

TO SELL OR NOT TO SELL?



Following COVID-19,
dentists face
big decision
on their futures

by Joseph DeRosier

THE PAUSE IN BUSINESS AS USUAL BECAUSE OF THE CORONAVIRUS PANDEMIC HAS GIVEN DENTISTS PLENTY TO THINK ABOUT, and professionals in the business of helping dentists sell or buy a practice say the pandemic has pushed a number of them nearing retirement to make the move a little earlier than expected.

There was already a bubble of sorts on the way with Baby Boomer dentists reaching retirement age and pondering what to do with the practice they worked so hard for so long to grow.

Practice transactions are a positive for those selling – because it is still a sellers market – as well as those buying – because interest rates are low and more high-end practices are available than ever before, say market specialists.

Attorney Todd Erdmann of Chicago, who specializes in practice transactions, told *DentistryIQ* magazine in early June that he has heard anecdotally about dentists closing the doors and giving up a practice. While he has no personal experience with that, he said he heard from suppliers that some dentists are closing and not even trying to sell the practice.

He said simply walking away is hard on patients, and dentists need to be aware that they could be violating their duties in regards to patient abandonment.

“What I’m seeing is that people who are older, people who might be vulnerable, are rushing to sell their practices,” Mr. Erdman said, “And if they do that, they can expect a pretty hefty discount.”

He said selling a practice goes beyond the equipment, which might be older, and buyers really care about cash flow and the good will of the company. He said if a dentist is not available to help in the transition because they are afraid for their health, the price would be lower.

Under that scenario Mr. Erdman said a million dollar practice would probably sell “in the \$700,000 range.”

He said practice owners who are ready to retire can take steps to avoid a price dip. Get the practice in compliance with infection control measures

recommended by the Centers for Disease Control and Prevention and state guidelines and reopen the practice for at least 30 days to demonstrate the practice is productive and has patients, he advised.

Ann Mazzotti Hood, who sold the business part of her dental practice five years ago but still owns the building and continues to be a landlord for new dentists there, now works for Great Lakes Dental Partners at Advanced Family Dentistry & Orthodontics in Frankfort.

The CDS member also works as a consultant for Paragon Dental Transitions, helping dentists buy, sell or merge a practice. She said the pandemic created both sellers and buyers.

“This COVID-19 pandemic has made

some dentists want to sell their practice to retire or just lessen the stress of ownership, and it has also increased buyers that are maybe out of school and want the control of owning. . . some having been laid off from larger corporations during this time,” Dr. Mazzotti Hood said. “Plus, rates to buy through banks are at record lows, so that is incentive, too.”

That price could be strong because it is still a sellers market, according to market specialists.

Jerry West, director of operations at Joseph Rossi and Associates in Oak Brook, a real estate brokerage and practice advisory firm focusing on the health-care field, said the pandemic has had a noticeable impact on practice sales.

“It is really definitely an unprecedented

Testing the waters

One dentist in a small town outside of Chicago who has been in practice for 33 years said he started thinking about selling and getting out of dentistry altogether since the pandemic hit.

He is not using a broker but is testing the waters on his own to see what his practice might fetch. He asked that his identity be withheld because the community and his staff do not know of his intentions.

“I was thinking of practicing a number of years more, but I have had a number of health issues the last few years,” he said.

The health risks associated with the coronavirus, the shutdown and the new way of operating due to added infection control requirements made him think it might be time to sell.

“I just feel at this point that a lot of things are going to change and maybe it’s time to let some young person who has a lot more energy than I have come in and take over,” he said.

The added health risk is a real concern. “I’ve always been a person who has gone above and beyond of what was asked as far as infection control environment and was always ahead of the curve on what they were asking,” he said. “At this point I’m not comfortable that we fully know everything about the virus, and it is holding me up because I will need to expend some capital to make myself mentally feel like I’m doing the right thing for the patients and the staff and everybody, including my family.”

The time away from the practice, he said, led him to consider leaving the profession on his own terms instead of being forced out.

He said with the proper personal protective equipment, practicing dentistry will be fine, but his physician also warned him not to get COVID-19.

“You get time on your hands to think about things and you think, ‘My body is kind of breaking down and what if I got to the point in a year from now that I won’t be able to go full-time,’” he said.

He said in early June that the plans to start his practice up again soon but would sell at the right price.

“The sellers who want to retire in the next one or two years don’t want to take a 20% cut on their retirement; really some of these buyers will need to keep up-to-date on what is going on.”

time we are in here,” said Mr. West. “Valuations (of a practice) were always around 60 or 70 percent of collections, but with the emergence of DSOs (dental service organizations) it changed the model for dental lenders out there.”

