



How to WIN as the Buyer: Partner with a Lender

The “post-COVID” dental practice marketplace continues to demonstrate a steady rebuild of productivity, adaptation to the return of health-conscious patients, while being deemed an essential health service. The profession’s ability to overcome a pandemic climate is commendable.

The pandemic has definitely not impacted the high value of dental practices, the shortage of practices for sale and mass volume of anxious buyers. Dentistry is flooded with buyers, increasing by 1200+ new solo dentists a year, corporate groups and mid-level investors all wanting the same thing: A dental practice for sale!

When a practice is listed for sale, buyers inquire, prepare letters of intent (LOIs) with a dollar amount (often above appraised value) that frequently compete with many other buyers to be chosen by the seller. This involves a number of time-consuming inquiries and a review by the brokerage to verify lending qualification of the prospective buyers. This should be done before any offer can be presented to the seller to choose the right amount, right fit and right terms to transfer their legacy.

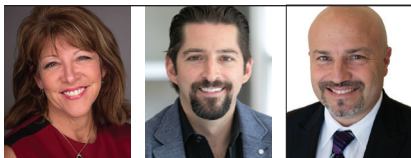
The most appealing financial offer is not always

about the dollar amount, but whether the offer can be funded if a lender is involved in the purchase.

The best offer from a buyer includes an established working relationship with a lender/funder that can be verified. A lender who advises the buyer should be involved at the offer stage. They should be informed of the business plan of the buyer to take over the practice and maintain/increase cash flow and productivity to reduce lender risk.

“A lender can be a strong partner for those looking to purchase a practice,” says Dion Farentino, Vice President, Commercial Financial Services – Healthcare Professionals, RBC. “We work with buyers to ensure their business plan is well thought out for both the short- and long-term success of the practice. A Healthcare Professional Specialist can help prospective practice owners get a full picture of their financial situation, what they can realistically afford and how the purchase of a practice fits within their longer-term plans.”

Lenders will consider each DDS borrower’s collateral/capital assets combined with their experience and history as a clinician. This is reviewed in combination with the practice performance and the



Lisa Philp of Transitions Group and **Dr. Sean Robertson** DDS of The Dental Broker Team, have joined forces to elevate the process of ownership transfer. Their combined 40+ years of dental expertise will ensure fair and mutually beneficial outcomes for seller, buyer, and lender. Their model supports buyers to maximize their opportunity, lenders to lend with confidence, and sellers to transition their way, while maintaining their legacy. **Dion**

Farentino, Vice President Commercial, Healthcare Professionals, RBC Healthcare. RBC Healthcare was created to address the needs of healthcare professionals throughout each of their life stages. RBC Healthcare’s network of over 500 Healthcare specialists are trained to understand the unique needs of Healthcare Professionals. To learn more, visit rbc.com/healthcare.

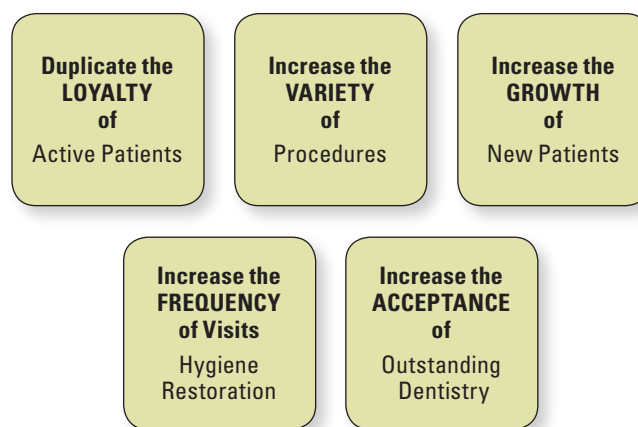
buyer's plan to operationally take over ownership and maintain historical cash flow. That business plan should be simple, concise, and clear. It should provide lenders enough information to comprehensively assess if a buyer can afford the practice at the proposed purchase price with a margin of safety.

The following is a summary of the inclusions and content a buyer should have in their business plan when they approach their lender for support in a practice purchase.

Buyer Lender Business Plan Outline

- The **appraisal** of the practice being purchased to assess the financial health and history of the business operations.
- The **offer amount proposed by the buyer** and the total request for loan funds.
- The **buyer's list of collateral/personal debt and spending**. This refers to a buyer's cash and non-cash equity. What cash can be put down for overage of lending if needed? What cashable equity is available that can support a shortfall in loan payments or another short-term shut down related to the pandemic occurs? Non-cashable equity, such as home equity, provides collateral that mitigates risk against a practice loan but is not immediately available as cash reserve.
- What is the married status, number of dependents, lifestyle cost, and debt service requirements of the buyer? Are they fiscally responsible or do they spend more than they earn? This is especially important in the case of premiums paid over appraised value. **Many lenders will use the income-to-debt service ratio of 1:25. This means, that lenders often want to see that income is 25% higher than the debt service and lifestyle costs for a buyer at a given amount. Consideration of this is important in a buyer's business plan.**
- The **buyer's dental/business experience**. Questions include: How much clinical experience does the buyer have? Have they owned a practice before? What is the amount of their current production? Do they have strong, supportive advisors? Do they bring something unique to the practice? Does their technical ability support that which is required to maintain and grow the practice they want to buy? Have they worked in the community they are looking to purchase in? Do they understand the needs of the practice and community?
- The **transition plan**. In concrete and measurable terms, this should address how a buyer plans on leadership and ownership takeover in regard to knowledge of operations and methodology of transfer. Questions to be answered include,

Figure 1: The five areas of focus in every purchase to maintain historical and grow organically as a buyer.



who is the dental team and how will they be managed? How will the buyer duplicate the loyalty and goodwill transfer to maintain active patients? What procedures can be increased? What procedures can be retained in house? What is the marketing strategy for new patient growth? What outstanding dentistry exists to support the opportunity? Figure 1 shows the five areas of opportunity a purchaser should consider in their business plan.

- **Realistic projections.** Lenders want to see that the buyer understands the business, can set realistic goals with 2 years of monthly top line provider projections. This should include both dentist and hygiene production for general practices. Projections should consider patient retention, number of providers required, capacity and dollar per hour of each provider. Projections also include overhead budgets and expense management of fixed and variable costs to run the practice before loans are paid. These projections should reflect conservative and average growth options based on practice metrics proposed for 2 years.

The modern era of practice lending combined with the competition for practices requires an understanding by the seller's agent of the validity of an offer to purchase submitted by each buyer. A buyer's offer to purchase is only as strong as their ability to follow through on the offer. In today's climate of increased lender scrutiny and the number of practicing dentists, it is more important than ever to be well prepared with a solid plan when that perfect practice comes along. ✨