

- Consider the Medical Profession
 - Who used to own and control it?
 - Who owns and controls it now?
 - What happened?
 - How did that work out for physicians?
 - How did that work out for patients? (Us).

- What were the hospitals, insurance companies, and management companies that assumed the medical profession trying to accomplish?
- How did they do it?

- What were physicians trying to achieve in that process?
- What were they trying to avoid?
- What was the cost to them?

- Who owns and controls the medical profession now?
- Who stipulates treatments, fees, medical salaries, covered expenses, prescriptions, therapies, and the rest – physicians or businessmen?
- So how's that working out for physicians and patients alike.

- What is the purpose of a free press in a capitalistic society?
- What is the goal of the corporate owners of the medical profession?
- How do they achieve their goal?
- Who are they solely accountable to?

- I first noticed corporate dentistry in the 1980's. I was surprised to see them entering the profession.
- Few, if any, survived.
- A resurgence of corporate dentistry has been occurring in the past ten years with vastly different results.

- “As of May, 2011, there were an estimated twenty-four private equity dental management companies with annual revenues of over 100 million dollars – Each!
- One company alone made over \$500,000,000 in 2011.*
- They employed an estimated 12,000 dentists, or 8% of the licensed dentists, in the country. There is no longer any doubt that dentistry is a target for big business.”**

- [*www.pbs.org/wgbh/pages/frontline/health-science-technology](http://www.pbs.org/wgbh/pages/frontline/health-science-technology)
- **www.drbcuspids.com/index.aspx?sec=sup&sub=pmt&pag=dis&ItemID=310662

And that was three years ago.

Why Dentistry?

- Dentistry is less regulated than the medical profession
- Patients see their dentists more regularly than their doctor
- Dentistry attracts less governmental scrutiny than the medical profession
- Dental Medicaid payments rose 63% to \$7.3 billion between 2007 and 2010

- “Dentistry is a fragmented cottage industry ripe for management services”, said Robert Fontana, chief executive officer of Aspen Dental Management, owned by Leonard Green & Partners, a Los Angeles private equity concern.
- Aspen revenues were over \$500 Million in 2011 and they were opening a new office every week.
- The entrepreneurs had hit a home run.

- I'm not here to blame venture capitalists for taking advantage of an extremely good opportunity.
- I'm not here to blame dentists for forsaking their profession.
- I am pointing out the current shift in the ownership and control of the dental profession and some impactful consequences that can ensue.

- It's no surprise that private equity wants to own Dentistry.
- What is surprising is that the trend over the past ten years is that dentists first entering the profession are more inclined to become associates rather than own their own practices.
- What is motivating new dentists to make this decision?

The advantages of being an associate

- No commitment
- No debt
- No management responsibility
- Mobility, unless termination is unreasonable
- Opportunity to build speed and skills
- Opportunity to evaluate locations

The disadvantages of being an associate

1. No Profit. Profit belongs to owners.
2. Net income is usually less – commission may be as low as 25% versus 35% that is used for owners and production may be limited.
3. No tax benefits – no depreciation, less able to deduct other areas of personal income
4. No security – associates may be fired.
5. May not be able to terminate without excessive notice.
6. May be subject to a covenant not to compete.

The disadvantages of being an associate

1. Possible loss of exercising professional judgment – treatment planning, procedures.
2. Benefits may be absent, or may have no choice in what insurance, pension, CDE, and benefits that might be offered.
3. May not have equipment, supplies, technology that is most productive.
4. No choice in assistants and other support staff.
5. Any and all other areas of a dentist's career.

The advantages of being an owner

- Profit
- Profit
- Profit
- Control
- Security

Before we go any further, let's make sure we know exactly what "Profit" is.

- Profit is Not what is left over from the gross income after paying all the bills and the payments.
- Profit does Not include the compensation that an owner receives for the work they perform – that is an expense in the books.
- Profit is Unearned revenue.

Calculating Profit

- The first step is to normalize the Income and Expenses as shown on a tax return or P&L.
- The second step is to compute a commensurate compensation for the owner.
- I use 35% of the owner's personal production – not of the *gross* income.
- Finally, subtract the adjusted expenses, including the owner's salary, from the adjusted income.
- The result is Profit.

Where can we find profit?

- Stock Market
- Real Estate
- Commodities
- Gold
- Businesses

- What profits can be made in the S&P?