He said DSOs work more off of earnings rather than collections when making a practice purchase.

“Those valuations have gotten much stronger in recent years, and banks have had to lend up to 100 percent,” Mr. West pointed out. However, he said there seems to be a decline in the number of purchases by DSOs since the pandemic started.

Early on in the pandemic most of the lenders were focused on helping existing clients receive federal Paycheck Protection Program loans to help them stay afloat and did not have the time to help new clients.

That trend has started to turn, Mr. West said, with lenders returning to the day-to-day operations and restructuring the loan process and practice acquisitions.

“It’s still a sellers market, there are still way more buyers out there than there are sellers,” Mr. West said. He foresees a return to the use of seller financing in which the seller makes up the difference of what banks will be willing to lend a buyer.

He said that would help younger dentists to become practice owners.

“The buyers think that they are going to get a deal, but we have to go back and realize that the seller who is ready to retire in a year or two, they are not ready to jump and sell their practice and lose 15% on their retirement, but it allows them (the seller) to get the value that they would have pre-COVID and have their own financing with the buyers.”

Although actual transactions have been on hold for the most part Mr. West said the number of dentists deciding to sell has jumped considerably.

He said his company has seen about a dozen practices for sale early on in the shutdown phase.

“We had a lot of leads, but in the past a lot of leads didn’t come to fruition,” he said. Dentists considering retiring were “on the fence” before. “This was their baby, they’ve grown their practice for the last 25 or 30 years,” he said, and they just weren’t ready to let it go.

“COVID has really changed a lot of those people who were on the fence, and who met with us before but never signed a listing agreement,” he said. “A lot of our newest listings came from those people who had been on the fence but now are just ready to sell.”

He said dentists who walk away after selling will not see the same valuation of the practice as ones willing to stay on and help with the transition.

On the other hand, he said dentists who sell do not have to deal with the costs of added infection control and can simply work as an associate for six months to a year before retiring.

Mr. West said buyers should understand that although there are more practices available, that doesn’t mean a discount on the price.

“The sellers who want to retire in the next one or two years don’t want to take a 20% cut on their retirement; really some of these buyers will need to keep up-to-date on what is going on. I always recommend (to) them to reach out to the lenders.”

One of those lenders, Sam Zanayed, is part of the healthcare practice finance group at Citibank focusing on the dental profession.

He said he has worked with accountants, attorneys, brokers, lease negotiators, marketing and consultants who focus on the dental community and has been able to get a good perspective of the market.

The marketplace includes older dentists with successful practices who are



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selling because of safety concerns, and younger buyers who see the opportunity to acquire “nice practices.”

As of late June he said no acquisitions have closed, mainly because Citibank wants to see a practice operate at least 30 days after being shut down before an approved loan is funded.

Mr. Zanayed explained that the pandemic also has complicated acquisitions because purchase price is typically based on the previous year’s revenue with anticipation of a continuation into the current year.

But with the business disruption and impact of added infection control as well as a drop in the economy, the previous year’s figure does not paint an accurate picture of the current situation.

He said Citibank is continuing to approve loans and doing the paperwork involved in acquisitions but approvals are done on a case-by-case basis with the practice’s health and the buyer’s financial situation coming into play.

“We know collections will not be the same in 2020, but we just don’t know the severity of what COVID-19 will present to dental practices,” he said.

Some dentists selling practices are willing to take a cut in the sale price because they simply want to get out of the profession, he said.

But the best time to sell a practice is when collection levels are at their peak, he said.

And because the dental service organization market isn’t buying, there are many desirable practices available that would otherwise be snapped up. He said DSOs for now are focusing on keeping the dental practices they already own operational and are not looking to add more.

“There are a ton of new practices available to independent owners; typically all good practices would be bought up by DSOs because DSOs would overpay for dental practices,” he explained. But now there is “an entire new market being offered to the public, something we haven’t seen before.”

He said with such high-level practices available, the only sticking point is the risk of buying a practice during a pandemic and the ability to get the proper financing.

“In any kind of catastrophe, there is always opportunity out there,” Mr. Zanayed said. “There are a lot of great practices that I haven’t seen available before. I saw a \$3 million collection practice go on the market in downtown Chicago. I’ve never seen that. Never, not one time. Any practice above a million (dollars in collections) is very hard to find.”

He said if a dentist is looking at a

long-term strategy, now is a great time to find a practice.

“We’re working with our clients; we’ve deferred loan payments for dentists who are existing clients,” he said. “We want them to succeed.” ■

Joseph DeRosier is the CDS staff writer.
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