

The Proforma

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Practice Transitions

The Proforma

A Proforma is a tool that can be used to help a seller or buyer make many of the important decisions regarding the sale or transition of a dental practice. For the seller, it can help decide if an outright sale or a transition is best financially. The Proforma can help decide if the asking price is reasonable in the eyes of a buyer. It can help determine what needs to be done to help make the practice ready for transition or sale. For the buyer, a Proforma is an educated guess on whether he/she will be able to have enough money to pay all office expenses after purchasing the practice. It tells the buyer if he/she will have enough to service the debt obligation and still have a take-home income adequate to live on. It can help determine whether the buyer should buy the practice outright or transition the practice. If you have not done a Proforma before, you may want to solicit the help of someone with the necessary experience — your accountant, dental consultant, or a dental practice broker. Start by gathering the information needed:

Number of active patients, broken down by fee-for-service, managed care, and Medicaid patients
The income-and-expense reports (or tax returns) for the office for the past three years.

A computer listing of ADA procedure codes that itemizes the number of units done and the dollars generated for the past year for each procedure code .

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The production, adjustments, and receipts, by month, for the previous three years

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The number of treatment rooms available and if there is or is not room for expansion

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The number of new patients the office has generated, by year, for the previous three years and if the patients are fee-for-service, managed care, or Medicaid

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The demographics for the office area, and projections — done by the city- or county-planning commission

— for the next 10 years

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The number of hygiene visits and hours worked by the hygienist per month for the past year

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The number of doctor-patient visits and hours worked by the doctor per month for the past year

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The take-home income needed by the buyer, or, if a transition — by the buyer and seller

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The monthly debt-service payments for the purchase of the practice.

Once you have gathered this information, you can determine what a reasonable gross production would be for the practice. This is an educated guess based on your knowledge and experience, as well as that of your accountant, consultant, and broker. You then project, on a monthly basis, what the income and expenses are going to be for the practice and the dollars necessary to service the debt and pay the buyer a reasonable salary. If the numbers show that all your financial goals can be reached, you will be in a better position to make future decisions. In the case of a seller: Is my practice priced to sell? Should this be an outright sale, or can the practice be transitioned? In the case of a buyer: Do I wish to purchase this practice? Would an outright sale or a transition best serve my needs?

Alan Clemens is president of The Clemens Group, a 30-year firm specializing in Dental Practice Transition services which include appraisals, partnership buy-outs and buy/sell agreements and practice sales in New York, New Jersey, and Connecticut. He is a member of American Dental Sales and can be reached at (800) 300-2939 or (201) 242-9400.