm that would otherwise be retained by the seller, then the "cost" to sell a practice is often ZERO. After all, for it to cost you something, you must assume you could get to the same point without the benefit of a professional firm handling the transaction. The likelihood of that happening is nil. In the vast majority of cases, dentists using professional advisors net (after fees) significantly higher dollar amounts for their practices than their do-it-yourself colleagues. Those few dentists who insist on going it alone incur the real costs of selling a practice. How strange it seems to us when, in order to save a few thousand in fees, dentists will undervalue and negotiate away several times the amount they would have really paid to have it done right. The sad irony is that they never know what it really cost them, because they never know what they might have received otherwise.

Keep in mind that a true professional will actually add value, not cost you money, as the process unfolds. His expertise in practice appraisals will insure full fair-market valuations. His credibility as a transition specialist will give comfort to the purchaser and assist the purchaser in making some difficult commitments without succumbing to the temptation to dicker over price and terms. His focus on the big picture will help keep envy and greed from corrupting a good transaction. And finally, his broad knowledge of legal, tax, and financial issues will save both doctors untold thousands they would otherwise spend to have their other advisors research, explore and revisit the critical issues.

For his services, a qualified and competent professional will charge about 10% of the gross sale price to the seller to handle the transition. That is what it takes for most consultants to actually deliver on their commitments and make a fair profit. As with any business, you may find some who charge less, just as there are dentists who will cut a crown for \$239. But ask yourself this question, "If firm A can sell my practice for its full value of \$100,000 without negotiations and charges me \$10,000 to handle it right (\$90,000 net); and firm B can sell my practice after much time and negotiation for \$92,000, but only charges me \$4,000 (\$88,000 net), why choose B?" We never cease to marvel at the number of dentists which choose an advisor based primarily on which firm has the cheapest fee rather than who can do the best job. Yet these same dentists will grumble about patients who think in the very same narrow way! Which firm (A or B) do you think will have the greatest incentive to get the job done? Which firm will likely still be in business and willing to respond later if something should go wrong? Which firm has the resources available to make sure everything is handled the right way? And which firm will be there to show the purchaser how to make the most out of his investment in the practice?

I should say that there are times and circumstances where a 10% fee should be adjusted or changed to a flat fee. For example, if you have a purchaser already lined up, and if that purchaser is willing to be cooperative, then a discount off the 10% is normally appropriate. Some dentists mistakenly believe that the primary function of a consultant is to find a buyer. Far from it. We estimate that only about twenty percent of

the work we do involves finding a candidate. The remaining eighty percent of the effort is expended after the candidate is in place. We typically adjust our fees accordingly, but each transition is different and therefore each situation is treated independent of the others.

Some advisors are what we call deal oriented. They are there to put a deal together, collect their fee, then move on to the next deal. Others are relationship oriented, and seek to only put transactions together that work for both sides. Building long term relationships with satisfied and successful dentists distinguishes this approach from the former and generally leads to much better long term results.

NOTE: PARAGON's full-service 7% dual representation transaction fee for sellers is rather unique and, to the best of our knowledge, the most competitive in the industry. Ask your PARAGON consultant to explain the details.



PARAGON ARTICLES

PARAGON has published numerous articles on various interesting topics including articles concerning the sale of a dental practice. On the following pages we have provided a few of our practice sale articles for you review and enjoyment. We welcome your comments, suggestions and constructive criticism. Please feel free to email your thoughts to articles@paragon.us.com.

ARE SELLERS GETTING YOUNGER?

Definitely YES! The average age of PARAGON's sellers has dropped from 62.4 years old to 51.3 years young during the first decade of the 21st century. And this trend appears to be continuing. We continue to list more and more sellers who are in their 40's and 50's all the time.

Why are dentists selling at such a young age? There are some extremely sound reasons for this trend. Burnout, stress, boredom, disgust are just a few reasons... but, quite frankly, the most frequent reason for selling at a younger age is purely FINANCIAL.

