



Owning Your Own Practice: The Key to Your Financial Future  
AGD Annual Meeting 2016  
Presented By: Charles Loretto

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# WHY OWN?

## WHY YOU MUST OWN:

- Opportunity to make more money
- Build equity in the business
- Better prepare for retirement
- Great tax planning
- Control your destiny

# Opportunity to Make More Money

*Associate vs. Ownership*

## Associate Compensation

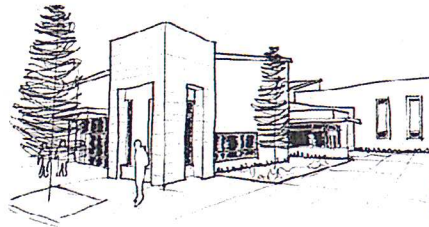
Specialty	Monthly vs. Collections	% or Flat Fee	Annual Salary
General Dentists	60K	27%	\$200,000
Pediatrics	50K	\$1,000/Day	\$200,000
Orthodontics	\$100K	\$1,000/Day	\$300,000
Endodontics	\$70K	35%	\$300,000
Periodontics	\$70K	30%	\$250,000
Prosthodontics	\$70K	30%	\$250,000
Oral Surgeons	\$100K	35%	\$420,000

## Owner Compensation

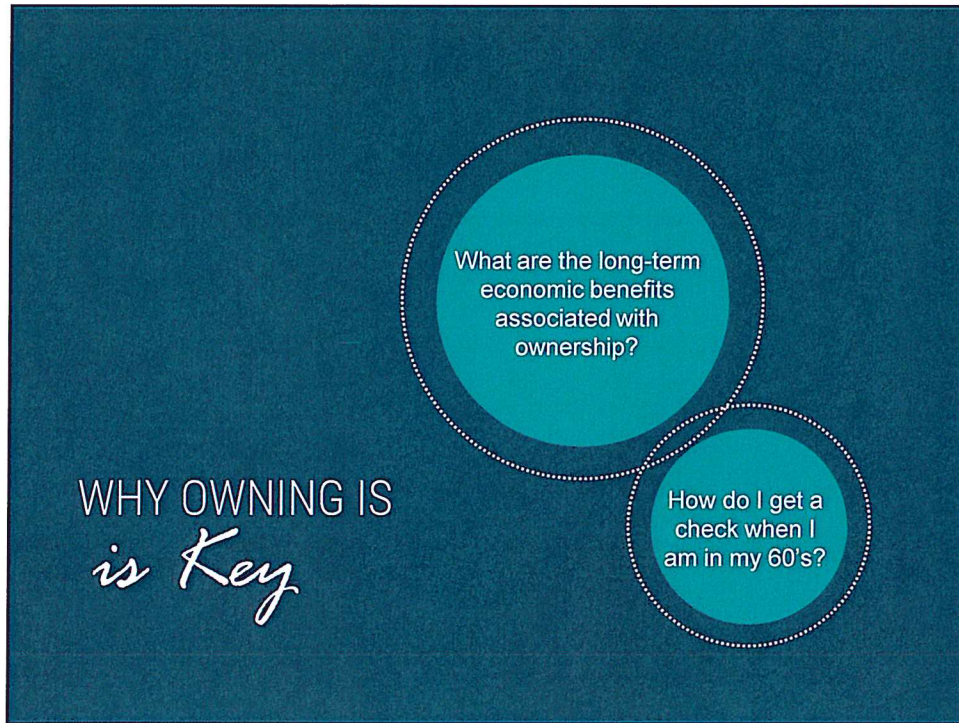
Specialty	Yearly Practice Collections	Well managed overhead %	Annual Income
General Dentists	\$1M w/Hygiene	58%	\$420,000
Pediatrics	\$1.2M w/Hygiene	55%	\$540,000
Orthodontics	\$1.2M Collections	55%	\$540,000
Endodontics	\$840K Collections	40%	\$500,000
Periodontics	\$1.0M w/Hygiene	55%	\$450,000
Prosthodontics	\$1.0M w/Hygiene	58%	\$420,000
Oral Surgeons	\$1.2M Collections	40%	\$720,000

## Build equity in the business

What are dental practices worth?



