Midwest Dental

Why dentists should take a closer look at their transition options

Finding the right exit strategy in a changing dental landscape

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Executive Summary

Finding the ideal practice transition solution is one of the most important considerations faced by dentists looking to retire. It is a crucial decision for those seeking ongoing success for their practices and the well-being of their patients and staff. But due to a convergence of factors, traditional transition options have grown increasingly limited, threatening to create higher competition among sellers and consequently reducing the value of their practices. Amidst this uncertainty, the DSO model has arisen as an ever more viable option for dentists looking to transition their practices. But is it the right solution for you?

Traditional Transition Options

Selling a practice is one of the biggest decisions a dentist will make in his or her career. Years, usually decades, of hard work and dedication go into building a successful dental practice and when the time comes to retire, any dentist would naturally want to ensure the product of his or her life's work is left in the best of hands. Historically, there have been a few common exit strategies available for dentists to pursue, including the Walk Away Sale, the Presale and the Associate Buy-In/Out, and each option comes with its own merits and potential concerns.

The Walk Away Sale

The selling dentist ceases practicing immediately, with a new dentist taking the reins.

- **+** Quick and clean with no uncertainty for the seller - once the buyer is in, you're out
- **−** Most volatile option for patients and staff

Presale

The selling dentist continues to work in the practice post-closing typically alongside the new owner

- **+** Selling doctor can continue to work and earn income while at the same time harvest the equity of the practice
- **−** Absent a surplus of patients (a rarity), the new owner often ends up competing with the seller for both patients and staff loyalty - a scenario ripe for negativity

Associate Buy-In/Out

The selling doctor hires an associate with the expectation that after a predetermined length of time, the associate will acquire part or all of the practice

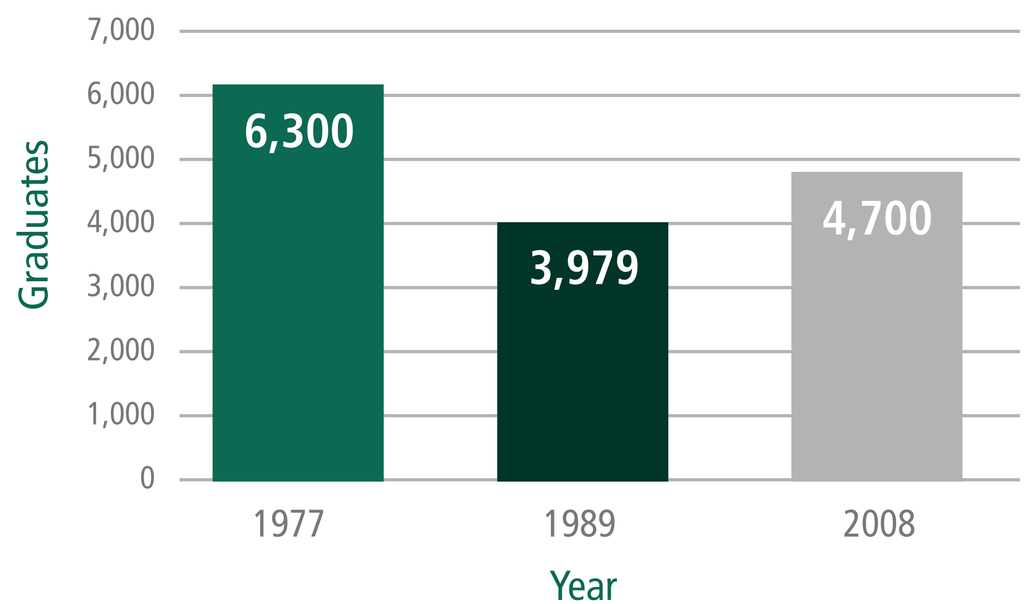
- **+** Seller can maintain a higher level of control, having the opportunity to get to know the associate and determine if he or she is an appropriate fit before selling
- **−** High fail rate, as the associate often can't afford to buy the practice when the deadline arrives - often due to large dental school debt and other life expenses such as marriage, buying a home and/or starting a family

Rising Challenges

In the current millennium, the transition marketplace has generally been a seller's market, with several different options available to dentists considering their retirement options. But due to a confluence of recent events, these traditional exit strategies are becoming increasingly challenged. Retiring dentists may soon find themselves facing increased competition among their transitioning peers and a corresponding decrease in the value of their practices.