The fact that more and more doctors are taking advantage of the various PARAGON co-ownership programs has certainly contributed to younger sellers, but, many doctors are also discovering the PARAGON PreSale Program as a life-changing alternative. The PreSale Program makes it possible to maintain your current take home income level and your present life style for as many years as you desire... while converting your current practice equity into a useable cash investment TODAY! This is a major financial advantage that is very hard to ignore.

For example, let's say a 45-year-old doctor owns a practice worth \$600,000. This doctor is busy enough and cozy in the proverbial "comfort zone." By his own admission, it is unlikely that he will put forth the effort to take the practice to a significantly higher level. This is further confirmed as he has been at or around this \$600K value level for several years now. If our 45-year-old converted his practice equity into cash today and invested the after-tax portion (\$480,000) for the next 20 years at only 6% interest, he would accumulate approximately \$1,600,000 by age 65. Consequently, to net the exact same amount by selling the practice at retirement (unrealistically assuming that ordinary income tax rates and long-term capital gains rates do not increase any over the next 20 years), he would have to sell the practice for \$2,000,000 (paying taxes of \$400,000 to net the same \$1,600,000) at age 65. That means that his practice would probably have to have a gross collected production of around 3 million dollars a year by age 65. Are you kidding me? That is not even feasible enough to be classified as a fairy tale!

So, if our 45-year-old could be assured that his annual income would remain at or near the same as it is now for the next 20 years, does it make any sense for him not to sell and invest his practice equity TODAY?

Our 45-year-old could obviously wait to sell because he feels he will eventually put the drive into building the practice gross income above its current levels. But, even if he could muster the drive and energy, he may still be fighting a losing battle as far as practice equity value is concerned because the supply and demand trends in dentistry today favor a significant drop in overall dental practice equity values over the next decade. We are fast approaching a "buyer's market" in which we will see far more sellers than buyers and market values falling (ask your PARAGON consultant for a copy of Article #3217, "The Diminishing Practice Value").

Without acquiring a practice for merger (not very likely for a doctor in the "comfort zone"), could our 45-year-old really build his current practice up enough to make a difference anyway? Let's see. If our 45-year-old dentist waits one more year to sell it would cost him over \$100,000 at age 65 (\$480,000 invested at 6% for 19 years equals \$1,496,592). \$100,000 is almost 17% of his current practice value just for procrastinating one year. That means he would have to increase his practice's gross income by 17% next year just to break even. Can you realistically increase the gross income of your dental practice by 17% in just 12 short months? I once vowed to never say never, but I don't see how that much growth is possible for a doctor in the "comfort zone."

Frankly, once a dental practice reaches its peak value it makes no financial sense at all not to sell... regardless of your age. You can maintain a substantial current income for as long as you desire after you sell. You can work when you want to work and only see the patients you want to see after you sell. You can even pick and choose the procedures you enjoy doing after you sell. You can accumulate significantly greater sums of money by your desired retirement age by selling early rather than late. You can be in a position to retire at a much earlier age than those dentists who don't sell early. There appears to be every reason to sell younger and, as far as we can see, no logical reason to delay off selling!

We did not even mention the inherent uncontrollable costs associated with the unknown... death, disability or extended illness. Either could destroy your practice value in a very short time!

You owe it to yourself to explore your options. Call PARAGON today for a complimentary consultation. No obligation... just a very worthwhile education!



YOU JUST REALLY NEVER KNOW

We recently received two very sad telephone calls.

The first call was from the widow of a dentist who wanted to know if we could help her sell her deceased husband's practice. She said she was not sure but she thought that her husband had told her the practice was worth about \$375,000. Unfortunately, we had to tell her the truth. The primary value of the dental practice is in the patient relationships that her husband had developed over the years. Since he obviously could no longer transfer that goodwill to the new dentist the value had already dropped by as much as 50% and if we were not able to sell the practice within the next 30 to 45 days she would be lucky to receive any more than 25% of the original practice value. This was obviously not what this widow wanted to hear.

The second call was also from a dentist's wife. She wanted to know if we could please help her find a doctor to help her keep her husband's practice operating until a buyer could be located. She explained that it was her only source of income and that now that her husband had suffered a stroke she did not know how she would be able to manage. Only time will tell how much financial loss this dentists and his spouse will experience.

