Market Trends and Other Key Elements in Practice Transitions

Roger K. Hill, M.S.A., A.S.A.

American Association of Orthodontists Annual Session
May 3, 2013

New Market Context: Where Are We?

AAO Membership Breakdown

<table>
<thead>
<tr>
<th>Practice Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solo Practice</td>
<td>16%</td>
</tr>
<tr>
<td>Partnerships</td>
<td>4%</td>
</tr>
<tr>
<td>Associateships</td>
<td>4%</td>
</tr>
<tr>
<td>Interdisciplinary Practice</td>
<td>5%</td>
</tr>
<tr>
<td>Large Corporate Practice</td>
<td>0%</td>
</tr>
</tbody>
</table>

Key Changes
- Decrease in Solo Practice
- Increase in Partnerships
- Emergence of Corporate Practices

Developing Trends
- Strategic Partnerships with Pediatric and Dental Practices
- Equity or Office Sharing Agreement
- Dependence of Single Referral Source
- Freedom from Marketing to Referring Doctors

New Market Context: Where Are We?

- General Dentists (Active) 136,000
- Orthodontists (Largest Specialty) 9,500
- Residency Programs 65
- Graduates Per Year 360
New Market Context: Where Are We?

Doctors Retiring Later: 401(k)s to 201(k)s
Aging Orthodontist Population
Average Age: 54
Years In Practice: 23
Both Are 30-Year Highs

New Market Context: Where Are We?

Years In Practice by Age Group
0-5 Years 17%
6-10 Years 30%
11-20 Years 25%
21-30 Years 25%

New Market Context: Where Are We?

Is There Good News? Yes!
Approximately 20% of Orthodontists Are Age 60 or Older
Approximately 200 per Year (on 10-Year Average) Will Retire
Approximately 360 Graduates Per Year
4.0M Children Born in 2000
Turning 12 This Year (2012)

New Market Context: Where Are We?

Corporate Practice of Dentistry
DSOs/DSMOs: What Are They?
- Two Fundamental Types
  - Ownership
  - Service Providers

New Market Context: Where Are We?

Corporate Practice of Dentistry
Ownership Model
- Some States Resisting, Most Are Not
- Larger Companies:
  - Aspen Dental
  - Coast Dental
  - Pacific Dental
  - Heartland
- Approximately 3,500 Practices in 46 States
New Market Context: Where Are We?

- Corporate Practice of Dentistry
  - Service Providers
    - Provide an Array of Service Choices:
      - Marketing
      - Administration
      - Billing / Collection
      - Logistics/ Supplies
      - Call Center

- Corporate Dentistry
  - Definitely Here to Stay
  - Ownership Models Refined; Early Models Failed
  - Service Models Can Be Beneficial
  - Market Penetration
    - Currently Less Than 3.0%
    - Medical Model Best Indicator – Likely No More Than 12.0% to 15.0% (Ortho)

- Allows Doctor to Focus on Their Skill Set
- Most Doctors Dislike Management Activities
Fundamentals and Questions

Question 1:
Are practice values decreasing?

Are Practice Values Decreasing?
- Supply & Demand
  - Historically More Sellers Than Buyers
  - Situation has Reversed
  - Maintaining Current Income
  - Expect Values to Maintain or Increase

Important Questions!
- Are Motivated Buyers Available?
  - Fewer Available Opportunities
    - Full Sale
    - Buy-In / Buy-Out
  - Improved Seller / Purchaser Ratio
  - Financing is Available
- Buyers’ Other Options
  - Start-Up Practice
  - Associateship

Are Practice Values Decreasing?
- Start-Up vs. Acquisition
  - Acquired (Full Sale or Fractional)
    - Financial Risk
    - Immediate Income Stream
    - Established Referral Base
  - Start-Up
    - Financial Risk
    - No Income Stream
    - No Referral Base

A Comparison:
Where Is Success Maximized?

Net Income of Acquired Practice:
Net Income of Start-Up Practice:
Opportunity Cost in Real Terms (An Example)

- Assume Difference:
  - Year 1: $200,000
  - Year 2: $160,000
  - Year 3: $120,000
  - Year 4: $80,000
  - Year 5: $40,000

- Difference is $2,318,400
- It Will Never Be Recovered!

The Main Lesson:

“It is always more efficient to acquire a benefit stream than to create one.”

Question 2:

Someone told me that my practice is worth 80% of a year’s gross collections. Is this true?