One of the primary factors attributing to this phenomenon is the baby boomer generation reaching retirement age and the resulting demographic imbalance in the dental workforce. The boomer generation was the pinnacle of dental school enrollment, leading to an influx of dentists practicing in the U.S. According to the American Dental Education Association, there were approximately 6,300 graduates from U.S. dental schools in 1977. This number would begin to drop drastically within a few years. From 1982-2000, the U.S. saw the closure of seven dental schools, while increasing costs led to decreased class sizes at schools that remained open.

Dental School Graduates (U.S.)



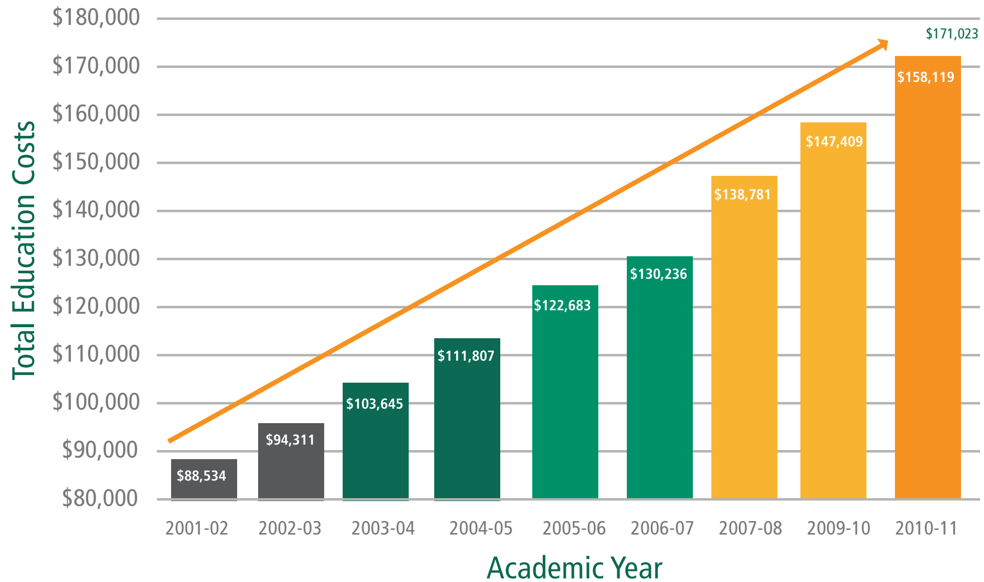
Source: American Dental Education Association, "Current demographics and future trends of the dentist workforce," 2009

Dental school graduate counts have recently experienced a slight rebound, though the average annual number of graduates today remains below the counts from the boomer generation. Boomers will soon be facing a shortage of eligible younger buyers when they prepare to sell their practices.

Further compounding this issue is the financial uncertainty new grads are experiencing today. According to the American Dental Association, the average total cost for all four years of dental school for a resident increased by an average of 7.6% annually between the 2001-02 and 2010-11 school years. The total cost for all four years averaged $171,023 for a resident student graduating in 2011, almost double the total from 2002.

Per the same report, non-resident students meanwhile are facing average four year totals of more than $200,000. Most dental students need to take out loans to cover these expenses and as a result, new graduates are finding themselves in greater amounts of debt than ever before. With these trends likely to continue, a large number of the already limited supply of young dentists may not have the financial means to purchase a practice of their own for many years after graduation.

Average Total Resident Cost for all Four Years (U.S.)

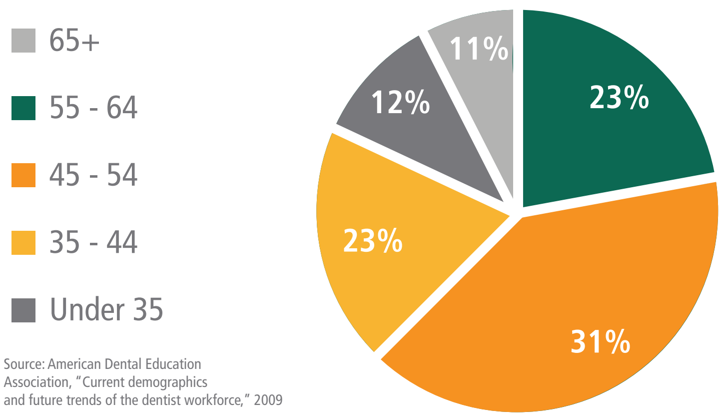


Source: American Dental Education Association, "Current demographics and future trends of the dentist workforce," 2009

Concerns regarding young dentists are not the only factors contributing to the limitations in practice transition options. Tenured dentists themselves are also playing a role. For multiple reasons, many professionals of the baby boomer generation – across all industries – are continuing to work well beyond the usual retirement age.