Year	S&P 500	Average Annual Returns	5-year Avg. Annual Returns	10-year Avg. Annual Returns	15-year Avg. Annual Returns	20-year Avg. Annual Returns	25-year Avg. Annual Returns
http://financeandinvestments.blogspot.com							
1992	7.62%	10.34%	15.88%	16.17%	15.47%	11.33%	10.56%
1993	10.08%	10.33%	14.55%	14.93%	15.72%	12.76%	10.52%
1994	1.32%	10.20%	8.70%	14.38%	14.52%	14.58%	10.98%
1995	37.58%	10.55%	16.59%	14.88%	14.81%	14.60%	12.22%
1996	22.96%	10.71%	15.22%	15.29%	16.80%	14.56%	12.55%
1997	33.36%	11.00%	20.27%	18.05%	17.52%	16.65%	13.07%
1998	28.58%	11.22%	24.06%	19.21%	17.90%	17.75%	14.94%
1999	21.04%	11.35%	28.56%	18.21%	18.92%	17.88%	17.25%
2000	-9.11%	11.05%	18.33%	17.46%	16.02%	15.68%	15.33%
2001	-11.89%	10.71%	10.70%	12.93%	13.74%	15.24%	13.77%
2002	-22.10%	10.21%	-0.59%	9.34%	11.48%	12.71%	12.98%
2003	28.68%	10.43%	-0.57%	11.06%	12.21%	12.98%	13.84%
2004	10.88%	10.43%	-2.30%	12.07%	10.93%	13.22%	13.54%
2005	4.91%	10.36%	0.54%	9.07%	11.52%	11.94%	12.48%
2006	15.79%	10.43%	6.19%	8.42%	10.64%	11.80%	13.37%
2007	5.49%	10.36%	12.83%	5.91%	10.49%	11.82%	12.73%
2008	-37.00%	9.62%	-2.19%	-1.38%	6.46%	8.43%	9.77%
2009	26.46%	9.81%	0.42%	-0.95%	8.04%	8.21%	10.54%
2010	15.06%	9.87%	2.29%	1.41%	6.76%	9.14%	9.94%
2011	2.11%	9.77%	-0.25%	2.92%	5.45%	7.81%	9.28%

<http://blog.petetheplanner.com/what-rate-of-return-should-you-expect-on-your-investments>

How about a Dental Practice?

PRACTICE SALE TERMS			PRACTICE TERMS				REAL ESTATE TERMS			
PURCHASE PRICE		\$749,000	AMOUNT		\$805,000			AMOUNT		\$0
DOWN PAYMENT AMOUNT		\$749,000	TERM - MOS		120			TERM - MOS		
WORKING CAPITAL		\$56,000	INTEREST %		5.00%			INTEREST %		
TOTAL INVESTMENT		\$805,000	MO. PMT.		\$8,538.27			MO. PMT.		\$0.00
ANNUAL FEE INCREASE %		4%	TOTAL MO. PAYMENTS			\$8,538	EST. HYGIENE PROFIT			\$182,661
ANNUAL OVERHEAD INCREASE %		4%	TOTAL ANNUAL PAYMENTS			\$102,459	EST. SELLER/ASSOC PROFIT			\$0
RETENTION PERCENTAGE		100%	TOTAL HYGIENE / ASSOCIATE PROFIT							\$182,661
PURCHASER TAX RATE		42%					% PRACTICE NET		% PERSONAL NET	
SELLER/ASSOCIATE COMMISSION RATE		40%	1ST YR NET CASH FLOW		\$349,285	30%		41%		
AMOUNT OF ACCOUNTS RECEIVABLE SOLD		\$-	1ST YR ECONOMIC BENEFIT		\$455,639	39%		53%		
PRICE OF ACCOUNTS RECEIVABLE SOLD		\$-	PRACTICE GROSS, PRICE AND PERCENT			\$1,126,246		\$749,000		67%
PRACTICE PRICE IS DETERMINED BY THE			RETURN ON INVESTMENT			\$193,712		24%		

These figures are from an actual practice that was sold last year

FIRST YEAR PRACTICE NET AFTER EXPENSES & DEBT SERVICE	+	\$349,285
FIRST YEAR DEBT SERVICE	+	\$102,459
FIRST YEAR TAX SAVINGS	+	\$41,234
FIRST YEAR COST OF OWNER LABOR	-	-\$299,266
FIRST YEAR TOTAL PROFIT	=	\$193,712
PRACTICE PRICE		\$749,000
WORKING CAPITAL		\$56,000
TOTAL INVESTMENT		\$805,000
FIRST YEAR RATE OF RETURN ON INVESTMENT		24%

- It's not rocket surgery to see that a 24% return of \$193,712 on a practice investment is better than the S&P 500 investment for the period 2001 through 2011 of 2.92% or \$23,506.
- Keep in mind that this profit is over and above a 35% "commission" salary of \$299,266 for the dentist owner.