Percentage of Income as Value

<table>
<thead>
<tr>
<th>Practice A</th>
<th>Practice B</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 million revenue</td>
<td>$1 million revenue</td>
</tr>
<tr>
<td>55.0% overhead</td>
<td>65.0% overhead</td>
</tr>
</tbody>
</table>

Are They Both Valued at $800,000?

Percentage of Income as Value

- Fair Market Value (FMV) is the sum of:
  - Tangible Assets
    - Orthodontic Receivables
    - Equipment
    - Furnishings
    - Leasehold Improvements
    - Office Equipment
    - Supplies
  - Intangible Assets
    - Goodwill
    - Covenant Not to Compete
    - Patient Records
    - Telephone Number(s)
Appropriate Valuation Methodology

- What Impacts Intangible Value
  - Practice Growth Rate
  - Profitability/Overhead
  - Income
  - Location
  - New Patient Flow
  - Number of Referring Sources
  - Payor Sources (% Insurance)
  - Etc.

Determining Fair Market Value

1. Income / Earnings Approaches
2. Comparable Sales Approach
3. Multiple Approaches Increase Accuracy
4. Transparent Methodology

Orthodontic Receivables

Three (3) Types of Receivables
1. Contracts Receivable
2. Accounts Receivable
3. Prepaid Accounts

Orthodontic Receivables

2. Accounts Receivable
   - Due Current Month, and
   - Past Due
   - Discounted Only for Uncollectibility
   - Generally Smallest of the Three Types

Orthodontic Receivables

1. Contracts Receivable
   - Sum of Scheduled Payments
   - Discounted For:
     - Overhead Costs
     - Doctor Compensation
     - Uncollectibility
   - Largest of the Three Types

Orthodontic Receivables

3. Prepaid Accounts
   - Senior Doctor Has Been Paid
   - Treatment Provided Without Payment
   - Reduces Fair Market Value
The Fulcrum (On Which the Lever Turns):
Cash Flow Projections

Limitations of Fair Market Value

- Fair Market Value (FMV) Does Not Define Financial Benefit
- FMV Defines:
  - Value of Tangibles
  - Value of Intangibles
  - Normalized Overhead Rate

“Beans and Weenies”

Purchaser Needs to Know:
- After-Tax Cash Flow
Seller Needs to Know:
- Will Earnings Change?

Cash Flow Projections (Proforma)

- Illustrate All of the Above
- Test Value
- Increase Confidence
- Enhances Financing Request

Advanced Proforma Utilization

- Testing for:
  - Overhead Reduction
  - Increased Income
  - Desired Benefit
  - New Capital Purchases

Proforma: Previewing Financial Outcome

<table>
<thead>
<tr>
<th>Year</th>
<th>Proj. Prof. Income</th>
<th>Practice Overhead</th>
<th>Dr. New's Coll. Alloc.</th>
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<tbody>
<tr>
<td>3rd</td>
<td>$1,111,980</td>
<td>(764,929)</td>
<td>$0</td>
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<tr>
<td>4th</td>
<td>$1,134,220</td>
<td>(779,708)</td>
<td>$741,104</td>
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<tr>
<td>5th</td>
<td>$1,156,904</td>
<td>(794,782)</td>
<td>$954,823</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Distributable Profit</th>
<th>Hygiene Allocation</th>
<th>Total Allocation</th>
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<tr>
<td>3rd</td>
<td>$347,051</td>
<td>$198,119</td>
<td>$1,134,220</td>
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<tr>
<td>4th</td>
<td>$354,512</td>
<td>$194,997</td>
<td>$1,156,904</td>
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<td>5th</td>
<td>$362,122</td>
<td>$202,082</td>
<td>$1,168,306</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Overhead Allocation</th>
<th>Pre-Tax Profit</th>
<th>Compensation to Associate</th>
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</thead>
<tbody>
<tr>
<td>3rd</td>
<td>($779,708)</td>
<td>$0</td>
<td>($160,620)</td>
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<tr>
<td>4th</td>
<td>($794,782)</td>
<td>$354,512</td>
<td>($160,620)</td>
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<td>$362,122</td>
<td>($160,620)</td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Payable to Dr. Seller</th>
<th>Personal Deductions</th>
<th>Pre-Tax Income</th>
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<tbody>
<tr>
<td>3rd</td>
<td>($58,499)</td>
<td>($22,700)</td>
<td>$137,920</td>
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<td>4th</td>
<td>($44,754)</td>
<td>($22,700)</td>
<td>$155,350</td>
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<td>5th</td>
<td>($41,161)</td>
<td>($22,700)</td>
<td>$230,081</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Taxes</th>
<th>After Tax Income</th>
<th>Practice Purchase Principal</th>
<th>Depreciation &amp; Amortization</th>
</tr>
</thead>
<tbody>
<tr>
<td>3rd</td>
<td>($41,837)</td>
<td>$96,083</td>
<td>($41,530)</td>
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<td>4th</td>
<td>($47,180)</td>
<td>$108,170</td>
<td>($44,754)</td>
<td>56,874</td>
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<td>5th</td>
<td>($71,161)</td>
<td>$158,920</td>
<td>($79,565)</td>
<td>56,874</td>
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<tr>
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</thead>
<tbody>
<tr>
<td>3rd</td>
<td>$118,783</td>
<td>5,769</td>
<td>($12,845)</td>
<td>($10,000)</td>
</tr>
<tr>
<td>4th</td>
<td>$128,627</td>
<td>5,769</td>
<td>($13,842)</td>
<td>($10,000)</td>
</tr>
<tr>
<td>5th</td>
<td>$170,755</td>
<td>5,769</td>
<td>($13,842)</td>
<td>($10,000)</td>
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Transition Alternatives