The first doctor was 56 years old when he died. The doctor who just suffered the stroke is only 61 years old. This widow and frightened spouse would not have been calling PARAGON if their husbands had just been more aware of their practice transition options and had arranged for the sale of their practices before it was too late to do so. PARAGON consultants have been transitioning dental practices since 1988 and we have received hundreds of phone calls just like these. It is really disturbing how often we do get these calls! I guess we will never fully understand why so many dentists are risking everything they have worked decades to build when it is so easily prevented.

Consider this:

- If you were to sell your practice TODAY, you would not have to retire until you were ready to retire. It is possible for you to continue to do dentistry for another 5 years, another 10 years, or even another 20 years! Your retirement timing would be totally your option.
- If you were to sell your practice TODAY, you would not have to stop treating YOUR patients until you are ready to stop doing so! You make that decision at the time you want to make it.
- If you were to sell your practice TODAY, you will still be your own boss tomorrow and the next day and the next day and...! You alone control the clinical schedule that you will work and the procedures you will do after selling your practice.

- If you were to sell your practice TODAY, you could possibly have the option of structuring the sale so you will continue to earn as much annual income as you were earning before you sold your practice. In fact, in some situations your income could be even higher than you earned while owning the practice!
- If you were to sell your practice TODAY, you will be able to invest your sales proceeds NOW and with the miracle of compound interest these sales proceeds will be worth much more when you actually do need the funds for your retirement.
- If you were to sell your practice TODAY, you will fully protect yourself against any loss of practice value due to circumstances beyond your control (such as death or a stroke or even a severe fall off in the local economy).

Your dental practice is an extremely valuable asset. You owe it to yourself and your family to call PARAGON and set up a convenient time to meet and talk with a transition consultant about a possible PARAGON Presale Plan for you. No obligation... just a very worthwhile education!



THE DIMINISHING PRACTICE VALUE

For the past two decades, we have definitely been in a "seller's market." Dental practice market values, as a percentage of gross revenues, has been at all time highs the last 5 years or so. However, the next decade is projected to see a significant change as market conditions are such that a transition into a "buyer's market" is inevitable. Once this market transition begins to happen, the market value of dental practices, as a percentage of gross revenues, will begin to fall.

The dental industry has experienced an unprecedented trend of rising practice market values since 1983. This "seller's market" condition has been even more prevalent since 1988. In 1988, it was quite common for prime metro area dental practices to sell in the 50% to 60% of annual gross revenues range. Today, the majority of these same practices would sell in the 80% to 90% of gross revenues range.

However, changing market conditions will soon cause this trend to reverse. The reversal will move slower in some areas of the country than others, but nonetheless, a decrease in dental practice market values will spread nationwide over the next 10 years or so.

The following basic supply and demand factors and/or trends will impact the sale of dental practices over the next decade:

- In 1995, 23.4 percent of professionally active dentists were 55 years of age or older. A recent dental practitioner age study indicates that this percentage is projected to reach 42% in 2010 and just over 57% by 2015. This is the result of the "baby boomer" phenomena that occurred due to the unprecedented birth rate between 1946 and 1964.
- The "baby boomers" are just now beginning to start selling their practices in numbers. "Baby boomer" sellers will grow significantly each year of the coming decade and will begin to place significant pressure on the market.
- The number of dental school graduates is only slightly increasing at a rate of about 60 per year with approximately 4,400 graduating in 2003 and 4,700 graduating in 2008. As a point of reference, dental school graduates totaled 5,800 in 1983 (an expansion to accommodate the "baby boomers").
- Demographic projections reveal that, over the next decade, the number of retirees will greatly outnumber dental school graduates.
- 75 percent of all dental practices are solo owned. This percentage is even higher with general dentists.
- Less than 5 percent of all dental practices have a formal transition plan or their "heir apparent" in place.

- Stress levels and burnout symptoms have steadily increased over the past two decades due to business; management; growth; and various government agency demands of dental practices. There are no indications that would cause this trend to change in the foreseeable future. Due to these factors, there will continue to be sellers who sell well before the customary retirement age.

