

The Professional Advisory

FOR DENTAL PROFESSIONALS

VOL. 98 February 2023

*POV: Your
Attitude,
Effort and
Actions are in
Your Control*



Contents

3 **POV: Your Attitude, Effort and Actions are in Your Control**

Dr. Suham Alexander

4 **The Outlook for 2023 and Beyond**

Colin Ross, MBA

6 **Stepped Sale of a Dental Practice**

David E. Rosenthal, BA, LLB

8 **Live Off Your Dividends**

Mark McNulty BA, CIM, CFP

10 **No lease, no premises, no practice.**

Ian D. Toms B.Sc. (Hons)

12 **Key Factors Affecting Dental Practice Values**

David Chong Yen CPA, CA, CFP

Louise Wong CPA, CA, TEP

Basil Nicastrì, CPA, CA

Eugene Chu, BAFM, MAcc, CPA, CA

14 **The “North Star” Along your Journey**

David Chong Yen CPA, CA, CFP

Louise Wong CPA, CA, TEP

Basil Nicastrì, CPA, CA

Eugene Chu, BAFM, MAcc, CPA, CA

Biographies



Dr. Suham Alexander obtained her dental degree from the University of Toronto and her MBA from the Telfer School of Management. She has had a successful career in dentistry as both a clinician, practice owner and part-time faculty member at Algonquin College in Ottawa, Ontario. Suham is the founder of Dream Business Consulting Group, Inc., a coaching company geared to working with entrepreneurs and small business owners to achieve their goals.



Colin Ross is a Partner in Professional Practice Sales Ltd. (www.ppsales.com), which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1-888-777-8825 or e-mail at: colin.ross@ppsales.com



David Rosenthal is a senior lawyer whose law practice is devoted to business, corporate and healthcare law for dentists. David advises dentists on a broad range of legal matters, with particular emphasis and legal advice on purchases and sales of practices, corporate reorganizations and professional corporations. David also speaks frequently about such matters, including guest lectures at the faculties of dentistry.



Mark McNulty is a Senior Wealth Manager with McNulty Group of Raymond James Ltd., a firm responsible for managing \$500 million of retirement savings for Ontario dentists. In addition to writing two books on retirement planning for dentists, Mark is the creator of the new video series, “How smart dentists sell their practices and win in retirement”. In 2021 Mark was recognized by The Globe and Mail as one of Canada’s top wealth managers. For more information, visit www.mcnyltygroup.ca



Ian D. Toms is a nationally recognized real property lease consultant with over 27 years experience. He is considered an authority on tenancy issues, lease features, facilities and technicalities, and the art of tenancy negotiation. Ian has drafted and negotiated thousands of lease arrangements for national retail and medical professional tenants in 16 states and 8 provinces, with a specific emphasis on the GTA.



David Chong Yen and his chartered professional accounting firm currently advise hundreds of dentists and healthcare professionals on tax, estate and financial planning, valuations and accounting. David obtained his Bachelor of Arts degree from the University of Toronto, attained his Chartered Accountant’s Designation while working at an international firm and has subsequently completed the CICA In-Depth Tax Courses.

POV: Your Attitude, Effort and Actions are in Your Control

The last few years have been anomalies as many of us have faced more challenges than in other times including, most recently, the potential for a new economic slowdown. We can choose to focus on the “doom and gloom” scenarios which only distract us from the work ahead of us, or we can control what we can, and double down on the areas of our lives we can positively impact. Our team at the Professional Advisory, as always, has timely advice to help you continue to thrive in 2023.

Colin Ross’ article, “The Outlook for 2023 and Beyond,” discusses the influence that rising inflation rates have on practice valuations and loans. Fortunately, as he points out, we are blessed to be in an industry that still offers excellent returns on investment.

For every situation, there is a creative solution. “Stepped Sale of a Dental Practice,” by David Rosenthal presents favourable opportunities for both the vendor and purchaser of a practice to enter into a mutually convenient contract. In today’s economic times, this may be a perfect fit for associates looking to purchase the owner’s practice.

“Live Off Your Dividends,” by Mark McNulty shows that over time and by investing in the right companies, you can “inflation-proof” your investments. His group’s investment



Dr. Suham Alexander
B.Sc., DDS, MBA

platform also helps to grow your hard-earned savings in a tax-efficient manner.

Ian Toms reminds us that if we do not have a bricks-and-mortar location, we will not have a business. To this end, “Effective Lease Term Renewal Negotiation,” is an important read outlining the key success factors required to achieve a successful outcome.

“Key Factors Affecting Dental Practice Values,” by David Chong Yen gives us important information about our dental practice’s value. While you may not be able to control these factors, the way in which you structure your business, is still very much in your control.

We have a special “bonus” article by David Chong Yen in this issue, “The North Star Along Your Journey”. In this read, David shares guiding principles to help you along the ride.

The bottom line is this: we cannot always predict or influence external circumstances. However, our attitude, effort and actions are within our control and small, consistent, positive changes in these attributes will always have far-reaching effects. I am confident that the advice within these pages will help you take the right actions for the coming months and help you reap the rewards of your hard work in 2023 and beyond. ■

The Outlook for 2023 and Beyond



Colin Ross
MBA

Since 2008, the world has experienced a long period of strong economic growth, and historically low interest rates. During this time, the dental practice market was also in a boom period. Due to strong demand, availability of inexpensive capital, and the emergence of the Dental Service Organization and Consolidators, dental practice sales and prices reached all-time highs. The increase in values was further supported by the fact that most banks have become experts in lending to the industry and are very comfortable with aggressive lending due to good performance, and generally low loss rates. In fact, because of the banks' comfort, they contributed to the rise of dental practice prices as they were willing to support qualified purchasers who offered strong premiums to acquire practices in competitive bidding situations.

