

ADAPT Coffee Talk featuring
Baker Tilly

**Selling your practice in the COVID-19
era: advice from accounting experts**

May 15, 2020





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Office and procedural policies to evaluate and update

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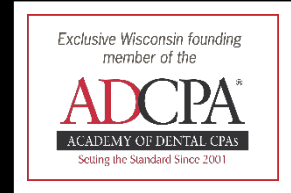
Documents to prepare for prospective buyers

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Financing and other considerations



ABOUT BAKER TILLY



Members of the world's
10th largest network of
accounting and business
advisory firms



Major offices in
Janesville, Milwaukee,
Madison, Appleton and
Minneapolis



3,800+ employees
405 partners / 1,200+ CPAs



One of the 15 largest
accounting and advisory firms
in the U.S. according to
Accounting Today



Recipient of several national
and regional awards
including 2018 Best
Workplaces in Chicago



ABOUT BAKER TILLY

Dental specialization



With a dedicated dental services team, Baker Tilly Advantage leverages our large firm capabilities combined with our personalized service approach **to provide more than 350 dental practices** with industry insights, technology solutions and outsourcing and advisory services including tax, accounting, payroll, valuation, transition planning, projections, operating effectiveness and consulting.

We often work with dental practices to:

- Provide valuations, transition consulting for buy-in / buy-outs, buy – sell agreement negotiation and advisory
- Provide bookkeeping and accounting services driven with best practice technologies
- Provide proactive tax planning that minimizes tax exposure at the federal, state and local levels
- Provide industry insights, dashboards and CFO level advisory
- Provide practice management consulting geared toward enhancing and protecting your value

Baker Tilly is a
founding member of the:





Office and procedural policies to evaluate and update

- Office employment policies
- Office policies review in post-COVID environment
 - Patient check-in policies
 - Payment policies
 - Collection procedures
 - No call/no show fees
- HIPAA and regulatory compliance (CDC, OSHA, Medicare, if applicable)
- Benefit agreements (Health insurance and retirement plans)



Office and procedural policies to evaluate and update (cont.)

- Hygiene protocol (Post-COVID-19: how long will you allow and what impact will that have on your practice production?)
- Scheduling (spacing / appointment times)
- Standard industry practice vs. Individual owner best practices
- Non-compete changes, if any
- Buy/Sell Agreements updated?
- Defined valuation formulas updated?



Documents to prepare or update for prospective buyers

- Confidentiality and HIPAA release documents
- Current financial statements
- Tax returns (last 3 years)
- Adjusted normalized cash flows:
 - Discretionary expenses
 - Excess rent
 - Benefits
 - Vehicle
 - Unnecessary supplies; Office vs. dental supplies
 - PPP or other loan stimulus funds separated
 - Specialized PPE



Documents to prepare for prospective buyers (cont.)

- Production by providers (Doctors and hygiene)
- Fee schedule
- Insurance vs. fee for service
- Active patients for 18 / 24 / 36 months
- New patient history for last 2-3 years
- Equipment listing / depreciation; major purchases that may have been expensed listed
- Practice and building separate, if applicable



Documents to prepare for prospective buyers (cont.)

- Accounts receivable aging summary (collection ratios and procedures post-COVID-19)
- Referral patterns
- Current lease structure – appropriate for transition plan; banks will generally require 5-10 years, options for renewal
- Employment or non-compete agreements, if applicable
- Sole practice vs. partnership differences may be applicable
- Schedule history



PRACTICE TRANSITIONS

Practice Valuation Concepts



Valuation Models:

- Asset Model
- Net Production/Collection Model
- Capitalized Excess Earnings Model
- Net Annual Earnings Model
- Patient Records Model (\$150 – \$500 per record)
- Discounted future cash flow – (post Covid-19 analysis)

PRACTICE TRANSITIONS

Practice Valuation Concepts



DENTAL PRACTICE PROFIT MODEL GENERAL DENTAL

GROSS PRODUCTION			\$ 1,800,000
LESS: WRITE OFFS AND ADJUSTMENTS	15%		(270,000)
NET PRODUCTION (COLLECTIBLE PRODUCTION)			1,530,000
LESS: OVERHEAD	60%		(918,000)
NET AVAILABLE TO DOCTORS			612,000
LESS: DR EARNINGS (DR PROD LESS LAB)	35%		(322,875)
OWNERSHIP PROFITS			289,125
LESS: PRACTICE DEBT	\$1,020,000 7 YEARS, 6.0%	per month	14,827
			(177,924)
OWNERSHIP PROFITS			\$ 111,201

GENERAL DENTAL DR COMPENSATION CALCULATION

DR PRODUCTION (75% OF TOTAL)	\$1,200,000
LESS: WRITEOFFS AND ADJ 15%	(180,000)
LESS: LAB	(97,500)
NET DR. PRODUCTION	922,500
TIMES 35%	\$ 322,875

