



# A Guide to Buying and Selling a Dental Practice

Developed by  
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# BUYING A PRACTICE Guide

The following is a step by step guide of the considerations that usually arise when buying a dental practice. They are grouped by the steps that usually occur in the purchasing process, and are intended to provide potential buyers with a potential framework.

## Disclaimer

Please note that this article is intended to be a helpful guide of the key considerations when buying a practice, and does not, and indeed cannot, cover all possible considerations and possibilities. The buying process should be approached with necessary due diligence, with the understanding that no two purchases are identical and that they all pose their unique considerations. Professional legal and accounting advice must be obtained to safeguard both parties.

## 1) Legal and accounting process

### *Restraint of trade*

Have you obtained legal advice on a reasonable restraint of trade clause?

### *Tax considerations*

Both parties must be aware of the tax consequences of the sale, particularly the vendor, to ensure the sale will be profitable. How much of the price is to be allocated to goodwill and how much to other assets? Both parties and their accountants must come to an agreement here.

### *Settlement*

Ensure that both parties and their lawyers have agreed upon the settlement date, and consequently the start date at the practice for the buyer.

## 2) Examine your reasons

Have a clear understanding of why you wish to buy your own practice. Is it for greater control over your practising destiny? Is it for clinical autonomy? Is it for greater financial reward? It is important to know what you wish to achieve through buying a practice, rather than remaining an employee, as the process is not without its difficulties, and practice ownership isn't for everyone. It makes sense to have a clear idea of why ownership is for you, and what you hope to achieve from it. It is also worth knowing from the outset whether you'd prefer to own a practice outright and work by yourself, or whether you are happy to purchase a portion of a practice and be in partnership or associateship with another party. This requires careful self-evaluation.

## 3) Find a practice right for you and conduct your due diligence

### *Values, philosophy and reputation*

Choosing the practice to buy can be difficult. One can purchase a practice with a philosophy, culture and a treatment style congruent with one's own values and preferences and find the transition for all parties, relatively smooth. If the purchaser wishes to purchase a practice that is currently being managed differently from their personal preferences, and has a philosophy and culture different to their own, he or she must be prepared for the inevitable difficulties that can arise after purchase and have a plan on how to overcome these. It is always ideal to purchase from a seller with similar values, and practising style but this isn't always possible. It is important to know what one's own professional values are, what you want for your business, and how you plan to compete in the marketplace. A discussion with the vendor can help assess congruence of values and management philosophy.

Buyers can tick off the following items.....

### **Seller's standing in the Dental Community**

1. Is the seller a member of the local dental society?
2. Have there been peer review actions against the vendor?
3. Have there been any AHPRA investigations against the vendor? If so, how many, when did they occur and what was the result

### **Quality of Care**

1. Does the seller's clinical philosophy match yours?
2. Chart review - do charts/records reflect what you would consider to be "standard of care" for charting/record keeping?
3. Treatment plans - Do you agree with seller's approach on patients?
4. Identify high risk areas or problem patients of the seller's practice, if any. If such patients exist, will they complete treatment with the vendor, transfer to the buyer or transfer out of practice?
5. Identifying any techniques utilised in practice which may give rise to future problems: e.g. use of unapproved endo filling materials, ortho practiced in the office, treatment beyond scope of license.
6. Does Seller utilise an effective post-op recall system?
7. Review planned treatment cases that seller will want you to complete.

### **Work in Progress**

1. Are there any on-going dental treatment (i.e. root canal treatment, denture construction, implant procedures) that require completion prior to the transfer of ownership of the practice.
2. Will the initial clinician be staying on to complete them after the change of practice ownership? Will the treatment be transferred to another clinician to be completed?
3. Discussion of what will happen if a dental procedure failed within three months (i.e. RCT/ crown/ restoration) who will be liable.

### **Managed Care Agreements – Health Maintenance Organisations (HMO), Preferred Provider Organisations (PPO), Capitation, Indemnity**

1. What percentage of practice income comes from MCA?
2. Can plans transfer to you?
3. Do plans allow for your quality of care?
4. What kind of patients are being seen and what type of treatment is being performed on these patients?

### **Seller's Record with Third Party Payers**

1. Has seller's membership in a panel or qualification in a third-party payor plan ever been revoked, suspended or cancelled - if so, why?
2. Any third-party payor audits within the last 24 months - if so, what was the result?

### **Location**

1. Is the practice located in an area that you would like to work?
2. Are there many other competitor practices in the area? What is the dentist to patient ratio?
3. Is the practice in an area where high rent can be expected?
4. Is the practice located in an area where patient flow can be expected to rise over time? What are the population demographics? What type of patients can you expect? What is the rate of unemployment, and are there proposed developments for the area that can affect patient flow?

