

Set up a new practice or buy an existing practice?

What are the financial consequences of building a new office versus buying and established practice? Let's look at the costs and operating income.

Set up a new office:

1. Leasehold improvements cost at least \$250 per square foot. At 1,500 square feet = \$375,000
2. 3 operatories (dental) at \$40,000 each = \$120,000
3. Sterilizing, radiography, mechanical and business equipment = \$100,000
4. Opening inventory = \$35,000
5. Carrying costs for 2 to 3 years until break even is reached = \$250,000 (Rent, Wages, utilities)
6. Total cost to open a new dental office = \$880,000 +/- 15%
7. Monthly loan payment = \$8,275 over 10-year term @ 2.45%
8. Net income in years one & two = negative -\$150,000 +/-

Buy an established practice = \$1,000,000 purchase price

1. Facility and equipment upgrade in year one = \$50,000 - \$100,000
2. Total cost to buy an established dental practice = \$1,100,000
3. Monthly loan payment = \$10,345 over 10-year term @ 2.45%
4. Net income in years one & two = positive \$150,000 +/-

Set up new advantages:

1. Your choice of office design, décor and equipment selection
2. Brand new office exactly as you want it to function
3. New staff hired and trained under your guidance – no contingent employee legacy costs
4. Practice modalities are determined as you prefer such as financial polices and record keeping
5. Branding and social media/marketing is fresh with no "legacy" messaging as set by previous owner

Buy established advantages:

1. Immediate patient flow
2. Immediate cash flow
3. Trained staff
4. Legacy reputation and referring sources
5. Patients who have treatment plans in waiting

I have been conservative with estimation of the cost of setting up a practice. The reality is that many of these ends may not meet in the highly competitive commercial construction sector, where they are experiencing a massive shortage in materials which has resulted in significant scope creep for any dentist that wishes to build from scratch. In researching this article, I consulted Bruno Buccella, President of Antham Construction Group who is actively involved in the design and construction of professional practices. His comments:

Materials suppliers continue with price increases as usual every fall and spring like clockwork. Prices on material have increased about 12% on average since last fall. Lumber has seen an even more significant increase such as the price of an eight foot, 2' x 4' spruce stud from \$3 to almost \$9.

The biggest increase we have seen is the HVAC sector with the new fresh air requirements for healthcare clinics. Where a typical contract of about %15,000 has almost doubled.

As contractors we can only hold our prices for 30 days and we know that project planning and obtaining building permits takes 4 to 6 months which means the original budget submitted at the beginning of a project will likely increase from the time the budget was issued months earlier.

When discussing this topic as a broker it is clear that there is an inherent bias. I advocate for the purchase of the established practices that belong to my clients over new builds. However, my company has been involved in numerous facility sales/recently opened offices where our client has stumbled in their attempt to make the start-up work. This is no slight on our clients. Perhaps they have another office occupying their time or their personal circumstances have changed. Perhaps the location they chose is located in a highly competitive area? Unfortunately, this scenario is all too familiar in the metropolitan regions.

If I was in the market for a new office, I would put some serious thought into acquiring one of these newly constructed yet floundering offices. It takes time and patience to build an office from scratch. You need to ask yourself if you have that in you?

As brokers my competition and I are guilty of not having an abundance of good inventory that might act as an alternative in the market. I believe this will change, but that is a separate discussion. I know I speak from a highly biased position, but my message has been consistent for decades. Start-up practices should never go away but I believe that banks should be taking a harder look at these non-revenue producing investments that become an albatross around the neck of many a junior doctor.



THE PATH TO PRACTICE OWNERSHIP

EVENT DETAILS

DATE | May 30, 2021

TIME | 11:15 a.m.



HOST | Jackie Joachim, COO ROI Corporation

Jackie Joachim graduated from the University of Toronto with a Bachelor of Arts degree in Economics and Political Science and has 25 years of experience in the health care sector. She began her career in banking where she learned how to finance health care practices. With 10 years of experience in practice management, she developed and delivered seminars to healthcare

professionals across the country, coached hundreds of practitioners for planning, marketing, patient education, human resources and financial management.

REGISTER HERE:

<https://attendee.gotowebinar.com/register/1038899264142872334>



ROI Corporation, Brokerage; Purchasing a practice – Timothy A. Brown, CEO, Broker of Record

- Advantages of purchasing vs set up, cash flow, patients, etc.
- Things to look for when purchasing a practice
- What to look for in an appraisal
- What is the role of the broker in the transaction



Speaker on Equity Partnerships, Mid-Market – Hesham Sherghin, DDS

- Advantages on partnership, shared risk, multiple clinics
- Importance of contract
- What to look for when considering partnering with a mid-market



Practice Set up – Michael Rondinelli, DDS

- Advantages to set up vs. purchase
- Considerations for location search, demographics, etc
- Negotiating a lease
- Planning and furnishing
- Marketing



Accountant, MNP – Calvin Carpenter, CPA, CA

- Importance of having an accountant with dental experience to help navigate
- Putting together a business plan
- Assessing value in appraisals





THE PATH TO PRACTICE OWNERSHIP

REGISTER HERE:

<https://attendee.gotowebinar.com/register/1038899264142872334>



TIMOTHY A. BROWN
CEO, Broker of Record

Timothy A. Brown is the CEO and Broker of Record for ROI Corporation and has served the professions since 1979. His broad experience in

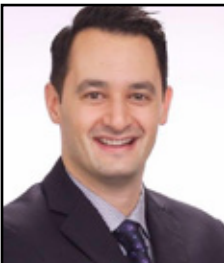
dental practice systems, including: appraisal, brokerage, leasing, and practice management, together with a close scrutiny of a database of thousands of Canadian dental practices has given him an unequalled view on the many unique circumstances involved with dental practice ownership and transition.



DR. HESHAM SHERGHIN
DDS

Dr. Hesham Sherghin is a 2011 graduate of the University of Detroit Mercy School of Dentistry and completed a year long AEGD program at

St. Johns Providence Health System in Detroit. A proponent of continuous learning and self improvement, he is currently enrolled at Ivey Business School in the MBA program and points out that one of the things he loves about dentistry is that it is a perfect blend between healthcare and business. Dr. Sherghin is a founder of Amity Dental Management and the Dentistree Academy and currently helps to manage and operate over 20 dental practices in Ontario with his various partners.



DR. MICHAEL RONDINELLI
DDS

Dr. Michael Rondinelli graduated from the University of Detroit Mercy School of dentistry in 2012.

He owns and operates the Huron Dental Group and the Huron Dental Management Company, a group of 14 locations with a staff of close to 150 employees. He enjoys speaking about marketing, practice management, team training, financial advice, dental office construction, and many more related topics.



CALVIN CARPENTER
CPA, CA

Calvin Carpenter, CPA, CA, is the Vice President of MNP's Professional Services team. Working closely with medical and dental professionals,

Calvin provides valuable advice to help clients reach their business and personal goals. Calvin's experience in forecasting, tax planning and other key areas helps ensure his clients have a sound strategy for the future. He specializes in developing customized plans for clients interested in starting or purchasing their own practice.

