

ASSOCIATE TO PARTNER IN HIGH-PRODUCTION PRACTICE

Case Background:

- Solo practitioner working full-time
- Practice emphasis on cosmetics
- Strong new patient flow 40+ per month due to patient referrals
- Large existing patient base of more than 1900 active patients
- High-producing practice with high net income for owner.
- State-of-the-art technology including CAD/CAM, chairside computers, digital and modern equipment

Transition Objectives:

The owner doctor came to Mercer Transitions with three specific objectives: (1) reduce the number of hours worked to have time to pursue other interests; (2) maintain compensation level; and (3) accelerate Economic Freedom and solidify retirement readiness.

Transition Design:

After thorough analysis of practice data, personal goals and retirement readiness, it was determined that the best way to meet this doctor's goals was a multi-year transition as roughly outlined below:

- 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".
- Over a four year period the associate doctor 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"). Owner doctor would reduce his hours to allow the associate access to a larger portion of the patient base and mentor the associate, helping him become as efficient and productive as possible.
- After four years – or sooner if associate met agreed upon performance goals – the associate doctor would use the money in the escrow account as a down payment on the practice, finance the remainder, and become a 50/50 partner in the practice.

Transition Year 1: Trial Period

- Associate found, trial period begins
- Associate
 - Worked 1536 hours at \$405 per hour
 - Total Year 1 production = \$622,080
 - Total Year 1 compensation = \$231,750 (before taxes)
- Owner doctor
 - Worked 1344 hours at \$998 per hour
 - Total Year 1 production = \$1,341,312
 - Total Year 1 compensation = \$902,000 (before taxes)

Practice Profile Before Transition

Practice Production:	\$1,350,000
Hours Worked:	1340
Before Tax Profit:	\$634,500
Appraised Value:	\$922,000



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Transition Year 2: Equity Building Stage

- Associate
 - Worked 1536 hours at \$506 per hour
 - Total Year 2 production = \$777,216
 - Total Year 2 compensation = \$288,000 (before taxes)
- Owner doctor
 - Worked 1290 hours at \$1069 per hour
 - Total Year 2 production = \$1,379,000
 - Total Year 2 compensation = \$1,095,000 (before taxes)

Practice Profile Before Transition

Practice Production:	\$1,350,000
Hours Worked:	1340
Before Tax Profit:	\$634,500
Appraised Value:	\$922,000

Transition Year 3: Equity Building Stage

- Associate
 - Worked 1536 hours at \$563 per hour
 - Total Year 3 production = \$864,768
 - Total Year 3 compensation = \$320,250 (before taxes)
- Owner doctor
 - Cut back hours worked from 1290 hours to 768 hours at \$1133 per hour
 - Total Year 3 production = \$870,144
 - Total Year 3 compensation = \$750,700 (before taxes)

Transition Year 4: Equity Building Stage

- Associate
 - Worked 1536 hours at \$619 per hour
 - Total Year 4 production = \$950,784
 - Total Year 4 compensation = \$352,000 (before taxes)
- Owner doctor
 - Worked 768 hours at \$1193 per hour
 - Total Year 4 production = \$916,244
 - Total Year 4 compensation = \$817,500 (before taxes)

Transition Year 5: Partnership Stage

- Buy-in occurred
- Junior partner (former associate)
 - Worked 1536 hours at \$675 per hour
 - Total Year 5 production = \$1,036,800
 - Total Year 5 compensation: \$696,000 (before taxes)
- Senior partner (former sole owner)
 - Worked 768 hours at \$1273 per hour
 - Total Year 5 production = \$977,684
 - Total Year 5 compensation = \$655,763 (before taxes)
 - Received down payment from escrow account of \$227,000



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Transition Year 6: Partnership Stage

- Junior partner
 - Worked 1536 hours at \$731 per hour
 - Total Year 6 production = \$1,122,816
 - Total Year 6 compensation = 757,000 (before taxes)
- Senior partner
 - Worked 768 hours at \$1350 per hour
 - Total Year 6 production = \$1,036,800
 - Total Year 6 compensation = \$695,700; after taxes = \$452,205
 - Receives monthly payments from Junior partner

Practice Profile Before Transition

Practice Production:	\$1,350,000
Hours Worked:	1340
Before Tax Profit:	\$634,500
Appraised Value:	\$922,000

Transition Result:

Senior partner was able to meet all of his transition objectives: solidifying retirement funds and actually increasing income while significantly reducing the number of hours worked. The value of the practice also increased significantly, giving the senior doctor a much more valuable asset when he eventually sells his remaining 50% of the practice. Senior partner enjoyed the opportunity to mentor a younger practitioner and help him reach a level of clinical expertise and financial success that is at the top of the profession.

The younger doctor experienced significant success by having a mentor and over time transitioning into a well established practice. His production ranks near the top of the field in only his 6th year of private practice. Although his debt load is significant, his income is more than \$400,000 per year net after going through the transition process. Because the value of the practice was established up front, the price he paid was significantly lower than if the practice had been appraised at the time of the actual buy-in, allowing him to have gained several hundred thousand dollars of equity.

For both parties the transition was a success; each achieved his goals and is well positioned for the future.