### **Layout and ergonomics**

1. Is the construction of the practice of a high standard? Are there any foreseeable building upgrades required?
2. Will there be any foreseeable upgrades required to the surgeries or reception area?

The likely costs of possible modifications must be factored.

### **The condition of the equipment**

1. Is the dental equipment of a functional standard?
2. Will you need to purchase any extra equipment to suit your practising style?
3. Do you have sufficient stock for the immediate post-handover period?
4. Is there a lease on any of the equipment? How much is owing on any equipment bought via finance?

### **Evaluate the patient base**

1. How many patients are there in total and how many active patients are there?
2. What are the patient demographics? Are new patient numbers rising? Are there patients leaving the practice continually?

### **Existing staff**

1. What are the numbers of employed staff? (e.g. Receptionist, Dental Assistant, Hygienist, Technician)
2. What is the longevity of staff (ask about turnover)
3. Existing qualifications or Training Plans.
4. Have any expressed the desire to quit if the practice is sold?
5. What type of contracts are present? (Casual, Part-time, Full-time)
6. Are there contracted maintenance workers or brand specific technicians or cleaners to the practice?
7. Will you be maintaining/ increasing/reducing the number of staff?

*Will you be inheriting an associate or partner?*

### **Associates in the practice**

How many dentists are:

1. Currently employed in practice
  - i) What will happen to them?
  - ii) What protection do you have against patient loss?
2. Have been employed within the last 24 months
  - i) Who are they, where did they go, has there been patient or employee loss?

### **Other Dentist in the Practice**

1. Sub-tenants who lease the space
  - i) Any written agreements?
  - ii) Is there jointly owned property?
  - iii) Can you terminate the agreement?
  - iv) What future protection do you have?

### **Pre-existing employee entitlements**

1. Are there any outstanding wages?
2. Does the practice have a pensions plan?
3. When was the last time staff were given a raise - is there a system for performance review and raises?
4. What entitlements are existing? (Long Service, Holidays)
5. How much annual leave/ long service leave/ sick leave, redundancy pay of each employee has at the time of transfer of ownership.
6. Any time in lieu being recorded that employee are entitled from previous practice?
7. Any outstanding superannuation payment for the staffs?

### **Evaluate the current expenses**

1. Obtain figures on the current expense structure. How much does it cost a month to run the practice? Obtain from the vendor and/or their accountant, a breakdown of all the expenses (usually a comparison of the last three years), on a monthly and yearly basis. Are these consistent with normal industry practice? Are you comfortable with these? Do you see these expense structures changing after you take over? Will your expected billings be able to cover these?

*Evaluate the existing marketing or growth strategies in place*

### **What marketing methods has the practice used**

1. Receive a list of all the advertising methods the seller utilises
  - i) Any on-going advertising contacts
  - ii) Exact costs of all advertising methods
2. Dental Referral Services
  - i) Can they be assumed by the buyer?
3. Coupons or other deals that the buyer must honour

### **Key referral sources to the practice**

1. Ask seller to list them
2. Ask seller to describe his/her referral criteria

3. Contact the specialists and ask
  - i) Opinion regarding quality of seller's dentistry
  - ii) Any reasons they may know of not to buy the practice

#### *Will you end up leasing the premises or would you own them?*

1. Ensure you are clear on whether the property is also for sale or whether you will be purchasing the practice alone. Ensure your commercial lawyer is kept abreast of the nature of the sale.
2. Is there a lease agreement in place already? Who is the vendor? What is the duration of the lease and the terms? How is the lease to be renegotiated?
3. If you are to lease, do you have an option to buy the property if you choose to? Do you have the option of first right of refusal when a sale is to occur? Do you need to create a new lease that reflects the agreements?

#### *Insurance/Risk Management Considerations*

1. Is the seller presently insured?
2. Has the seller been insured without interruption since inception of practice?
3. Obtain copy of the seller's present malpractice declaration page to identify carrier, policy number, coverage period, policy limits.
4. Will the seller be continuing his/her malpractice policy?
5. Is the seller presently being sued for malpractice? If so, get full information on all such legal actions.
6. Has the seller been sued in the past or had peer review actions? If so, what treatment was involved and how did the action/claim resolve?
7. Has the seller had any dispute/conflicts with any other local practitioners?
8. Has the seller had to sue patients for collection? If so, are any such suits planned?
9. Are there any existing patients who have treatment to complete but are not returning?
10. Are there any other patients who have any other disputes with the practice?