Prototypical Sale
- Full Sale
- Control
- Cash / Note Ratio
- Little Recovery Time, Least Secure
- Practice Size Limitation
- Time Frame 0-2 Years
- Asset Sale

Delayed Sale
- Full Sale
- Control and Compromise for Security
- Cash / Note Ratio Reduced
- Time Frame 1-3 Years
- Asset Sale

Fractional Sale
- Portion of Practice
- More Complex
- Emotional Aspects
- Larger Practices or Time Frame of More than 5 Years

Hybrid (Fractional to Full Sale)
- Begins as Fractional Sale
- Predetermined Buy-Out Date
- Purchaser Owns 100.0% At End
- Managing Growth
- Adding Associate After Seller's Departure
- Can Progress to New Fractional Sale

Mergers
- Most Complex
- Single Survivor Entity
- Longest Time Frame (Generally 8-10 Years)
- Slow Down Merger

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Associateships

How Do You Know If You Need One?
- Rapid Growth in Practice
- Reduction of Time / Scope
- Transition Planning
- New Satellite Office(s)
- Raising Barrier(s) to Entry
- Part of a Larger Plan

Relationship Failures
- Personality
  - Acid Test
  - Professional Assessment
- Unforeseen
- Unfulfilled Expectations
  - Financial Outcomes
  - Legal Arrangements
  - Process

Question 3:
How do I know what to pay an associate?

Associate Compensation
- Salary, (Full Time)
- Per Diem
  - Post-Sale for Sellers
  - Contract Status with Corporation
  - Part-Time Associate
    - Pro Rata
    - Benefit Package
Associate Compensation

› Is There a Way to Determine the Necessary Growth?

› Break Even Point (BEP) Algorithm

 Associateships

Break-Even Point Analysis (BEP)

\[ \frac{\text{Total Fixed Costs (TFC)}}{1.0 - \text{Variable Costs} (%)} = \text{BEP} \]

Break-Even Point Analysis (Salary)

Assume:
Compensation/Benefits = $150,000
Additional Employee = $35,000
Variable Costs = 10.0%

Then:
\[ \frac{$150,000 + $35,000}{1.0 - 0.10} = $205,600 \]

$205,600 / 12 months / 17 days = $1,007 per day additional

How Are Bonuses Determined?

› Recovers Cost of Associate Doctor
› Bonus Not Capped
› Easily Quantified and Tracked

Bonus Algorithm

\[ \text{Compensation / Benefits + New Fixed Expenses} \]
\[ \frac{1.0 - \text{Variable Costs} (%)}{\text{Derived Additional Income}} = \text{Derived Additional Income} \]

Derived Additional Income + Current Practice Income = $ Bonus Threshold

Bonus Algorithm

• 15.0% - 20.0% Of Revenue in Excess of Calculated Threshold for Bonus
• Paid Periodically (Quarterly Most Common)
• Escrow Amounts and Buying-In
Fractional Sale (Buy-In and Buy-Out)

Structuring the Buy-In

1. Fair Market Value
2. Proforma
   A. Trigger Point
   B. Financial Structure
   C. Income Distribution Formula
3. Employment Agreement
4. Letter of Intent

