

ASSOCIATE TO PARTNER TO EXIT

Case Background:

- Solo practitioner working full-time in a family practice
- 2 full-time hygienists and strong new patient flow of approximately 25 per month
- More than 1900 patients seen in the last 18 months
- Excellent net income and operating at 55% overhead
- Limited technology and lacking sufficient number of operatories to add an additional doctor

Transition Objectives:

The owner doctor (Doctor A) was 53 years old when he came to Mercer Transitions. He had multiple objectives: to find a partner who could help serve a patient base that had become too large, to facilitate a successful exit out of practice ownership by age 60, and to solidify retirement savings.

Transition Design:

After thorough consultation with Doctor A on his goals and a detailed analysis of the practice data it was determined that the best way to meet his goals was a multi-year transition with a trial period, an equity period, a four-year partnership and the eventual sale of the remaining 50% of ownership. This would allow the doctor to be out of practice completely by age 60. The transition was designed as follows:

- In the first year the practice would be valued and an associate candidate identified. The associate would be educated on the practice opportunity (including the buy-in price) and the transition process.
- Associate doctor would go through a one-year trial period at the end of which, and upon agreement of both parties, would move toward becoming a partner. Practice fair market value (FMV) and final buy-in price would be determined based on an updated Practice Appraisal conducted by Mercer Transitions. The goodwill portion of the practice FMV was locked-in so that Associate would not pay for his own "sweat equity".
- During the trial period and the year following Doctor B would set aside a portion of his after-tax monthly compensation into an interest bearing account to be used for future down payment (the "Equity Account"). Because of the large patient base Doctor A would not reduce his hours, as there would be sufficient patient base to allow Doctor B to become profitable, increase speed and develop skills without Doctor A cutting back.
- After two years in the equity phase Doctor B would use the money in the escrow account as down payment on the practice, use an outside lender to finance the balance and become a 50/50 partner in the practice.
- After the buy-in both doctors would work full-time for a period of four years as partners. At the end of the partnership period Doctor A would sell the remaining 50% of the practice and would work part-time as an employee associate.

Practice Profile Before Transition

Total Practice Production:	\$939,681
Doctor A Hours Worked:	1480
Doctor A Production	\$720,745
Hygiene Production	\$218,936
Before Tax Profit:	\$421,880
Appraised Value:	\$539,000



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Transition Year 1: Trial Period

- Additional operatories added
- Doctor B found, trial period begins
- Doctor B
 - Total Year 1 production = \$400,032
 - Total Year 1 compensation = \$120,605 (before taxes)
- Doctor A
 - Total Year 1 production = \$749,745
 - Total Year 1 compensation = \$491,095 (before taxes)

Practice Profile Before Transition

Total Practice Production:	\$939,681
Doctor A Hours Worked:	1480
Doctor A Production	\$720,745
Hygiene Production	\$218,936
Before Tax Profit:	\$421,880
Appraised Value:	\$539,000

Transition Year 2: Equity Building Stage

- Doctor B
 - Total Year 2 production = \$499,200
 - Total Year 2 compensation = \$158,821 (before taxes)
- Doctor A
 - Total Year 2 production = \$778,558
 - Total Year 2 compensation = \$527,872 (before taxes)
- Doctor B pays Doctor A down payment of \$39,120 and finances the remainder over 7 years at 9% interest
- Doctor A receives a total of \$269,500 from Doctor B and lending institution as compensation for selling 50%

Transition Year 3: Partnership Stage

- Doctor B
 - Total Year 3 production = \$537,598
 - Total Year 3 compensation (as partner) = \$310,122 (before taxes and debt payment)
- Doctor A
 - Total Year 3 production = \$810,740
 - Total Year 3 compensation = \$397,526 (before taxes)

Transition Year 4: Partnership Stage

- Doctor B
 - Total Year 4 production = \$595,202
 - Total Year 4 compensation (as partner) = \$333,784 (before taxes and debt payment)
- Doctor A
 - Total Year 4 production = \$843,170
 - Total Year 4 compensation = \$413,134 (before taxes)

Transition Year 5: Partnership Stage

- Doctor B
 - Total Year 5 production = \$672,044
 - Total Year 5 compensation (as partner) = \$365,536 (before taxes and debt payment)
- Doctor A
 - Total Year 5 production = \$876,897
 - Total Year 5 compensation = \$430,922 (before taxes)



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Transition Year 6: Partnership Stage

- Doctor B
 - Total Year 6 production = \$767,965
 - Total Year 6 compensation (as partner) = \$404,833 (before taxes and debt payment)
- Doctor A
 - Total Year 6 production = \$911,973
 - Total Year 6 compensation = \$450,915 (before taxes)
- At the end of Year 6 Doctor A sold the remaining 50% of practice to Doctor B for \$269,500 plus an adjustment for the increased technology and equipment that had been added since the original valuation. Doctor A had suggested at the beginning of the transition that he would sell the last half of the practice for the same value as the first half in exchange for a written commitment by Doctor B to purchase. Doctor B got a below market price for the purchase of the second half and Doctor A had the security throughout the transition of having a built-in buyer for the last half.

Transition Year 7: Single Owner with Granddoctor Dentist and New Associate

- Doctor C (new associate) brought in to start a one-year trial period leading to a transition
- Doctor C
 - Total Year 7 production = \$433,375
 - Total Year 7 compensation = \$138,680 (before taxes)
- Doctor A (now working as a part-time employee associate)
 - Total Year 7 production = \$569,073
 - Total Year 7 compensation = \$182,103 (before taxes)
- Doctor B (now owns 100% of the practice)
 - Total Year 7 production = \$864,032
 - Total Year 7 compensation (as sole owner) = \$639,951 (before taxes and debt payment)

Practice Profile Before Transition

Total Practice Production:	\$939,681
Doctor A Hours Worked:	1480
Doctor A Production	\$720,745
Hygiene Production	\$218,936
Before Tax Profit:	\$421,880
Appraised Value:	\$539,000

Transition Result:

Doctor A was able to meet all of his transition objectives and have security during his final years of full-time practice ownership because a buyer was in place. Doctor A was able to mentor Doctor B (who eventually purchased the entire practice) and felt comfortable that the quality of care for his long-time patients would remain excellent. At age 60 Doctor A reached Economic Freedom and had sold his entire practice but continued to work on a part-time basis with a net income of more than \$180,000.

Doctor B experienced significant success by having a mentor and transitioning over time into a well established practice. By his 7th year he owned 100% of the practice and his compensation was more than \$600,000. Doctor B also has the ability to take time away from the practice because Doctor A and Doctor C can cover emergencies and patient needs. Doctor C will begin a similar process of transitioning over a period of years after the trial period ends.

Because he is still less than 35 years old, Doctor B's transition with Doctor C will lead to a long-term partnership. When Doctor A completely retires the partners will start the process of adding a new doctor using the same transition model. Through a well planned and executed series of transitions, Doctor B will have sold a portion of the practice multiple times while continuing to earn an excellent income. Through the transitions and sound financial planning Doctor B is expected to reach Economic Freedom by age 45.