- \$1,000,000 collection practice
- 70-75% of collections is a good rule or \$700,000-\$750,000 of net value.
- Factors that would cause the value to increase or decrease:
  - Cash flow- 75% overhead vs. 50% overhead
  - Assets of the practice- outdated vs. \$300,000 of new equipment
  - Location-Texas, Austin, Dallas, Houston, San Antonio vs. 3 hours from one of the major cities.
  - Specialty- General , Pedo, Ortho, all have huge recall vs. OMS, Perio, Endo, Proth rely heavily on referrals.
  - Goodwill- Is the senior doctor passing on goodwill.



## FINANCIAL PLANNING ROAD MAP

### Keys To Consider:

- Current age & future retirement date (Age 30-65)
- Current liquid investments (0)
- Inflation rate (2.5%)
- Target investment rate of return (6% - 8%)
- Saving tax deferred
- Estimated lifestyle at retirement date (\$12,000 - \$15,000)
- Safe withdrawal rate over 30 year period (4.5%)

### Example :

8% Growth    Saving Tax Deferred for 30 Years    Initial Investment \$70,000    \$70,000 Annual Contributions Thereafter

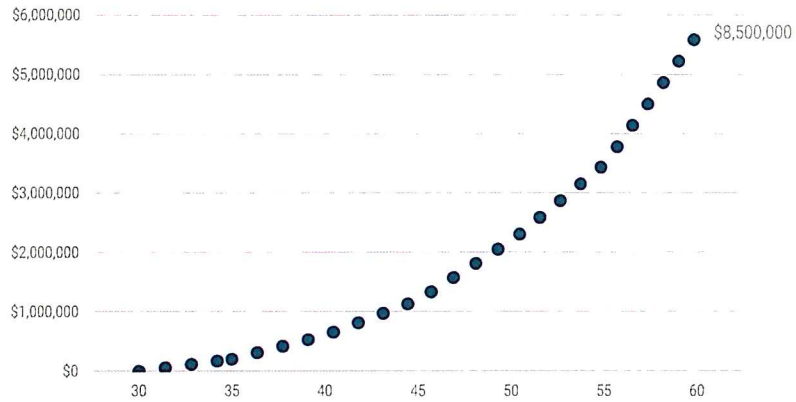


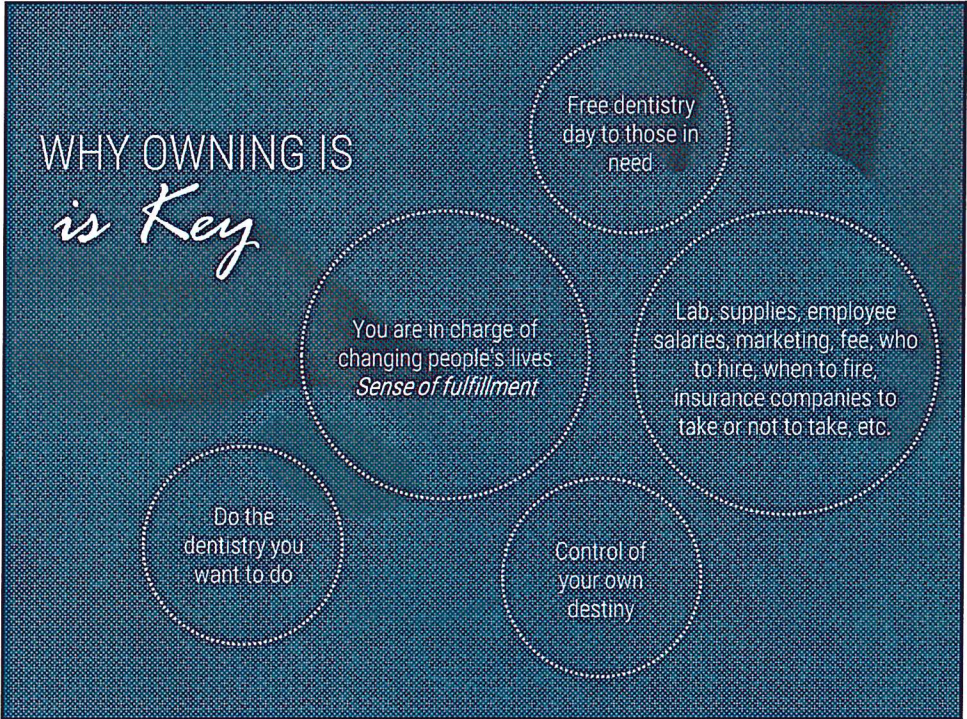
Chart illustrates an initial investment of \$70,000 at age 30 and includes annual contributions of \$70,000 thereafter. Returns are based upon an 8% return compounded annually on both the initial investment and annual contributions over 30 years. Market and economic factors can change rapidly, investments involve risk and clients can experience a loss. Actual results may vary materially from example.