#### *Miscellaneous items*

1. Software License Transfer fee (seller should pay).
2. Ensure the practice is "lien" free.
3. Ensure that practice is free of "leases" i.e. phone systems, photocopier, or dental equipment. Are there any outstanding leases, ensure the liability is factored into the sale price.
4. Obtain a copy of the office lease.
5. Is the dental office WHS compliant? Ask to see the WHS manual.
6. Are there any outstanding employee entitlements at the time of sale? Will this come off the sale price?

## **4) Find a commercial lawyer and an experienced accountant**

1. Ideally, use a commercial lawyer who is experienced in dental practice sales. They will want to know the entities that are involved in owning and running the practice. The buyer will have to create similar entities if not buying under his or her name. The practice ownership structure must be well understood, especially if it is to be modified in any way.
2. Ideally use a valuation expert, usually a specialist accountant, with experience in dental practice sales. They will want access to all the official tax documents of the practice for the last 3-5 years, as well as breakdowns of the expenses, leases on equipment, depreciation data on equipment etc. They will likely liaise with the vendor's accountant during this process.

## **5) Ascertain the asking price and calculate the value of the goodwill**

#### *Know what's being purchased: goodwill, plant and equipment, or both*

1. Be very clear on what is being purchased. Usually when buying a 'practice' this involves the plant and equipment and the 'goodwill', i.e. 'the books'. The calculation of the plant and equipment is relatively straightforward but the goodwill can be calculated via different methods. Ensure your accountant or valuation specialist is familiar with these, and can liaise with the vendor to ensure both agree on the asking price.
2. Are you going to be buying the 'receivables' as well? If not, how are they going to be collected for the vendor?

A hand holding a magnifying glass over a grid of hexagonal icons. The background is a blurred image of a person in a suit and tie. The grid consists of several hexagons, each containing a different icon. The word "Audit" is written in white, bold, sans-serif font inside a large hexagon on the left. The other hexagons contain icons: a group of three people, a document with a seal, and a pie chart. The magnifying glass is positioned over the document icon, and the word "Audit" is also visible through the lens.

# Audit



3. Will the vendor stay on as an associate or in some other capacity after the sale, or will he/she retire or leave immediately?
4. Will there be a verbal or written introduction of you to the patient base? How will patients know that you are taking over the business?

### *Obtain records and professional help*

Your accountant will request:

#### **Financial Records**

1. Tax returns (personal/corporate) for the last 3-5 years
2. Production runs - last three years
3. Profit/loss statement, balance sheets and cash flow statements for last 3-5 years
4. Accounts receivable
5. Listing of participating insurance programs
  - i) Fee Schedule for all the insurance plans the practice accepts.
  - ii) Exact breakdown of the insurance composition of the dental practice, based on collections.

## **6) Obtain finance and calculate affordability**

### *How are you going to finance the purchase?*

Have you got a financier? Are they willing to finance the purchase, including any stamp duty and other costs?

### *Cash flow projection*

Have you got realistic cash flow projections once you purchase the practice? Do you have an estimate of what your net monthly billings are going to be? Can you afford the repayments associated with the borrowing for the practice, for the life of the loan? Create a prospective budget for yourself and see if you can still afford the repayments. Do you need to make adjustments to your personal expenses? You will need these documents for yourself, and these will also form part of a business plan that your financier will likely request

# SELLING A PRACTICE Guide

The perspective of the seller is a different one to that of the buyer, yet a number of the considerations are of similar relevance.

## 1. Seek Professional Advice at the Outset

The importance of this advice cannot be overstated. Your practice structure may be a help or a hindrance to any potential sale of your asset. Seek early advice from your Accountant and Solicitor.

You will need to gather financial information prior to listing your practice for sale. Potential buyers will often ask to see your financial information for the last 3-5 years, including total turnover, net earnings and your profit and loss statements.

Your Accountant is best to advise you as to the date of sale – if you are retiring then you should seriously consider this aspect. Again there is no substitute for good accounting advice as to this aspect.

## 2. The Premises

Do you own your premises? If you do, would you wish to sell them to the practice buyer, or prefer to retain them to generate an income? Are you aware of the value of the real estate? Have you arranged for a valuation or at least a couple of opinions as to the worth of the real estate?

If you lease the premises from the owner, then you will need to have negotiated favourable terms with additional lease period options going forward so that your practice is attractive to potential buyers. This should include the right to assign the lease should you decide to sell the practice. If you don't have a good strong lease going forward for some years, and hence the right to occupy, then you are disadvantaged in your negotiations with a potential buyer. If you have no lease – you have nothing to sell! The importance of a good long and strong lease (with the right to assign) cannot be overstated.

