Transition: A Step-By-Step Summary

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For most residents, an orthodontic practice transition is something that is taught about briefly during one's residency. The amount of knowledge typically shared within today's orthodontic programs is only the tip of the transition iceberg. However, when the time arises to begin the transition process it can seem like venturing into foreign territory. When looking to purchase a practice or enter into an existing practice, it is strongly advised to seek advice from one of the many professional valuation and transition companies that specialize solely in these types of transactions. These companies have and extensive amount of experience that helps guide both buyers and sellers through the transition process. A practice transition is rarely agreed upon by a mere handshake, and it is not advisable to do so. A carefully drafted transition plan is the best course to ensure success.

There are many tried and true steps to a successful practice transition. Below is a step-by-step transition summary that should provide a better understanding of the workings of a practice transition.

1. Prepare and/or update your CV for potential sellers/employers.

2. Generally, before a selling doctor will allow a potential buyer to review his/her practice's financial information, the buyer will be asked to sign a Non-Disclosure Agreement. This agreement simply states that you will not divulge any of the confidential information related to seller's practice to anyone other than your advisor(s).

3. Obtain a copy of the seller's practice valuation report and review it with your advisor to verify the purchase price is reasonable. If the seller has not had a practice valuation performed, press the seller to have one done, which will make the transaction proceed more efficiently and ensure greater confidence to both parties that the purchase price is reasonable.

4. Additional information and/or updated financial and operational data may need to be obtained to update the operations of the practice since the valuation was performed.

5. Continue conversations with the selling doctor. Visit the practice and staff, if possible (many sellers want to keep the potential sale confidential, but a private visit after hours or on non-patient days can and should still be scheduled).

6. Continue to look for and inquire about other potential opportunities in the event that one or more transactions do not work out.

7. Hire advisors (such as a valuation and transition company), an attorney and/or others, to represent your interests.

8. Once a buyer & seller are in general agreement on how the transaction will be structured (e.g. timing of purchase, 100% purchase versus a partnership arrangement, pre- and post-closing employment arrangements, etc.), a series of pro forma cash flow projections are prepared to illustrate to each party their financial situation after the buy-in occurs. These cash flows take into account future collections levels, operating expenses, days worked by each party, income allocations to each party and tax effects to each party during the buy-in/buy-out period. The projections also illustrate the principal and interest to be paid by the buyer and how the payments affect the buyer's compensation. Structuring the payments properly will enable the buyer to have sufficient cash flow to support his/her lifestyle and repay the purchase obligation.

9. Advisors will work with both the buyer and seller to appropriately structure the transaction.

10. Once both parties are comfortable with the financial impact to each of them and the overall structure, a non-binding letter of intent or term sheet is prepared which outlines the significant terms of the buy-out and establishes the parameters on which the definitive legal documents will be based.

11. Draft definitive legal documents are prepared by a licensed attorney. These documents are circulated, first to the seller and his/her advisors for modification and approval and eventually to the buyer and his/her advisors. These detail all the specifics of the buy-in/buy-out.

12. The definitive legal documents may require multiple reviews by the buyer, the seller, and their respective advisors. Advisors will continue to be involved with the process to negotiate an equitable transaction. Once everyone is in agreement both parties sign the purchase agreements, and the buy-in/buy-out can then commence.

The majority of orthodontists will only transition twice within their careers. Once when exiting their residency program and then when retirement occurs. It is important to make well-informed and educated business decision when it comes to this process. For young doctors, the choices made and outlined during the transition process are big decisions that will determine the anticipated financial reward for the future years of dedication and hard work within the practice. Transition can be a fun process. Start early, be informed, have confidence in the advisors you've chosen and the results are likely to be very rewarding both personally and financially.