

GROWTH TO ASSOCIATE TO EXIT

Case Background:

- Solo practitioner working full-time in a family practice
- 1 full-time hygienist
- Solid new patient flow of approximately 20 per month
- Approximately 1400 patients seen in the last 18 months
- Practice operating with a 66% overhead
- Limited technology and lacking sufficient number of operatories to add an additional doctor

Transition Objectives:

The doctor (Doctor A) was 57 years old when he came to Mercer Transitions. He had two main objectives: increase his retirement savings to ensure Economic Freedom, and develop a plan that secured the future of the practice while allowing him to slowly ease out of dentistry, rather than sell outright.

Transition Design:

After thorough consultation with Doctor A on his goals and a detailed analysis of practice data it was determined that the best way to meet his goals was to first focus on growing the practice for an 18 month period. At the end of that period investments would be made in increased equipment and capacity to allow a new doctor (Doctor B) to be brought into the practice.

- It was determined that a two-year transition after the associate's trial period would meet the doctor's lifestyle and financial objectives.
- In the first year after the 18 month growth period the practice would be valued and an associate candidate (Doctor B) identified. Doctor B would be educated on the practice opportunity (including the buy-in price) and the transition process.
- Doctor B 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".
- Following the trial period 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").
- Doctor A would be able to reduce his hours while maintaining his income level.
- After two years in the equity phase Doctor B would use the money in the escrow account as a down payment on the practice, use an outside lender to finance the balance, and purchase 100% of the practice. Doctor A would associate back into the practice as a part-time employee.

Growth Period Results (Doctor A as solo owner):

- Production increased by \$113 per hour
- Production after growth period for previous 12 months = \$829,000
- Hygiene production increased by 28% to \$246,000
- Doctor A compensation = \$452,000 (before taxes)
- Practice valued at \$759,000

Practice Profile Before Transition

Total Practice Production:	\$853,870
Doctor A Hours Worked:	1480
Doctor A Production	\$661,000
Hygiene Production	\$192,000
Before Tax Profit:	\$290,000
Appraised Value:	\$606,000



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Transition Period Year 1: Trial Period

- Doctor B
 - Total Year 1 production = \$318,000
 - Total Year 1 compensation = \$102,000 (before taxes)
- Doctor A
 - Worked 240 fewer hours
 - Total Year 1 production = \$753,000
 - Total Year 1 compensation: \$423,000 (before taxes)

Transition Period Year 2: Equity Period

- Doctor B
 - Production = \$498,000
 - Compensation = \$159,000 (less taxes and money set aside for escrow)
- Doctor A
 - Worked 192 fewer hours than previous year (from 1482 to 1050)
 - Production = \$703,000
 - Compensation = \$442,000

Transition Period Year 3: Equity Period

- Doctor B
 - Production = \$584,000
 - Compensation = \$187,000 (less taxes and money set aside for escrow)
- Doctor A
 - Production = \$688,000
 - Compensation = \$433,000
- Doctor A receives \$759,000 as payment in full for 100% of the practice value

Transition Period Year 4: Solo Owner with Granddoctor Dentist

- Doctor A (working part-time as an associate)
 - Production = \$483,000.
 - Compensation: \$155,000
- Doctor B (now sole owner)
 - Production = \$642,000
 - Compensation = \$436,000 (before taxes and yearly debt payment of \$142,000)

Transition Result:

Doctor A was able to meet his transition objectives and was able to sell the practice with sufficient retirement funds to meet his financial goals. While continuing to work part-time, Doctor A is earning enough income to live off of without having to dip into retirement funds, allowing retirement accounts to continue to grow.

Doctor B is the sole owner of a well established practice with Doctor A still working part-time as an employee to help maintain practice profitability and patient care. Although yearly debt service is significant, Doctor B still has experienced significant success by having a mentor and transitioning the practice over several years. Doctor B is also in position to add another doctor (Doctor C) to the practice within a short period of time and do a transition leading to a long-term partnership. By transitioning a portion of the practice to Doctor C it will allow Doctor B to accelerate his debt payoff and be debt free within 5 years, significantly accelerating his journey toward Economic Freedom.

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