Purchasing a minority interest in a corporate or large dentist-owned practice

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TODAY, PRIVATE PRACTICE OWNERSHIP is less important to dentists, including dental specialists, than it was in the past. Private practice ownership involves effort and time to manage the practice as compared to working for and/or purchasing a minority interest in a corporate or large dentist-owned practice. Young dentists want the flexibility to raise families and have free time. As a result, many dentists are open to recruitment by corporate practices with the possibility of future ownership but without the time commitment involved in private ownership. Corporate dental practices also offer significant income opportunities for young dentists as well as forgiveness of school debt, in some cases.

BENEFITS

One reason why corporate and large dentist-owned practices offer meaningful future ownership to worthy candidates is to minimize dentist turnover. One example of this could be "fair" compensation and benefits, a possible return on investment or stock appreciation, and mandatory buy-out provisions for at least what was paid for the buy-in. There is often a possibility for a minority owner's initial investment to substantially increase in value over time.

AVOIDING PROBLEMS

While minority ownership in a corporate or large dentist-owned practice can be beneficial, it is a minority interest, and decisions are beyond the control of the minority owner(s). Therefore, steps should be taken to avoid future problems.

The valuation, business, and tax structure of the minority ownership should be carefully considered with the incoming owner's lawyer and CPA to ensure that the potential new owner does not incur a pay reduction and that the ownership can be fully paid within a measured time frame. Should the new owner leave for any reason, at least the sum previously paid for the buy-in should be repaid to the departing owner under a mandatory buy-out provision. Irrespective of whether the new owner's buy-in is paid through a promissory note to the practice or through lender financing, a departing owner should be cautious about being responsible for any unpaid balance if the buy-out price is less than the sum owed.

A potential new owner in a large dentist-owned practice should negotiate the management responsibilities for which they will be responsible at the practice location where they will primarily work, and they should be appropriately compensated for those services.

Furthermore, although the new owner will have significant input on practice decisions, the tie-breaking vote should remain with the majority owner, which is not a problem as long as the majority owner is a reasonable person. A tie-breaking vote means that the majority owner will always retain the ability to sell all or any number of the practice locations to a corporate or any other buyer(s). However, any minority owner should also share in any windfall/sale to a corporate or other buyer(s), and such a transaction should be delineated in the buy-sell agreement among the practice, the new owner, and any other shareholder(s)/member(s) of the practice organization.

Performance should be based upon that of the new owner at the primary location, but the new owner should be responsible for coverage at other locations. Additionally, the incoming owner may be able to purchase the primary location outright where they work, based upon a future option date and predetermined formula.

SUMMARY AND THOUGHTS

Provided that the new owner can leave with their investment for the buy-in without owing any substantial unpaid balance under a promissory note or lender financing, purchasing a minority interest in a corporate or large dentist-owned practice can be rewarding. **DE**

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