Financial Expectations

Legal Expectations

Defining Financial Expectations: Two Components

First Component
- Fair Market Value
- Due Diligence Visit
- Multiple Approaches to Value Increases Accuracy
- Regression Analysis if Associate Is in Place

Second Component
- Cash Flow Projections (After-Tax)
- Illustrate Financial Outcome
- Test Value
- Increase Confidence
- Addresses Critical Issues (A & B)

This Is The A Of The ABC’s

ABC
Fractional Sale: Structuring the Buy-In

(A) Trigger Point
- Sufficient Collections
- No Decrease in Earnings

(B) Financial Structure
- Simultaneous Objectives
  - Affordable for Associate/Purchaser
  - Fair/Equitable for Owner/Seller
  - Push / Pull in Tax Code
  - Basketballs and Minefields

Fractional Sale: Structuring the Buy-In

Alternative Financial Structure I: Stock Sale
- Most Practices Incorporated
- Ownership Conveyed by Stock Purchase
- Taxed at Capital Gains Rate (15.0% / 20.0%)
- Good for Seller
- Inefficient for Purchaser

Fractional Sale: Structuring the Buy-In

Alternative Financial Structure I: Stock Sale (cont’d.)
- Inefficient for Purchaser
- Non-Depreciable
- Paid With After-Tax Income
- Interest Not Deductible
- High Cost Basis

This Is The B Of The ABC’s
Inefficiency of (All) Stock Sale

$100,000  Purchase Price of x.xx% of Stock
$ 18,800  Interest on Loan to Purchase Stock
$118,800  Sub-Total
/  0.65  Income Taxes at (Assumed) 35.0%
$182,700  Total Amount Needed

Fractional Sale: Structuring the Buy-In Can We Make This More Affordable?

Tangible + Intangible = Fair Market Value
Tangible Component Typically Much Smaller
Provides Benchmark for Stock Value

Fractional Sale: Structuring the Buy-In
Can We Make This More Affordable?

Stock Sale: Affordable and Fair

- Stock Sale: Affordable and Tax Efficient
  - Assign Portion of Value to Stock (Tangible)
  - Remainder Paid with Pre-Tax Earnings Shift (Intangible)
  - Typically Paid Over 5-7 Years

Stock Sale: Affordable and Fair

- Stock: Fair Market Value
- Tangible Net Worth
- Intangible(s) Component
- Stock Management Fee (Pre-Tax Income Shift)
- Imputed Interest – Known Return (%)
- Tax Differential – Splits Tax Burden
Components of Value

- Tax Differential
- Imputed Interest
- Management Fee (Pre-Tax Income Shift)

Stock Purchase

<table>
<thead>
<tr>
<th>Tangible Net Worth</th>
<th>Intangibles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Gains Tax</td>
<td>Ordinary Income Tax</td>
</tr>
</tbody>
</table>

Fractional Sale: Structuring the Buy-In

- Financial Structure II: Asset Sale
  - Generally Two Sellers
    - Practice Sells Tangible
    - Doctor Sells Intangible

ASSET SALE STRUCTURE (Prior to Buy-In)

$ Income (Overhead)
$ Allocable Profit

- Partnership or LLC
  - 100.0% of Fixed Assets/Supplies/Receivables
  - 0.0% of Intangibles

- Seller's Entity
  - 100.0% of Intangibles

- Purchaser's Entity
  - 50.0% of Fixed Assets/Supplies/Receivables
  - 50.0% of Intangibles

ASSET SALE STRUCTURE (After Buy-In)

$ Income (Overhead)
$ Allocable Profit

- Partnership or LLC
  - 50.0% of Fixed Assets/Supplies/Receivables
  - 50.0% of Intangibles

- Seller's Entity
  - 50.0% of Intangibles

- Purchaser's Entity
  - 50.0% of Fixed Assets/Supplies/Receivables

Fractional Sale: Structuring the Buy-In

- Which Structure is Better?
  - Stock Sale with Management Fee
  - Asset Sale with Three Entities

Fractional Sale: Structuring the Buy-In

- Which Structure is Better?
  - Best Results From Looking at Both
  - Compare Financial Outcomes
  - Requirements for Comparison:
    * Depth of Experience
    * Software Capability
Fractional Sale: Structuring the Buy-In

(C) Income Distribution Formulae: Basic Types
(1) Equity (Ownership)
(2) Percentage (Productivity)
(3) Multi-Tiered

Orthodontic Distribution Formula: Multi-Tier

<table>
<thead>
<tr>
<th>Days Worked</th>
<th>Productivity Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>50.0%</td>
<td>50.0%</td>
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</tbody>
</table>