PRACTICE TRANSITIONS

Practice Valuation Concepts



PAINLESS DENTISTRY, DDS, PA ***Estimate of Practice Value*** ***December 31, 201X***

METHOD 1 - ASSET VALUE

Low

High

<i>Dental equipment -</i>	<i>\$200,000</i>	<i>\$200,000</i>
<i>Office equipment and furniture</i>	<i>10,500</i>	<i>10,500</i>
<i>Leasehold improvements</i>	<i>20,000</i>	<i>20,000</i>
<i>Dental supplies & hand instruments</i>	<i>15,000</i>	<i>15,000</i>
<i>Patient records/goodwill</i>	<i>550,000</i>	<i>840,000</i>
<i>Total value</i>	<i>\$795,500</i>	<i>\$1,085,500</i>

PRACTICE TRANSITIONS

Practice Valuation Concepts



PAINLESS DENTISTRY, DDS, PA
Estimate of Practice Value
December 31, 201X

METHOD 2 - ANNUALIZED NET PRODUCTION (Weighted Ave)

12/31/xx	\$1,100,000	times 1	\$1,100,000
12/31/xy	1,350,000	times 2	\$2,700,000
1231/xz	<u>1,530,000</u>	<u>times 3</u>	<u>\$4,590,000</u>
		6	\$8,390,000
divide by 6			<u>\$1,398,333</u>
Average annual net production			<u>\$1,398,333</u>

Total value

\$769,083

\$1,048,750

55%

75%



PRACTICE TRANSITIONS

Practice Valuation Concepts

PAINLESS DENTISTRY, DDS, PA Estimate of Practice Value December 31, 201X

METHOD 3 - CAPITALIZED EARNINGS

Average annual net production (from above)		\$1,398,333	
Less: Average operating expenses	60%	(839,000)	
Professional labor (35% of net Dr.prod after lab)		(323,000)	
Equipment contribution		<u>(25,000)</u>	
	Excess Earnings	<u><u>\$211,333</u></u>	
	Capitalization Rate		<u>25%</u> <u>20%</u>
			(4 times) (5 times)
Total value			<u><u>\$845,332</u></u> <u><u>\$1,056,665</u></u>



PRACTICE TRANSITIONS

Practice Valuation Concepts

**PAINLESS DENTISTRY, DDS, PA
Estimate of Practice Value
December 31, 201X**

METHOD 4 - ANNUALIZED EARNINGS

		<u>Low</u>	<u>High</u>
<i>Total earnings (amt available for doctors)</i>			
	12/31/xx	\$420,000	
	12/31/xy	\$520,000	
	12/31/xz	\$610,000	
		\$1,550,000	
		div by 3	
		\$520,000	
			1.5 2
Total value		\$780,000	\$1,040,000



PRACTICE TRANSITIONS

Practice Valuation Concepts

PAINLESS DENTISTRY, DDS, PA Estimate of Practice Value December 31, 201X

Average value of the four methods presented

Method 1	\$795,500	\$1,085,500
Method 2	769,083	1,048,750
Method 3	845,332	1,056,665
Method 4	780,000	1,040,000

Total of the four methods presented

\$3,189,915	\$4,230,915
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div by 4 div by 4

Average of the above valuation methods

\$797,479	\$1,057,729
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Calculated value (average of low & high)

<u>\$927,604</u>

Other Balance Sheet items at 12/31/0x

Cash	\$20,000
Accounts receivable	110,000
Accounts payable	(2,500)
Payroll withholdings payable	(7,500)
Notes payable	(100,000)
Current year profit	0
Net total	<u>\$20,000</u>

Net value \$947,604

Net value-rounded \$948,000



Other considerations

- Growth vs. decline (production, new patients, etc.)
- Sustainability – patient base
- Asset purchase vs. stock purchase
- Support from outgoing Dr.
- A/R collection rate pre and post COVID (note A/R typically is not sold to buyer)
- Potential appointment backlog due to closure – bounce back plan in place?
- 3 & 6 month projections, highlighting expected collections & expenses reduced



Other considerations (cont.)

- Bank financing could be uncertain; banks don't know what their rules will be yet
- Validity of active patient counts
- Contingent or earn out-type clauses for transactions
- Recruiting and staffing
- Cost of PPE
- Coding and billing



Other considerations (cont.)

- Appointment times under new rules
- Valuation as noted and uncertainty
- Will buyers be willing to accept new risks? Will sellers be willing to share risk? New compromise
- Staffing variables – more assistants needed?
- Front desk environment (no contact, remote payment acceptance)
- New systems / processes
- Retirements and recruiting



Financing considerations

- Bank financing (updated PFS, new loan programs from SBA)
 - How long before back to “normal” – 3 / 6 / 12 months?
 - What will the new normal be?
- Owner holdback (Contingencies, sharing risk)
- Deferred compensation – internally financed