*Your Evil*  
IS NOT MY EVIL

## TAXES ARE MY EVIL:

Single Tax Payer Estimates 2016 Key Income Numbers	\$37,650 OR GREATER	25%
	\$91,150 OR GREATER	28%
	\$190,150 OR GREATER	33%
	\$413,350 OR GREATER	35%
	\$415,050 OR GREATER	39.6%
Married Tax Payer Estimates 2016 Key Income Numbers	\$75,300 OR GREATER	25%
	\$151,900 OR GREATER	28%
	\$231,450 OR GREATER	33%
	\$413,350 OR GREATER	35%
	\$466,950 OR GREATER	39.6%

33% Federal + 5% State = 38% vs. 6.8%



# WHY NOT OWN?

## *Believe*

Surround yourself with proven professionals.

## *Look at the statistics*

Talk to banks in this industry.

## *Ask these questions*

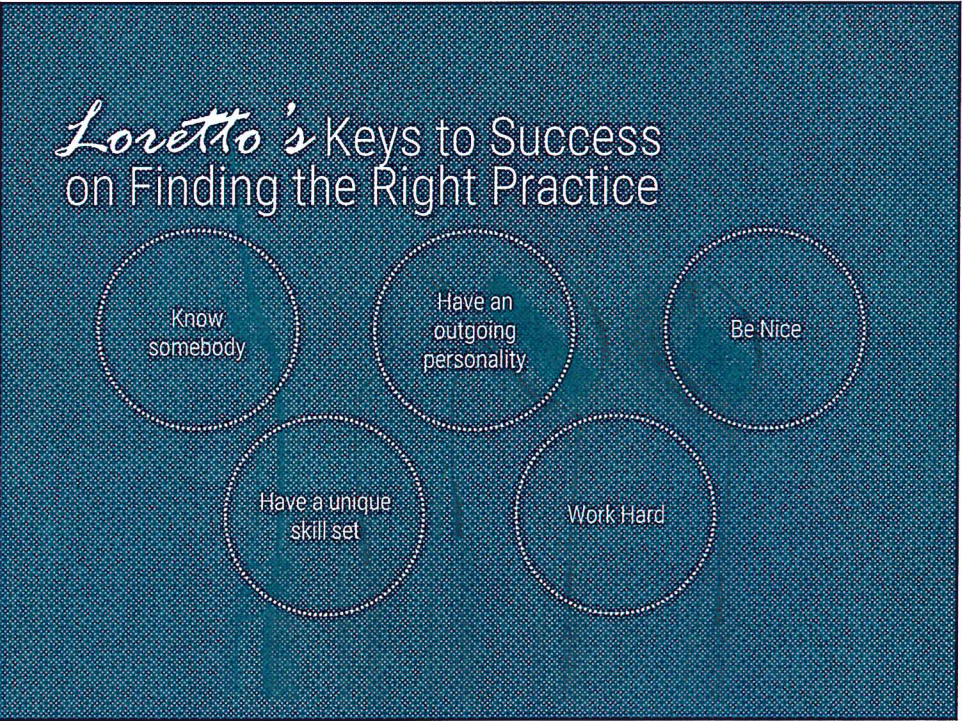
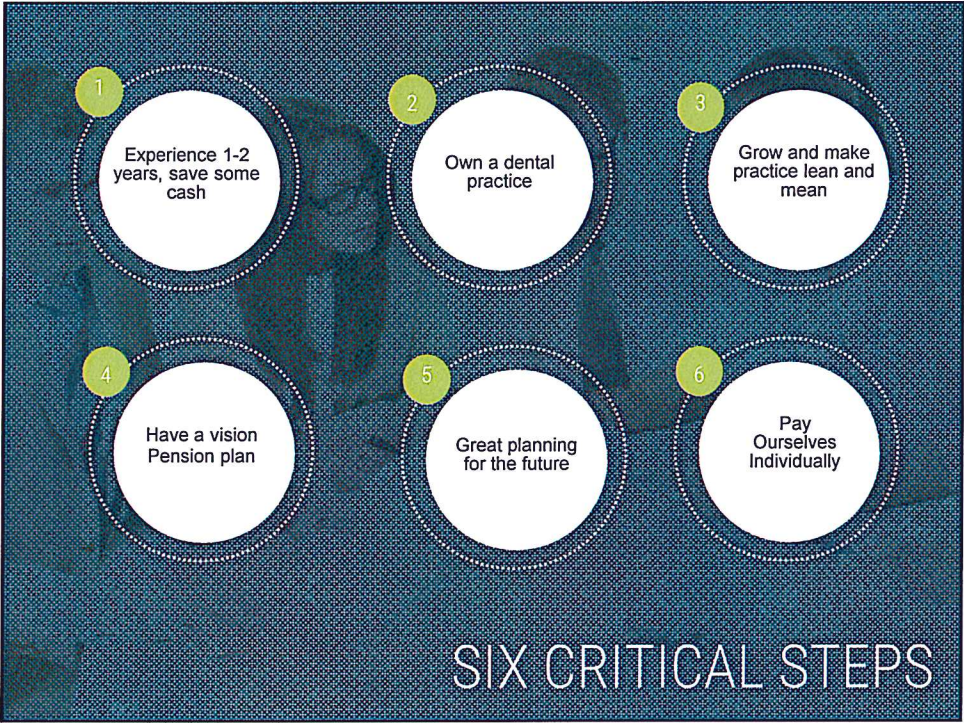
How many dentists that own are going out of business?

Would corporate dentistry enter a field they were nervous about?



YOU  
CAN  
DO THIS!

NOW LET'S EXAMINE WHAT TO OWN





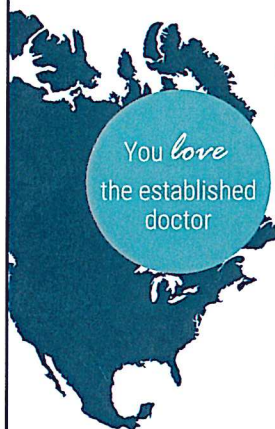
## National Dental Placements - NDP

### Buyer Consulting Services

Get buyer's representation—someone working for you  
 NDP will provide a one-hour complimentary review of the following to build a relationship with you:

- Valuation
- Last completed tax return of the business
- Last completed profit loss statements of the business
- Most complete profit loss statements for the current year
- Details of the specialty if appropriate.
  - For example: Ortho – Last two years of starts phase I & II, invisalign cases, number of observations, if states pay for Medicaid, contract receivable numbers
- Details on the building or lease
- Details on the partnership option or the acquisition
- How it will work if the selling doctor is going to work back in the practice

