Partnerships and fractional sales

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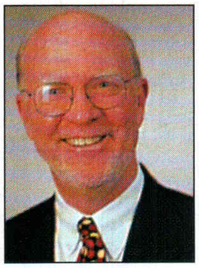

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The use of fractional practice sales/partnerships as a transition strategy for dentists who want to continue to practice in a partnership is growing in popularity. The definition of this type of transition strategy is "The sale of a portion of a dental practice to another dentist who will ultimately buy the remainder of the practice at an agreed-upon point, based on an agreed-upon method for determining buy-out price, and who will jointly own and operate the practice in the interim."

This approach could be for you if:

❶ You have an associate who you want to be your successor.

❷ You want to assure an exit strategy for yourself.

❸ You want to share the responsibilities of ownership.

❹ You want to have an exit strategy, but you're not ready to retire for at least five years.

Our experience suggests there are several keys to a successful partnership. They include:

- Professional/clinical compatibility
- Business compatibility
- Shared vision for the practice
- Mutual respect
- Capability of the practice to financially support both owners

Many dentists do not consider this option for practice transition *unless* they have an associate or have identified a candidate within the practice. These opportunities can be advertised/marketed effectively, particularly to experienced dentists seeking ownership opportunities. In these situations, the prospective partner will typically work in the practice for a "get-acquainted" period so both parties reach a level of comfort with each other.

The components of a fractional sale are:

❶ The valuation of the practice

❷ The amount of ownership/equity to be initially sold

❸ The preparation of cash flow/financial models to demonstrate the ability of the practice to support both parties, the projected growth in the practice, and the return on investment for the prospective buyer/partner

❹ The buy-in price (based on the valuation and the financial models)

❺ The funding of the purchase

In many cases, a portion of the purchase price will be via a promissory note held by the seller. In these cases, the rate and terms of the note will need to be negotiated. Many buyers also request a structure which enables the use of pretax payments.

❻ The formula or methodology for determining the price for the remainder of the practice to be determined at a point in the future. The prospective buyer does not want to be in a situation in which his or her contribution to practice growth creates a higher buy-out price. This can be addressed by the formula or methodology.

❼ The basis for compensation of the owners during the partnership. This is typically based on production/collections from the doctors' individual performance of dentistry. In this way, compensation will be correlated to production and/or overall hours worked.

❽ The basis for distribution of net profits. This is typically based on ownership; however, variations can be utilized.

The services of a professional-transitional organization are necessary due to the complexity of these transactions. In many ways, a fractional sale is more complex to facilitate than an outright sale. Some of the services this type of organization can provide include:

✓ Marketing

✓ Screening of candidates

✓ Valuation of the practice

✓ Development of financial models

✓ Funding and/or development of purchase framework

✓ Development of the buy-out formula

✓ Overall facilitation of the process

✓ Liaison with outside advisors and attorneys in the preparation of legal documents

Some experts predict that 40 percent of practices will transition with a fractional partnership. If this method becomes your choice, be sure to plan ahead for a healthy transition!

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