With a market place that is certain to see significantly more sellers than buyers in the coming years, current practice owners will soon be facing a "buyer's market". The adverse conditions for seller in such a market are quite straightforward. With more practices for sale and fewer potential buyers, if you wait too long to sell your practice, you are virtually assured of suffering a financial blow. In fact, the real possibility of not selling at all is a fact that must be considered as we progress through the next decade.

To respond to these market trends, we recommend that all dental practice owners create and implement a well-planned practice transition strategy immediately. Does that mean you will need to sell immediately? Maybe... maybe not.

But, keep in mind that selling does not necessarily mean retiring. Many doctors are selling while still in their 40's and 50's and continuing to work for the buyer. The most important thing you should do immediately is to have a formal analysis of your practice's growth potential and current market value prepared. This is the only way to place a pragmatic value on your future options. Your personal needs and goals must be weighed against your transition options to arrive at the optimum course of action for you. Often that action is continuing to "stay the course", but sometimes, a change is definitely warranted.

The market conditions ahead can be compared to riding the value of a stock investment down because you are certain that the current losing trend will turn around. One day you finally wake up and realize that you could have had so much more money if you had just sold the stock earlier.

Although the timing is not certain, your practice value will be diminishing. What you will do about it remains to be seen! Call PARAGON today and schedule a complimentary consultation to explore your options. No obligation... just a very worthwhile education.



PROCRASTINATORS BEWARE

"Time is of the essence." I am sure you have heard this old adage before and it may have never been so meaningful as it is TODAY! The aging "baby boomers" coupled with many years of fewer dental school graduates is a sure sign of a prolonged "buyer's market" quickly approaching.

Simply put, "If you snooze you WILL lose!" And, when we say lose we mean a significant financial loss. Waiting just one more year to sell your practice could cost you several hundred thousand dollars... and the shame is that the loss is totally unnecessary and completely preventable!

Don't let this happen to you...

Several years ago a seller and buyer were about to sign the final contracts when the seller abruptly backed out of the transaction. The seller had a severe case of seller's remorse caused by a sudden and substantial downturn in the stock market. The seller (a very aggressive investor who was invested primarily in a single security) lost nearly \$250,000 of his retirement funds in less than a week. He decided that he could no longer afford to sell his practice. The buyer had already been approved for the financing to pay the seller a complete cash-out of \$450,000 for the practice. The buyer was acquiring this practice for merger (he already owned a practice in the area) and desired to have the seller continue to work full-time for as long as the seller wished to work. The seller would be paid 40% of his collected production as the buyer's "associate." The buyer was also merging the two practices into the seller's building and had agreed to a 5-year lease with \$2,300 monthly rent to be paid to the seller.

So, to set the story, the seller was to receive cash sales proceeds of \$450,000 PLUS an estimated \$160,000 per year to continue to do the doctor production PLUS \$27,600 in annual facility rent (total annual cash inflow to the seller of \$187,600). As a point of reference, the seller's practice was grossing approximately \$525,000 (\$400,000 doctor and \$125,000 hygiene) with a 62% overhead for an approximate annual income of \$200,000. So, this seller backed away from the sale because he convinced himself to not take the cash sales proceeds of \$450,000 because he felt that he could not afford to reduce his annual income by \$12,400 a year (\$200,000 he presently earns less the \$187,600 annual income he would continue to receive after the sale)... that's letting your emotions overload your logic!

Every effort was made to convince the seller that he was making a mistake but he was confident that he should maintain ownership and try to increase his practice value and annual income to offset his retirement fund losses. He increased his workdays from 4 days a week to 4.5 days a

week and did see his practice production increase to \$560,000 over the next 12 months. His annual income increased to \$215,000 (his overhead also increased because he had to add some part-time staff to accommodate the extra half day a week he was now working).

But, after about a year of working much harder, the seller finally came to the conclusion that it would have been better to sell after all. Unfortunately, the original buyer had already acquired and merged another practice in the area and was no longer interested in the seller's practice. The seller had talked with a young doctor who had approached him a few months earlier, but, at the time, the seller was still determined to keep working for a few more years. The seller knew that this young doctor was now practicing as an associate in another practice close by so he contacted him. Much to his chagrin, the seller discovered that the young doctor was not the associate, but, had actually purchased the practice.