One of the main causes of this trend is today's uncertain economic landscape, which has many doctors feeling the need to continue practicing in order to maintain financial stability. As recently as 2006, doctors 45 years and older composed approximately 65% of active dentists.

Percentage of Active Dentists by Age Group



Source: American Dental Education Association, "Current demographics and future trends of the dentist workforce," 2009

This number is likely to continue growing as more dentists practice longer into their careers. That bubble will eventually burst when a very large portion of the dental workforce suddenly looks to retire. This could result in a mass sell-off, rapidly shifting the current seller's market into a buyer's market.

Adding to this building problem is the trend of decreasing dental care utilization among adults – even those with dental insurance. Changes in the health insurance landscape paired with lean economic times have changed consumer behavior in regards to seeking dental services. Adults are far pickier about their healthcare spending today and since dental care often falls lower on the healthcare consumer's priority list, more and more people are limiting their dental visits and only going in if they encounter a significant problem. According to the ADA, adult dental care utilization decreased by 10% between 2003 and 2010 and that decrease is likely to continue for some time, resulting in lower production numbers for many dentists.

Combined, these factors – demographic imbalance, rising student debt, dental career longevity and decreasing utilization – stand to collectively create a growing barrier to boomer dentists seeking an exit strategy in the next few years. Increased competition with peers paired with decreasing production has the potential to reduce practice values and limit dentists' ability to find suitable buyers.

The DSO Solution

This "perfect storm" of transition limitations appears to paint a pretty grim picture for boomer generation dentists with hopes of retiring soon. However, the opportunity for a retiring dentist to successfully transition his or her practice at a fair value is still out there. The solutions provided by dental service organizations (DSO) offer a valuable alternative to the traditional transition options that may not be as viable today. Though they still account for a relatively small portion of total dental receipts annually, the number of DSO-supported dentists has seen grown steadily over the last couple decades as new dentists become increasingly receptive to the its merits of the DSO structure. There are numerous DSO models, each one appealing to different dentists based on their practice preferences and patient care philosophies. The one thing they can all offer are viable transition solutions the more traditional methods generally can't provide on a consistent basis anymore.

While traditional methods like the associate buy-in have a large fail rate, DSOs are much more reliable in their ability to offer a fair value and follow through on the purchase of a practice.

The DSO structure provides selling doctors the opportunity to continue working after the sale if they choose, allowing them to harvest the equity of their practices while at the same time continuing to earn a regular income pursuing their passion; since a second dentist is not introduced into the practice, the selling doctor avoids competition for production and income

A DSO assists with recruiting a suitable associate doctor to assume leadership of the practice once the selling doctor is ready to retire or reduce hours.

DSOs help consolidate and manage vendor and payor relationships.

DSOs provide dental practices with comprehensive administrative support services, including finance, marketing, IT support, human resources, training and more, allowing the office staff to focus more time on providing dental care to patients.

The Midwest Dental Approach

At Midwest Dental,we proudly maintain a patient-centric care philosophy. We strive to ensure our patients receive an exceptional dental experience and are committed to providing the doctors we support with the resources to accomplish that. Our practice transition model is one emphasizing clinical autonomy and staff retention. We seek to affiliate with strong, healthy practices that aren't in need of significant changes. Our goal is to help maintain and grow these practices and provide the means to preserve their long-term success. This includes the doctor retaining control of patient care decisions while also providing ongoing career opportunities to the staff even after the doctor ultimately retires. We focus on helping dentists offer convenient, hometown dentistry and work every day to create a joyful environment for patients and staff alike.

Conclusion

The DSO structure is not necessarily a fit for every dentist seeking an exit strategy, but it may provide a solution for more practice owners than you might have previously thought. Nonetheless, we recognize many private practitioners have a variety of valid concerns regarding the DSO models. As such, it is important to do your due diligence and perform research to identify which options may be most viable for you. This is one of the most important decisions you will make in the entirety of your career, so be sure to take the time to weigh your options carefully and find YOUR exit strategy.

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