Step by step guide to buying a pediatric dental practice

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1. Set your buy box

Clarify your why

- Autonomy, income, lifestyle, location
- Ownership is a responsibility decision first

Startup vs acquisition

- Startup = more unknowns
- Acquisition = existing cash flow and systems

Personal readiness

- Student loan picture
- Cash on hand
  - 10% of purchase price or at least 50K
  - Non retirement accounts
- Credit score
  - 680-700+
- Production history
  - Show you can produce at level

Common mistake

- Waiting too long to feel ready

2. Build your deal team early

Core team

- Dental specific lender
  - Banks love dentists!
  - They will typically finance 100% of the acquisition + working capital
  - Focus on big national bank that's dent
- Healthcare attorney
  - This is likely the biggest purchase of your life
  - Sellers Credits
- Dental CPA

Support team

- Insurance agent
    - Getting credentialed with insurances
    - Getting business and malpractice insurance
- Broker
    - Typically represents the seller

Why this matters

- Prevents costly legal and financial mistakes
- Saves time later

3. Source deals and pre screen fast

Where deals come from

- Can be the hardest part of the process
- Brokers
- Off market opportunities

Relationship building

- Building a network in the dental community.
- Focus Lions share here
- AAPD, state meetings
- Suppliers and reps
- Local dentists
- Taking dentists out for lunch

4. Get key documents

Financials

- Last 3 years P and L
- Tax returns
- Last 12 months production and collections

Operations

- Hygiene numbers
- Payer mix
- Staff roster with wages
- AR aging

5. Evaluate the practice

Quantitative

- Collections
- Profitability
    - Overhead?
- Staff expense
- Cash flow
    - To support your goals after debt service
    - Assumptions are based on the previous seller, can you do the same procedures?

Qualitative

- Location and commute
- Family and lifestyle fit

Benchmarks

- Pediatric usually sell~78 percent of colletions
- Price to Earnings: Cost of practice relative to earnings. Earnings being what the practice is earning before doctor pay. Aim for 1.60 earnings per 1.00 spent.
- Debt Service Coverage NOI/Total Debt Service
- Don't get lost in the weeds.

Mindset

- Don't get lost in the weeds
- Cash flow matters more than net profit

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6. Submit LOI with smart structure

What LOI covers

Healthcare attorney will draft this.

- Purchase price
- Assets included
- Conditions to closing

Asset allocation

- Tangible vs goodwill
- Buyer depreciation vs seller tax treatment

- Seller transition expectations

TIP

- Get a pre-approved letter of financing to show your serious and try to develop a relationship with seller. It’s a big and emotional decision. So they want to know that there patients will be taken care of.
- Acquisition value is based on GOODWILL so don’t ruin the relationship with seller

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8. Secure financing and align bank

Bank selection

- Dental specific lenders
  - Big national lenders > local credit unions
  - Banks love dentists!
  - They will typically finance 100% of the acquisition + working capital
  - Focus on big national bank that’s dent
- Cross shop 2 to 3 banks

What banks evaluate

- Practice cash flow
- Buyer financials
- Hard to compare your rate and your buddys
  - Based on practice financials
  - Personal financials

Beyond interest rate

- Fees
  - NO fees. Rate lock is standard
- Support
  - Dental specific are more likely equipped to handle practice needs.
- Long term relationship

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9. Deep diligence and quality of earnings

Completed by both the bank AND your dental CPA

Financial diligence

- Tax returns
- Profit and loss
- Cash flow analysis

Operational diligence

- Staff turnover
- Active patient count
- Insurance participation

Physical diligence

- Facility walkthrough
- Equipment and maintenance

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10. Finalize legal documents

Legal counsel

- Healthcare attorney required

Key documents

- Asset purchase agreement
- Bill of sale
- Non compete
- Lease assignment or new lease
- Employment agreement if seller stays
- Reps and warranties

Why it matters

- Risk is allocated here

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11. Pre close operational setup

Entity and banking

- Create entity
- Business bank accounts

Insurance and compliance

- Business insurance
- Malpractice insurance

Operations

- Credentialing with insurance plans
- Payroll company
- Merchant services

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12. Close and transition

Closing

- Wire funds
- Sign documents

Transfer

- Keys
- Logins
- Accounts

Outcome

- Ownership officially begins

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13. First 30 to 90 days

People first

- Meet the team
- Listen more than change

Stability

- Expect hiccups
- Keep changes minimal

Perspective

- Acquisition affects staff and patients too
- CONGRATS!