## WHAT CWA IS TEACHING STUDENTS & RESIDENTS *Across the Country:*



	<u>General:</u>	<u>Ortho:</u>	<u>Endo:</u>
850K	Gross Collections - min	1.7M	Gross Collections - min
1.2M	Collections - Ideal	2.2M	Collections - Ideal
55%	Overhead - Ideal	55%	Overhead - Ideal
40	New Patients/month - Ideal	30	Starts Per Month
25	New Patients/month - min	150K	Guaranteed Salary + Incentive
100K	Guaranteed Salary + Incentive	3-5yr	Partnership
2yr	Partnership		1-2yr
			Partnership

•Detailed Plan of Attack to Become a Partner

## PRIVATE PRACTICE SALARY EXPECTATIONS FOR GP'S & SPECIALIST

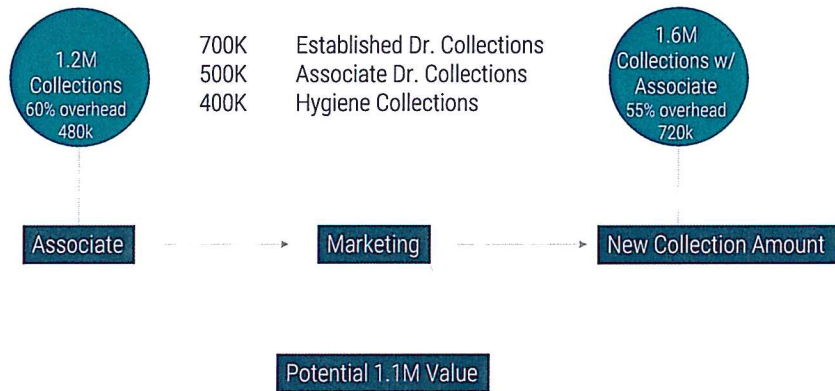
*First year base salary based on our experience*

- D4 - \$90,000 base
- AEGD, GPR, 1 year experience - \$110,000 base
- Ortho - \$130,000- \$150,000
- Pedo - \$160,000 - \$225,000
- Endo - \$175,000 - \$200,000
- OMS - \$200,000 - \$300,000
- Perio - \$130,000 - \$160,000
- Prosth - \$130,000 - \$160,000

## MARKETING PLAN DURING PARTNERSHIP

- Updated website
- Marquee
- Business plan
- Business cards
- Open house
- Announcement to community
- Front desk on how to handle phones
- Introduced as partner on day one

## Growth of the Business When Bringing in a Partner :



## *Let's buy a* WALK AWAY PRACTICE

- What does the practice gross?
- What does the practice net?
- Can you do the dentistry?
- How much would you net after debt service?
- Can you live on that income?
- Is the established doctor staying on and for how long?
- Is the non-compete a greater distance than the furthest active patient?
- What amount of production does the established doctor need to produce that you cannot?
- Is the employment agreement for the established doctor one year or less?
- What is the asset allocation of the sale (60% goodwill and 40% FFE)? The greater the allocation to FFE for the buyer the better for tax purposes.
- Get a second opinion before you buy the corporation.
- Consider shutting down the pension plan in the office before becoming the owner.

## Scenarios of Valuation Ranges

### GENERAL PRACTICE

- 1M collections, nice equipment, 50% overhead, selling doctor staying in the practice

Value  
\$750,000 - \$800,000

### GENERAL PRACTICE

- 1M collections, old equipment, 70% overhead, selling doctor selling immediately

Value  
\$550,000 - \$650,000

### ORTHO PRACTICE

- 1M collections, nice equipment, 55% overhead, west of I-5

Value  
\$900,000 - \$950,000

### PEDIATRIC PRACTICE

- 1M collections, old equipment, Medicaid, 50% overhead, rural America

Value  
\$400,000 - \$500,000

CWA provides Practice Transition Consultation Services but does not provide valuation services. CWA's related company, National Dental Placements, LLC, provides practice valuation services in connection with CWA's Practice Transition Consulting Services.