- For a dentist owner of this general practice, the cumulative profit, over and above compensation for their work, with no revenues increase whatsoever, over a 30 year career would be \$6,780,000.
- Investing this profit at just 3% compound interest for 30 years would result in savings of over \$14,000,000.
- Associating for that 30 year period would have paid that \$14,000,000 to the owner, not themselves.

- What kind of rate of return can a dental practice owner expect to make?
- Of course, it depends entirely on the specific practice.
- Corporate investors examine specific opportunities very closely and only invest in the most profitable opportunities.
- Too often dentists evaluate practice opportunities on the basis of price.

- It's your call – do you want to keep the \$14,000,000 of invested profit, or will you turn it over to venture capitalists, along with the keys to your profession?

Is a dental practice a safe investment given the debt I'll have?

- Dentists abhor debt and this may be a non-starter for many dentists who might have bought a practice.
- The good news is that lenders for practice purchases are expert at analyzing the risk of those loans. If they do approve a loan, they are agreeing to the entire risk.

If it's the price that's getting in the way
of buying a practice...
let the hygienist pay for it.

PRACTICE SALE TERMS			PRACTICE TERMS				REAL ESTATE TERMS			
PURCHASE PRICE		\$749,000	AMOUNT		\$805,000			AMOUNT		\$0
DOWN PAYMENT AMOUNT		\$749,000	TERM - MOS		120			TERM - MOS		
WORKING CAPITAL		\$56,000	INTEREST %		5.00%			INTEREST %		
TOTAL INVESTMENT		\$805,000	MO. PMT.		\$8,538.27			MO. PMT.		\$0.00
ANNUAL FEE INCREASE %		4%	TOTAL MO. PAYMENTS			\$8,538	EST. HYGIENE PROFIT			\$182,661
ANNUAL OVERHEAD INCREASE %		4%	TOTAL ANNUAL PAYMENTS			\$102,459	EST. SELLER/ASSOC PROFIT			\$0
RETENTION PERCENTAGE		100%	TOTAL HYGIENE / ASSOCIATE PROFIT							\$182,661
PURCHASER TAX RATE		42%					% PRACTICE NET		% PERSONAL NET	
SELLER/ASSOCIATE COMMISSION RATE		40%	1ST YR NET CASH FLOW		\$349,285	30%		41%		
AMOUNT OF ACCOUNTS RECEIVABLE SOLD		\$-	1ST YR ECONOMIC BENEFIT		\$455,639	39%		53%		
PRICE OF ACCOUNTS RECEIVABLE SOLD		\$-	PRACTICE GROSS, PRICE AND PERCENT			\$1,126,246		\$749,000		67%
PRACTICE PRICE IS DETERMINED BY THE			RETURN ON INVESTMENT			\$193,712		24%		

- In this same practice, the hygienist profit - that's after the expenses of hygiene are paid for - will pay the bank payments nearly double each month.

And if that weren't enough...

- Uncle Sam wants you to buy the practice so much that he will pay 30% - 39% of the price for you!
- Virtually every practice sold is 100% depreciable and deductible from a tax standpoint.
- And when it's time to retire, you can get your money back.

Not sure you can run a practice?

- The good news is that dentistry is still such a good business that even poorly run practices can be successful.
- The best news is that at this time there are many very competent management consultants who can educate and guide dentists in managing their practices with the highest degree of skill.

Is practice ownership a good investment?

- Where else can you find a rate of return on an investment, which is borrowed at that, of 24% and greater.
- An owner has the ultimate control and the ultimate security in their career and investment.
- The dental profession will only be a profession as long as it is owned and controlled by dentists.
- You deserve the dividends for all of your investment in your education and yourself.

- With all of these incentives, why are more dentists not going into practice ownership?
- Who, where, what and why are they being influenced? Or are they just wired up that way?
- It is my hope that in pointing out the ownership trends that are occurring, how they worked in medicine, and the incredible profitability, security, control and satisfaction that dentists have in owning their own practice will influence our coming generation of dentists to claim the legacy that previous generations have worked so hard to establish.