

Planning Your Exit from Specialty Practice

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One of the few certainties that we as dental specialists must accept is that each of us will one day exit clinical practice. This unavoidable certainty is best accomplished when it occurs on our own, well defined and well planned terms. Planning our exit from clinical practice is a multifaceted process that includes financial planning, tax planning, and preparation for the practice sale. A practice broker with expertise in exit planning is an invaluable asset in directing and coordinating the various advisors needed to insure that the retiring doctor receives full value for his or her practice while reducing taxes on the sale proceeds.

With regard to financial planning, increasing life expectancy and recent financial realities have dictated fundamental changes in the planning process. According to current actuarial data, there is a fifty percent or better probability of at least one spouse in each married couple living to the age of ninety or longer. No matter what our intended post-retirement life style, it goes without saying that our pre-retirement savings must increase along with our increased life expectancy if our financial needs are to be met.

It was once a common practice for financial planners to create a customized plan that insured a dental specialist adequate pre-retirement savings without the necessity of including practice sale proceeds as part of the pre-retirement nest egg. Unfortunately, the recent nationwide economic downturn has had a profoundly negative impact on many retirement investments. At the very

least, many of our 401K and other retirement investment accounts have experienced a reduced rate of return as compared to previous years. For many of us, this downturn has created a new economic reality. For some of us, it may be necessary to practice a few years longer than anticipated. For others, there may be necessary reductions in our post-retirement life style. For many, the proceeds from the sale of our practice have now become a vital part of our retirement nest egg.

It has always amazed me how little we plan for selling our practices considering that this is arguably the most significant financial transaction that most of us will conduct in our lifetime. When we sell a home it makes perfect sense to repair, repaint, or recarpet so that we can sell it at its optimal value. Why would we not do something similar for our specialty practice so that we can optimize its value and sale price? Perhaps we have never had to include our practice sale in the retirement equation, but things have changed. Now, growing the value of our practice has real and significant implications on when and how we retire. A well developed exit plan, with adequate time for implementation, is the best tool to insure that you receive the optimal price for your practice and keep the maximum amount after taxes.

It is essential to begin the exit planning process early enough so that the strategic exit plan can be implemented with enough time to be effective. We recommend a five year window as the optimum time frame for exit planning. Specialty practice brokers are trained to recognize potential problem areas that commonly reduce a practices value and ultimate sale price. Once problem areas are identified, corrective measures are designed and implemented to increase practice value. Normally, it will take a period of a few months before these improvements begin to appear on the practices financial statement. More importantly, the practice appraisal, which determines the fair market value of the practice, is based largely on the practices past three years

financial performance as indicated in the financial statements. It is therefore advantageous if the practice has the benefit of a fully implemented and monitored exit strategy for at least three years preceding the appraisal. This will insure that the practice will appraise for its maximum value.

The buyer procurement process should begin approximately two years before your intended exit date. It is important to remember that the pool of potential buyers is smaller for specialty practices than restorative practices. It is also important to realize that your potential buyer may be finishing a residency program or practicing as an associate in a different part of the country. This is where a specialty broker with a nationwide marketing network becomes invaluable.

General practice brokers that operate locally or regionally do not have the national network necessary to identify your potential buyer. A nationwide specialty broker will have a database of potential buyers that they have identified through their participation in specialty meetings around the country or through contacts that have been initiated by interested buyers who understand that a specialty broker is their best source of finding their ideal specialty practice to purchase.

An important part of the buyer procurement process is the development of a buyer profile. The buyer profile helps a broker to identify the best possible buyer type for your practice. In doing so, they are able to narrow their focus and concentrate their efforts on a specific potential buyer pool. As an example, consider a practice that has averaged 1.2 million in production for the past three years. A practice of this size would likely be too large for a new practitioner right out of a residency program. Maintaining the high level of production would be difficult and extremely stressful for a new practitioner. For a practice of this size, the most likely and best possible buyer would be someone who had previous experience in clinical practice and had developed the hand speed and practice maturity to handle a busy practice.

Once the buyer profile is determined the search for a buyer is begun by identifying a buyer pool that has previous clinical experience and has expressed an interest in purchasing a practice in your geographic area. This form of targeted marketing, in addition to listing your practice in appropriate trade journals and on the broker's website, has proven to be the quickest and most efficient way to sell a practice.

With regard to the legal and financial planning aspects of exit planning, a specialty practice broker with expertise in exit planning can coordinate these aspects of the process. Working with and coordinating attorneys, accountants, and financial planners to provide pre-sale due diligence is an important part of the service offered by a broker with exit planning expertise. In our company, for example, we often work with our clients existing advisors, or if desired, we have our own team of advisors that have a proven track record and are experts in their respective fields.

At the end of the day, exit planning should be exclusively about you and your desires. Your broker should help customize an exit plan that meets these desires and provides you with your preferred post practice future.