There are variations available to purchasers and vendors in regards to the sale of real estate associated with a practice. For instance, a practice purchaser may want to negotiate an agreement as part of the contract of sale which gives the new owner the right of first refusal if the real estate is to be subsequently sold by the practice owner. Another example is where the practice owner wishes to delay the purchase of the real estate but an agreement can be reached where the new practice owner will purchase the real estate over time.

## 3. Agents and Advertising

Should you engage a business agent to act for you to sell and advertise your practice? There are various people experienced in the dental industry who may provide this service. There are companies who sell practices on behalf of owners and who advertise on the internet.

Should you advertise and sell the practice yourself? You should only attempt this with good and early professional advice as to what the value of your practice is and how best to go about it. Do you feel comfortable in handling aspects of a possible practice sale, or would you prefer a licensed business agent to do these things for you – and charge a fee for service? That fee might be a set percentage commission on the sale price, or a fixed fee to be agreed on and in which case a contract will need to be signed.

## 4. Restraints of Trade

Buyers will usually want to protect the value of the goodwill that they have purchased by having a “Restraint of Trade” clause in the contract of sale. A practice seller may find that if they are not happy to provide such a clause, then it may prejudice the chances of a successful sale. One must remember that such clauses must first be reasonable to be considered to be legally enforceable. Again, dealing with good professional advisers can assist in this area.





For example if the practice is in a country town, then a greater catchment area for the exclusion of practice by the old owner would be allowed, by comparison with a practice in the suburbs in a capital city.


## 5. The Process

Many practice sales follow a similar process. The practice is listed for sale, and potential buyers are provided with contact details to begin discussions and to assess interest from buyers. Whilst there are many variations on the theme, most potential buyers will want to come for an initial inspection of the practice. They will want to see the physical setup of the practice and what elements it contains. They will usually want to view the daybooks for the last 3 years or so, and get an understanding of the type of practice, the range of services provided, the demographics of the practice, the type of patients usually treated, any special expertise that the current owner has, and many other aspects, to assess their overall interest.

Many potential buyers will not proceed past this point. In some cases, they may be merely looking, rather than being ready to purchase. But if they want to come back for further assessment and discussions, and indicate a genuine interest in the practice, then they will be seeking that the owner and his advisers provide confidential financial details about the practice. They will want to know what is for sale (practice only or practice and premises) and at this time the potential buyer's advisers – both accounting and legal – will wish to communicate with the owner's advisers.

Assuming that matters proceed, there will be discussions ongoing about the detail and hopefully a position will be reached where the owner is happy to sell to the prospective buyer on agreed terms and conditions. There are many issues where the parties are best advised to reach a position of compromise and where the interests of the parties may be diametrically opposed. The obvious example would be the value of the capital and tangible assets versus the intangible assets of the practice (goodwill).

Some new owners may ask the selling owner to stay on for a period of time, following the sale. This is sometimes seen as maximising the goodwill of the practice and can go a long way to a successful handover and introduction of



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the new practice owner to the patients of the practice. Some new owners may suggest that a letter of introduction be prepared and sent to the patients of the practice introducing her/him and announcing the sale of the practice. This is just another example of the need to reach agreement on the important detail in the sale of the practice.

Another important point in the sale of a practice is the need to include in the contract the perpetual right to access the clinical records of patients treated during the previous seven years. This includes the obligation of the purchaser to retain those records on your behalf.

## 6. The Corporates

In recent years, there have been a large number of dental practices purchased by dental corporates. In such situations, the corporate usually pays a generous figure for the value of the practice, but in return, contracts the outgoing owner to stay on for an extended period of years as an employee of the practice. Advisory Services understand that corporates usually require the outgoing practice owner to meet certain production targets during this contracted period of employment, as well as run the practice and deal with many of the management issues, necessitating more time being spent on administration. This will usually create difficulty for the practitioner in meeting his/her production targets as per the contract. This dichotomy of tasks usually results in a practitioner being able to spend less time attending to patients and the inability to meet financial targets under the new sale agreement (so-named KPIs) has resulted in many practitioners having to pay back much of what they were paid in the original sale.

Needless to say, some sellers find this especially difficult, believing that it was going to be a less stressful process. It has to be said that there can be adverse health effects arising out of such increased stress and pressure. Practice owners would do well to keep this in mind when negotiating with a corporate who wishes to purchase their practice.

**Again, there is no substitute for good professional accounting and legal advice.**





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