Orthodontic Distribution Formula: Productivity Differential

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>S</td>
<td>90.0%</td>
</tr>
<tr>
<td>E</td>
<td>80.0%</td>
</tr>
<tr>
<td>L</td>
<td>70.0%</td>
</tr>
<tr>
<td>E</td>
<td>60.0%</td>
</tr>
<tr>
<td>R</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

(5 Years Illustrated – Can Be Varied)

Fractional Sale: Structuring the Buy-In

Phase One Planning

1. Fair Market Value
2. Proforma
   A. Trigger Point
   B. Financial Structure
   C. Income Distribution Formula
3. Employment Agreement
4. Letter of Intent

Financial Expectations

Legal Expectations

Fractional Sale: Structuring the Buy-In

- Employment Agreement
  - Employs Associate Until Buy-In Begins
  - Compensation/Benefits Defined
  - Covenant Not to Compete
  - Term (Length of Employment)
  - Related Matters

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Fractional Sale: Structuring the Buy-In

- Buy-In Letter (Letter of Intent)
  - Previews Partnership Operations
  - Daily Operational Details
  - Previews Buy-In/Buy-Out
Full Sale: 100.0% of Practice

- Phase One Planning
  - Fair Market Value
  - Proforma
    - Purchaser
    - Seller
    - New Doctor(s)
  - Employment Agreement
  - Letter of Intent

Financial Outcomes

- Proforma
  - Ten (10) Year Forecast
  - Illustrates After Tax Cash Flow for Purchaser
  - Estimates After Tax Gain for Seller

Full Sale: 100.0% of Practice

Financial Outcomes

- Proforma
- Ten (10) Year Forecast
- Illustrates After Tax Cash Flow for Purchaser
- Estimates After Tax Gain for Seller

Decisions of Magnitude

How Much is Enough?

- Based on Five (5) Factors
  1. Tax Rate
  2. Investment Returns
  3. Longevity
  4. Gain From Practice Sale
  5. Monthly Living Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected Professional Income</th>
<th>Operating Expense</th>
<th>Distributable Profit</th>
<th>Profit Before FIT</th>
<th>Profit After FIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$1,931,250</td>
<td>(982,432)</td>
<td>$948,818</td>
<td>$865,918</td>
<td>$553,512</td>
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<td>Year 2</td>
<td>$1,969,875</td>
<td>(1,002,081)</td>
<td>$967,794</td>
<td>$794,894</td>
<td>$520,306</td>
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<tr>
<td>Year 3</td>
<td>$2,009,273</td>
<td>(1,022,122)</td>
<td>$987,150</td>
<td>$112,661</td>
<td>$1,071,566</td>
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</table>
### How Much Do You Need?

<table>
<thead>
<tr>
<th>Monthly After-Tax Living Expenses</th>
<th>Amount Required at Age 65 (3% inflation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500</td>
<td>$811,500</td>
</tr>
<tr>
<td>$5,000</td>
<td>$1,623,000</td>
</tr>
<tr>
<td>$7,500</td>
<td>$2,434,500</td>
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<tr>
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<td>$3,246,000</td>
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<td>$12,500</td>
<td>$4,057,500</td>
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<td>$25,000</td>
<td>$8,115,000</td>
</tr>
<tr>
<td>$30,000</td>
<td>$9,738,000</td>
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### Decisions of Magnitude

- **When Can I Afford to Sell?**
  - Quantify Amount Necessary to “Restock the Shelves” (Retirement Savings)
  - Sale Proceeds Are Now More Critical to Your Retirement
  - Implement Transition Plan to Support Recalculated Timeframe
Strategies for Reducing Tax on Gain

Full Sale: 100% of Practice
- Allocation of Purchase Price
  - Assign Specific Value to Each Asset Class
  - Seller and Purchaser Must Use Same Allocation
  - Push / Pull in Tax Code

- Full Sale (100.0% of Practice)
  - Asset Sale (Not Stock)
  - Generally Two Sellers (One Purchaser)
    - Corporation Sells Tangibles
    - Doctor Sells Intangibles

Allocation of Purchase Price

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Seller</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>Ordinary</td>
<td>Expensed, Year 1</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Capital Goods</td>
<td>Amortizable Over 15 Years</td>
</tr>
<tr>
<td>Patient Records</td>
<td>Capital**</td>
<td>Amortizable Over 15 Years</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>Generally Ordinary</td>
<td>Depreciable Over 5-7 Years</td>
</tr>
<tr>
<td>Covenant</td>
<td>Ordinary</td>
<td>Amortizable Over 15 Years</td>
</tr>
<tr>
<td>Goodwill</td>
<td>Capital</td>
<td>Amortizable Over 15 Years</td>
</tr>
</tbody>
</table>

* If the practice is incorporated these items must be sold by the corporation.
** If the corporation is a C-corporation, gain will be taxed at ordinary rates.