## Practice Scenario Walk-Away Sale Example 1

- Buyer has been in the practice for 2 years
- Practice is outdated and needs new equipment
- Established doctor is willing to stay on in the practice as an associate
- Buyer is producing \$60,000 doctor production in 4 days
- Practice was doing 800k two years ago, now doing 1.2M
- Price was set at 600k prior to associate joining the practice

\$1,200,000

Gross  
Revenue

6

# of  
Ops

\$650,000

Net  
Revenue

\$600,000

Price of  
Practice

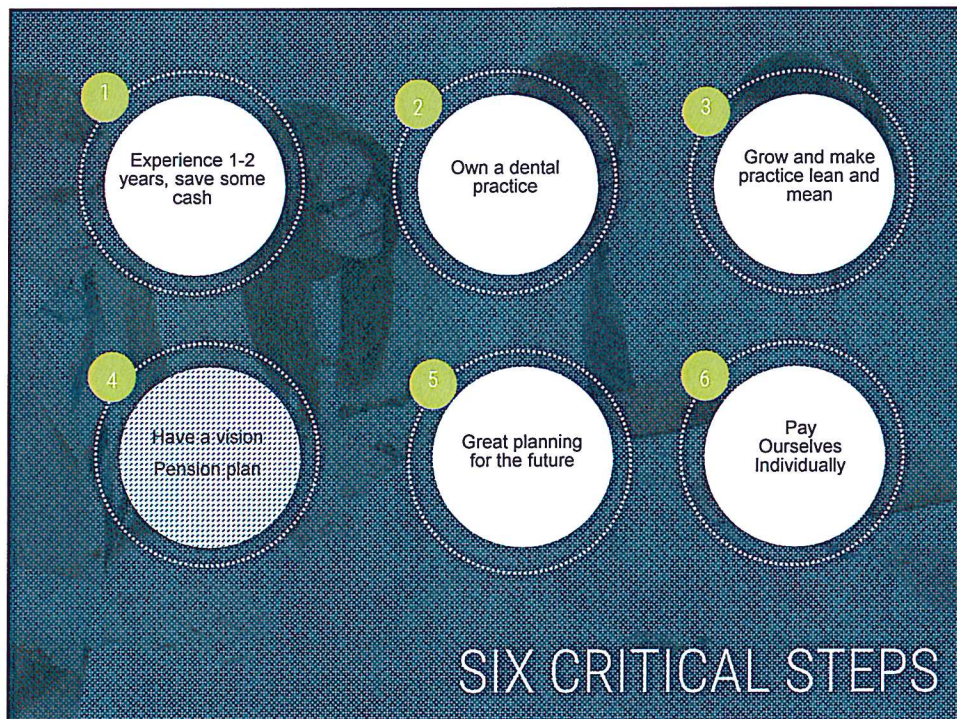
## Practice Scenario Building

*Do you buy this building or lease it?*

### Example 2

Gross Revenue in 2015	\$600,000
Net Revenue in 2015	\$300,000
Valuation is 70% of Collections	\$430,000
Net After Debt Service	\$250,000
Building Valued	\$300,000
Proposed 10-Yr Lease	\$3,700/month
Estimated Financing Building	\$2,600/month

- Associate is from the area
- No valuation of the practice has been completed
- Associate wants seller to stay in the practice and help
- Seller wants to hold onto the building



# Contact us for a Complimentary Review

Booth  
#1017



[www.cainwatters.com](http://www.cainwatters.com)



info@cainwatters.com

# (972) 233-3323

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NDP Represents You!