

Why is Buyer Representation so Important?

When it comes to engaging a CPA to assist you in buying a dental practice you should NOT be looking for just any CPA, you need to work with a Dental CPA that has years of experience with not only dental practices, but dental practice transitions as well.

Whether it's the outright sale of 100% of a dental practice, a 50% buy-in to an existing dental practice or becoming the 5th partner of a multi-doctor, multi-specialty dental practice, an experienced Dental CPA will know how to guide you through the process. They will know (and have hopefully vetted) the other professionals that you need: the Dental Attorney, dental Lender, dental practice management consultant and/or the dental space lease negotiator.

When it comes to the Dental CPA, here's a list of some issues that will need to be addressed:

1. Is the asking price within a "reasonable" range? If not, where is it and why?
2. How should the transaction be structured? What's best for the buyer and why?
3. How should the price be allocated among the various assets?
4. What are the tax implications to the buyer? To the Seller? In addition to income tax, there are also sales and property tax concerns.
5. What should be included in the letter of intent (LOI)?
6. What's the timing of getting the other advisors involved?
7. How has the practice been performing? How do the key performance indicators compare to the industry benchmarks?

8. What are the specific issues with a specific practice? Are there weaknesses that require caution? Are there hidden strengths that call for a premium?
9. Should an entity be created for the transaction? If so, what type of entity and why?
10. How will the transaction impact my income tax return in that year?
11. Will it support the debt service? What are the current lending rates? How much working capital will be needed?
12. What do I need to be concerned with when doing an on-site visit and chart review?
13. When do I need a demographic analysis?
14. Should I buy the accounts receivables? If so, how are they valued?
15. Should the seller remain after the sale? If so, for how long? What should I pay them?

Each transaction is different so there will be other issues that arise and a Dental CPA with experience will know how to handle the unusual issues when they develop.

Many times when a buyer calls me they'll ask if we can prepare a valuation and my response is "yes we can, however, most of the time it's not necessary". Sure, it's great revenue for the professional who does valuations to earn \$4,000-\$8,000 for a formal valuation, however, in 99% of the situations I've been involved with it's just not needed, its overkill. More times than not a valuation has already been done and therefore, all they really need is a second opinion. We'll gather all the same information that was used to develop that valuation (if not more since part of our task is the financial due diligence of the practice and to provide feedback on the practice performance). In fact, assessing the price is sometimes secondary to the aspect of analyzing the practice performance and providing feedback to the potential buyer on the practice issues we've discovered while assessing the asking price.

Here's the general description for the phases of most buyer representation engagements we participate in:

The 1st phase is where we assess the asking price and the performance of the practice. That is, does the asking price fall within a reasonable range of value in

our opinion and how is the practice performing compared to industry norms? With any valuation the professional has to make certain assumptions and estimates to arrive at their value. We also want to make sure there weren't any mistakes made in arriving at the value on the sellers' behalf. This phase also enables us to dig into the performance of the practice to let the buyer know if anything jumps out at us like excess labor costs, low dentistry production, higher than usual expenses, etc... It's a thorough analysis of the practice that allows us to provide the valuable feedback to the buyer about the performance of the practice (which is a completely different than the value) and many times much more important.

The 2nd phase gets into the structure of the transaction and allows us to continue our financial due diligence. We look at transaction structure, timing, price allocation, seller's compensation if they stay, how to handle A/R, redos, etc... We may ask for additional information such as the space lease agreement, accounts receivable aging (if it wasn't discussed in phase 1), associate legal agreements, details on certain expense items and explanations on other unusual issues we discover. This is the phase where the LOI is usually created and/or discussed, negotiated and signed before going to the attorneys for legal agreement drafting. We're also available during this phase while the legal agreements are being drafted and negotiated by the attorneys in case other issues develop that require our input. We'll also begin to discuss entity selection and how it might impact your income tax situation.

The 3rd and final phase really encompasses a couple of minor tasks, that is, choosing an entity and getting it created, apply for the entities ID#'s and preparing individual income tax projections. We don't create the entity, we advise you to have the attorneys to that, however, in some situations, we will create the entity and bill you accordingly for it and suggest that you have an attorney review it after you settle.

Lastly, we can assist the buyer in the set up of their initial accounting software with a dental specific chart of accounts and the initial balance sheet based upon the settlement documents. This allows the buyer to get off the ground running so they can focus on the clinical side of the practice along with getting to know the staff, patients and any other nuances for the practice.

When you're going to invest a half million dollars plus on a business it just makes sense to be prudent and hire appropriate professionals to ensure you go about the process in the right way and you don't get burned and put your investment at any undue risk.

If you're looking to purchase a practice or buy-in to a practice begin assembling your team today. Begin your research to find out which professionals are out there to assist buyers, know their names, call them and interview them, ask for references. If you know anyone who has recently purchased a practice talk to them and find out what their experience was like. Ask them how the process went. Ask them about their first year in the new practice, and ask them who they used and if they were happy with the results.

Tim Lott, CPA, CVA has decades of experience providing accounting and consulting services to dentists across the country. Tim is also the moderator for some of the accounting related boards on Dentaltown.

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