Strategies for Reducing Tax on the Gain

Full Sale: 100% of Practice
- Allocation of Purchase Price
  - Order of Allocation:
    - Receivables
    - Consumable Supplies
    - Fixed Assets
    - Patient Records
    - Covenant Not to Compete
    - Personal Goodwill

- Incorporated Practices
  - Corporation Sells:
    - Receivables
    - Supplies
    - Fixed Assets
    - Patient Records
Full Sale: 100.0% of Practice
Allocation of Purchase Price

- Incorporated Practices
- Doctor Sells:
  - Assignment of Personal
    Goodwill/Covenant
  - Distinct From Corporation
  - Document Language Critical

Full Sale: 100.0% of Practice

- Tax Strategies for Full Sale
  - Pay Sale Expenses Through Corp
    - Legal Fees
    - Commissions
    - Accrued Expenses Payable
  - Maximize Retirement Contributions
  - These Minimize Ordinary Tax Burden

Full Sale: 100.0% of Practice

- Tax Strategies for Full Sale: Reduce Capital
  Gains Taxes on Proceeds
  - Capital Loss Carryforward
  - Create New Capital Losses

Full Sale: 100.0% of Practice

- Tax Strategies for Full Sale: Post-Sale
  - Keep Corporation and Use Service
    Agreement
  - Minimize Payroll Taxes for Both Parties
  - Continue to Fund Retirement Plan
  - Maintain Family “Perks”

The Golden Window

- The Most Efficient Use of Your Assets
  - More After-Tax Gain Due to Current Tax
    Rates
  - Living On After-Tax Gain
  - Capital Gain Portion Often 60.0% to 80.0%
    of Practice Sale
  - Use Gain From Sale for Living Expenses
    Before Tax-Sheltered Savings
  - Sheltering Gain and Post-Sale Employment
Personal Perspectives

- What Senior Doctors Really Want in An Associate
  - Time Off / Reduced Scope of Treatment
  - Locking In Transition Plan
  - Willingness to Actively Help Grow Practice
  - Sharing Administrative Responsibilities
  - Appreciation / Acknowledgement
  - “Act Like a Partner Before You Are a Partner”

Personal Perspectives

- Reality Check: What Do Associates Expect?
  - Reasonable Compensation
  - Available Production
  - Structure (Draw, Commission, Etc.)
  - Acquisition Opportunity
  - And a Transition Plan to Follow
  - Employment Agreement

Personal Perspectives

- Reality Check: What Do Associates Expect?
  - Opportunity to Grow
  - Mentoring by the Senior Doctor
  - Clinical (Periodic Conferences)
  - Administrative
  - Respect: No “Junior Doctor”
  - Payor Sources
“I Wanna Talk About Me”

Question 4

“I’m not certain if it would be better to bring in an associate leading to partnership, or practice solo for a few more years and then sell. How can I know this?”

...A Complex Decision Due to:

1. Quantitative Issues
   A. Valuation of Practice
   B. Length of Timeframe
   C. Tax Considerations
   D. Income Needs
   E. Personal Financial Status

2. Qualitative Issues
   A. Current Age
   B. Family Considerations
   C. Quality of Life Concerns
   D. Health Status
   E. Ready to Go or Ready to Go

3. How We Really Make Decisions

4. What the Smart People Do
   A. Model Quantitative Scenarios
      • Partnership Pathway
      • Solo Practice for ___ Years, Then Sell
      • Sell Practice and Work Post-Sale
      • Review and Consider Each Scenario
      • Define Pathway 2-5 Years in Advance

The Big Take Away

The Transition Success Formula

1. Defined Expectations
   • Financial Outcomes
   • Legal Arrangements
   • Process (Planning Protocol)
Now, when we get up in the air, we better read the manual.

Where Do We Go From Here?

Getting Underway Without a Transition Plan...

Getting Underway With a Transition Plan

- Will Succeed
- The Most Successful Plans Begin With the Vision
- Planning Provides the Structure
- Plans (Financial and Transition) are Implemented / Realized
- You Deserve Nothing Less