The seller tried for nearly 2 more years to sell his practice with no luck at all. Finally the practice sold to a young doctor fresh out of dental school. But, even though the practice was producing more now than a few years ago, the changing market conditions forced the seller to accept a price of \$325,000 and a contractual commitment that the seller would only work 2 days a week for 1 year. The buyer did pay a 50% down payment even though he originally would only agree to pay a 20% down payment. The seller financed the balance for 10 years. The buyer also leased the seller's building but would only agree to a 2-year lease (with an option to renew) at \$2,200 per month.

Procrastination definitely forced this seller to take a significant loss on his practice equity as well as the structure of the sale!

Be aware that dental practice prices are falling! In some market areas, practices that sold in the 80% to 85% of gross annual production range just 5 years ago are now selling in the 70% to 75% range. The impact of the 18 year era of the "baby boomers" is certain to soon overload the dental market and there is every reason to believe that a "buyer's market" will continue indefinitely. Most experts agree that as the "baby boomers" keep placing more and more practices on the market, the market will get more saturated with sellers and the imbalance in favor of the buyer will continue through the next decade or more.

It made absolutely no sense for the seller was set to receive \$450,000 to back out of the sale of his practice. He had the ultimate program that allowed him to continue working full-time as long as he desired at his finger tips. He was also receiving top value for his practice. The hard part of a transition was already completed. Everything was on track for a smooth transition until an emotional event caused him to have a completely illogical reaction... a very costly illogical reaction!

Don't create excuses to procrastinate. The costs are just too great! Dispel your illogical excuses for not selling while the market still allows you an opportunity to profit. Who knows what next year may bring? What we do know for sure is the combination of significantly more sellers and continuous fewer young dentists will not make it any better for a seller than it is today.

Below are just a few of the common excuses we have heard for delaying the decision to sell:

- **I lost too much money in the stock market to sell now.** Stop thinking emotionally and start thinking logically. In most practice sale scenarios, you can continue to work for as long as you desire. It is a contractual condition of the sale. If your practice is located in an area that allows a merger purchaser, a transition can typically be structured so you can maintain your current income at its present level. You will also be converting your practice equity to cash to immediately replenish your lost investment funds.
- **I can't handle not being the boss anymore.** The receptionist will book your desired schedule as she has for years. Your patients will not transition to the buyer until you are ready to transition them. You will decide what procedures you will do and you will decide what treatment is right for your patients. There are some slight adjustments but basically the "pecking order" is the same as it was before you sold.
- **I can't get a high enough earnings rate on my investments.** If you are willing to finance a portion of the sale, we can contractually guarantee you an interest rate of 10% on the financed portion. That is quite attractive in today's market. But even if you want all cash and can only get a 5% earnings rate... it is far better than watching your equity diminish due to market conditions that are completely out of your control. For example, the seller described above would have been much better off with \$450,000 invested at 5% than the \$325,000 he accepted some 3 years later. Honestly, that seller would have been better off with the \$450,000 in a jar buried in his back yard earning no interest at all!
- **I can't work with another doctor.** That's ridiculous! To prevent the loss of hundreds of thousands of dollars I am sure you could learn to work with just about anyone for a few years! But, this is typically not a problem anyway. PARAGON is aware that a dental practice takes on the general personality of the owner. We are seeking a buyer who fits into the practice environment you created! A proper match is better for all concerned: the buyer; the staff; the patients; and, of course, better for you!
- **I think my practice will be worth more in a few years.** Market conditions are only getting worse for sellers. In fact, as the "baby boomers" flood the market, some sellers will never sell their practices at all just because there are simply no buyers for their particular market area! Don't be naive! Thinking your practice value will

increase with the market conditions we know exist is a completely illogical excuse. You are taking a huge risk by not selling and no risk at all if you do sell in a properly structured transaction.

