Tips to navigating a successful practice transition for retiring orthodontists

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If you are an orthodontist considering retirement in the next few years, you are not alone. There are about 9,500 practicing orthodontists in the United States, and the average orthodontist is 54 years old and has been practicing for 23 years. Of these orthodontists, about 200 will retire each year. The good news is that approximately 360 orthodontic residents graduate each year. While some of these residents will go on to open a de novo practice, others will enter into an associateship with an existing practice and still others will want to buy a practice from a retiring doctor. For orthodontists who wish to sell their practices, this article presents a few key items for consideration.

• Timing. You will want to start thinking about your retirement and transition at least three to five years in advance. This will give you time to start considering the most preferred candidate to carry forward the legacy and success of your practice. In addition, it may seem counterintuitive, but these last few years will be the perfect time to grow your practice. A well-informed potential buyer will generally consider at least five years of historical financial data, and you want to be able to showcase your practice’s growth potential.

• Financial trends. A practice with a positive revenue growth trend will generally be worth more than the same practice with a stagnant or declining revenue trend. In order to maximize your practice’s selling price, you will want your revenue to indicate growth for at least three to five years prior to the sale of the practice. In addition, you should use this time to hone costs and eliminate extraneous expenses. Review annual financial statements in detail to determine any discretionary expenses, i.e., expenses that are not necessary to operate the practice: automobile expense, charitable donations, salary paid to a family member not employed by the practice, etc. The practice’s bottom line is cash flow to a potential buyer. It follows that a bigger bottom line will generally facilitate a higher practice value.

• Operational trends. An educated potential buyer will look not only at revenue and income but will also want to see that your patient base is growing, or at least holding constant. It may be worthwhile to consider expanding your referral sources, accepting new insurance plans, launching a new marketing campaign or offering additional payment options. A positive trend in new patients shows potential buyers that the practice is attractive to new patients and the potential for patient growth is likely to continue for future years.

• Physical assets. Beginning the process three to five years in advance of your planned retirement date will give you time to consider the general state of your dental equipment in terms of age and functionality. It is not advised to go out and replace all your equipment, but it may be a good idea to use this time to update some key items. Keep in mind that a purchasing doctor will be willing to pay more for a practice if he or she will not have to immediately invest large sums on updated equipment. It may also be helpful to make some minor investments in upgraded décor, as well.

• Practice valuation. Once you have considered the items above and the time is appropriate, you will want to hire a valuation consultant to prepare a valuation report, which will be passed on to potential successors so they can review the practice’s financial and operational health prior to the purchase. A qualified valuations analyst will prepare a valuation report using one or more accepted valuation methodologies that may fall under the income approach, the market approach or the asset approach.

• Negotiations. Remember that flexibility is crucial to negotiating a successful practice transition. Choose your battles strategically, as most negotiations require some concessions on each side. Negotiations are best accomplished through a trusted team of advisors, which may include your CPA, wealth advisor, legal counsel and/or hired transition consultant. However, even the best team of advisors cannot completely dictate negotiations. As the practice owner, it will be your responsibility to make certain difficult, and even stressful, decisions. It is important to choose your advisors wisely as they will facilitate discussions, prepare documentation and otherwise assist in the navigation of your successful practice transition.