- **I will have to pay too much in income taxes if I sell.** Actually the taxes on a practice sale have never been lower. A PARAGON orchestrated practice sale is structured to allow 75% to 80% of the sales price to be taxed to the seller at favorable capital gains rates (a maximum tax rate of 15% at the time this article was written). And, if you finance a portion of the sale you can defer much of the taxes into future years and may even gain the benefit of a lower capital gains rate if capital gains rates were to fall during the term of your promissory note.

When your practice is at peak market value (as yours almost assuredly is or you would not be reading this article), there is every conceivable reason to sell NOW and no reason at all (none that we can determine anyway) to delay the sale of your practice. It is a virtual certainty that market conditions will cause dental practice values to steadily fall over the next 5 to 10 years. Don't be foolish with your hard-earned practice equity. Call PARAGON today for a free consultation. No obligation... just a very worthwhile education.



GET A HEADSTART ON RETIREMENT

Have you ever noticed just how many of your colleagues talk about how they would love to retire if they could just put another couple of hundred thousand dollars into their retirement savings? They have probably been talking about retiring for years, yet they continue to practice full time. The years fly by, but instead of taking time off to enjoy life, these doctors continued to practice full time trying to put that couple of hundred thousand dollars into their retirement funds.

It's interesting to note that the doctors who continue to practice into their twilight years in an effort to reach a specific financial goal generally ignore the equity value of their practice when planning for retirement. Do you know that an average dental practice in today's market can easily be worth \$500,000 or more at its peak value? The practice equity value often far exceeds the total amount that these doctors feel they need to save to be able to retire.

Even worse than ignoring practice equity as a retirement fund source, as many doctors approach retirement, they begin to practice less and less each year. As their personal production decreases so does the equity value of their practice! By the time they finally do retire, much of their practice value has been lost. So, instead of using the practice value to fund their retirement, these doctors let the practice value slowly slip away. Many doctors lose much more in practice equity in the last few pre-retirement years than the net earnings they earn from practicing in those final years. In other words, most dentists practice their final years for absolutely nothing... often even at a cost!

Gaining access to the equity value of their practice can provide doctors a great "head start" towards your retirement. Converting practice equity into investment dollars will provide a doctor and his or her family with a new sense of financial security as well as allow the doctor to add many quality years to his or her retirement!

If you take the time to explore your valuable options, you may find that your practice can be sold TODAY, and you can continue to practice for many years thereafter. You can invest your practice value TODAY and "phase out" of practice with your health, strong financial security, and your dignity all still in place!

Call PARAGON for information on how we can help you get a true "head start" on your retirement. We look forward to visiting with you.



A BETTER RETIREMENT STRATEGY

If you are like most dentists, you have done a relatively poor job, at least up now, of accumulating the necessary funds for your retirement. You should not feel embarrassed about this, only concerned. You are just one dentist in a huge majority of dentists!

The longer you have until retirement, the easier it is to put off the need to make substantial contributions to your retirement savings. The ADA reported that less than 4% of dentists would be in a financial position to retire at age 65. The ADA further reported that dentists in the 50 to 54 age group only put aside 11.4% of their income towards retirement even though the smallest of retirement plan types allows a contribution of 15% of income.

Most 55 year old dentists are probably quite far behind in funding for their retirement. With only ten years remaining, some critical, life-changing financial decisions will have to be made. It is PARAGON's experience that 1 of 3 things will happen over the next 10 years to these 55 year olds.

1. A very large number of these 55 year old dentists will continue to ignore the "ticking clock" and will not do anything (or at least very little). Many will reach age 65 only to discover that their practice is not worth what it was 10 years earlier and many will have to continue to practice because they will simply not be in a financial position to retire.
2. A smaller group of these 55 year olds will really knuckle down and start pouring as much funding as they possibly can into a pension plan. If they remain healthy and their practice income does not drop off over the next 10 years (most practices do drop off significantly once the dentist gets closer to retirement age), many of these dentists will reach age 65 with adequate retirement funding. However, unfortunately, it will be necessary for most of these dentists to sacrifice many personal financial needs and goals in order to fully satisfy their retirement needs. In addition, maximizing pension contributions for the doctor also means maximizing contributions for the employees as well. Not that the employees don't deserve it, but funding the employee's retirement will represent another significant cash flow drain on the doctor's personal income.
3. And, finally, an extremely small percentage of these 55 year olds will make the most of their options. This group will not only adequately fund for their retirement, but will do so without suffering any reduced personal income; without changing their life style; and, without sacrificing any of their personal needs and goals.

Dr. Lucky is one of these 55-year-old dentists from our third group. Dr. Lucky sells his practice now for \$500,000 utilizing the PARAGON PreSale Program and receives not only favorable tax treatment (we will discuss this more), but also a contractually guaranteed 10% interest rate. The structure of the PreSale Program allows Dr. Lucky to continue to work full-time (less if he desires) for as long as he chooses and be compensated 40% of

his personal collected production. In addition, he will be able to pick and choose the procedures he wants to do and the patients he wants to continue to treat.

The majority of Dr. Lucky's practice sales proceeds (at least 75%, possibly 80%) are taxed at very favorable capital gains rates instead of the top tax bracket ordinary income tax rates (his accountant absolutely loves this part). Under current tax law, this represents a potential annual tax savings to Dr. Lucky of approximately 30%! This obviously creates an enormous financial advantage. If Dr. Lucky uses his "tax favored" practice sale proceeds to support his family's annual living needs without any sacrifice to their life style, he can then use his provider compensation from continuing to practice dentistry (the 40% seller compensation) to maximize his annual contributions into a pension plan. In fact, under current tax law, he may be able to utilize a defined benefit pension plan to shelter virtually 100% of his provider compensation income thus having very little, if any, income that is taxed each year (he has already paid the taxes on his sales proceeds they are living on each month). Another major advantage is that Dr. Lucky will have no employees of his own after he sells his practice thus he will not be obligated to make pension contributions for anyone other than for himself!

What does all this mean?

Freedom!

Dr. Lucky will easily fund a handsome retirement nest-egg by age 65 (probably even sooner); he will pay far less in income taxes each year (possibly even none at all); he will enjoy substantially more after-tax income (unless he decides to off-set the higher income with less clinical time in the office); he will be able to enjoy more frequent and longer vacations; his family will be fully protected in the event of disability or death; he will not experience any more practice overhead; and, he will not have any more practice administrative responsibilities.

The time to begin planning your retirement and your freedom is long before you actually retire. PARAGON will help you plan your final practice years to be much more enjoyable and considerably more profitable. Call PARAGON today to schedule a life-changing consultation... you will be very glad you did.



I'M INTERESTED! HOW DO I GET STARTED?

That the easy part! Just call PARAGON toll free at 1.866.898.1867 and schedule a no-obligation meeting with the PARAGON consultant in your area. Your highly trained and knowledgeable PARAGON consultant will fully explain the various PARAGON programs, answer your questions and outline the steps needed to complete a successful transition. Your consultant will also explain how our dual representation approach will ensure a fair and equitable transaction for all parties. The typical consultation spans from 1 to 2 hours and is frequently conducted in either your office or your home.

Your consultation will be quite an educational experience. You and your consultant will cover the important aspects of a practice transition. You and your consultant will also explore your personal and professional needs and goals and examine how a PARAGON program may fit into your future plans.

Your PARAGON consultant will also review a sample Financial Analysis Report with you so you can see first hand just how in-depth PARAGON's analysis is for each practice opportunity we offer. Your consultant will review the data collection process and the Dental Practice Profile that each of our sellers must complete to enable us to analyze each practice opportunity from a purchaser's perspective.

This extremely comprehensive PARAGON Financial Analysis Report is the primary basis by which PARAGON is successful in finding a suitable purchaser who is ready, willing and able to pay fair market value for your practice... without any negotiation of the price or the terms of the sale.

The Financial Analysis Report also provides an extremely informative 10-year Proforma that clearly illustrates a conservative projection of just what cash flow can be expected from the acquisition of a practice. The Proforma takes all cash outflows into consideration, including debt service. The Financial Analysis Report provides professional backup data when PARAGON assists your purchaser in obtaining financing for the acquisition of your practice.

Call PARAGON today! No obligation... just a very worthwhile education!