Over the past 9 months, due to various economic factors including high inflation, there has been a dramatic rise in bank lending rates. Since March of this year the Canadian prime lending rate has risen from 2.45% to 5.95%. Since this market is heavily reliant on bank financing, it is likely that despite continued strong demand for practices and

purchasers willing to pay top dollar, there may be a cash flow squeeze that may weed purchasers out of the market which will likely result in a decline of practice prices. While the performance of dental practices has proven to be stable with excellent returns, sales are increasingly based on practice cash flows versus the borrowing costs. Here are some examples of how this interest rate increase has affected cash flows, and may impact values.

Previously a \$1,000,000 loan at 2.45%, amortized over 12 years would have annual payments of \$107,833. Currently the same loan at 5.95% would have annual payment of \$142,833, an increase of 32%. Despite this huge change in direct cash flows, since these lending rates are variable, and historically low, most cash flow models would not have used a historically low cash flow rate (2.45%), rather they would have used a more conservative figure to analyze and project cash flows (likely 5% or 6% to ensure that the borrower could absorb increases). Therefore, there would not have been as much of an impact on borrowing ability.

From a valuation perspective one of the major valuation methodologies is the use of discounted cash flow. This is

a formula which calculates the value of an asset based on its cash flow discounted at the appropriate discount rate (sometimes called cap rate, hurdle rate or required rate of return). The discount rate is a complicated calculation which is essentially based on the risk-free cost of capital, the industry risk, and the specific practice risk. In the dental market, this discount rate is anywhere from 12% to 22% for an established practice (depending on a multitude of factors). Since the risk-free portion of the discount rate has risen by 3.5%, without any other changes to the rest of the factors it implies that the normal discount rate for dental practice would now be higher, resulting in a reduction in value.

While we expect that there will be an impact on values due to cash flows, this will likely be a moderate decline, rather than a large decline. The reason that it is likely to be moderate may be due to simple supply and demand economics. If sellers feel that they are unwilling to accept lower prices, there may be a lower number of practices available. Since purchaser demand continues to be strong, this may offset any price declines due to borrowing costs. In addition to the above, dental practices remain superior performing businesses with reproducible results, and perform well despite unfavorable economic conditions. The second important fact is that dental practices are generally looked at for their long-term performance, it is not an asset that is typically flipped, but developed over the long term. In addition, although past performance is a good indicator of future performance, many dentists have the skills, and are able to improve a practice by taking advantage of practice building opportunities and unlocking the potential that may be available. Although it is hard to measure potential, by seeing opportunities it may make the historical cash flow analysis less important.

A bigger value pressure may also be looming for dental practices, which may also have an impact on value. Over the past few years, there has been considerable pressure put on practices expenses, specifically labor and supply costs. These cost increases are somewhat inflation-based, supply-demand-based (shortage of good staff) and related to the increased use of PPE. These cost increases may also reduce the earnings of the practice and therefore, the value or sale price.

“ Instead of timing the market, a better option is to plan your sale, when the time is right. In order to maximize your return, you need to start planning early, and demonstrate that your practice profits are maximized and in line with comparable practices.

For the sellers out there, we don't think it is practical to wait until interest rates fall again (they may never return), in order to time the market. Instead of timing the market, a better option is to plan your sale, when the time is right. In order to maximize your return, you need to start planning early, and demonstrate that your practice profits are maximized and in line with comparable practices. The market penalizes practices that have high relative expenses.

For the buyers, this possible adjustment may generate some opportunities, but I doubt that you will see major price reductions, as practices still represent an excellent investment with excellent returns. In addition, since bank financing is a major driver of a practice purchase, a buyer may be able to differentiate themselves by having some capital to inject instead of relying 100% on a bank loan. ■

Please send comments to colin.ross@ppsales.com

Colin Ross is a Partner in Professional Practice Sales Ltd. (www.ppsales.com), which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1-888-777-8825 or e-mail at: colin.ross@ppsales.com



Stepped Sale of a Dental Practice



David E. Rosenthal
BA., LL.B.

Selling a dental practice in stages is becoming more common, particularly for specialty practices. Selling in stages occurs where the owner of a dental practice (Vendor) sells the practice to a dentist purchaser (Purchaser) in two or more stages over an extended period of time. This transaction is used when the Vendor is not prepared to sell the entire dental practice immediately but wants to enter into a long-term plan and a legally binding agreement with a Purchaser which clearly set out that a sale in stages will occur over time.

A sale in stages which extends over a period of several years is not the typical arrangement when selling a dental practice. Usually, the Vendor sells 100% of the Vendor's practice, selling shares of a dentistry professional corporation or by a sale of assets. If the Vendor still wants to remain at the practice and continue practicing dentistry after the sale, the Vendor does so as an associate of the Purchaser. An associate agreement is entered into with the Purchaser as principal and the Vendor as the associate who receives

45% of collected billings. While the norm is 40% for associate remuneration, since the Vendor provides mentoring and assistance during the transition phase to the Purchaser, 45% is typically the level of remuneration.

In a sale in stages, the Purchaser is often already an associate of the Vendor and has worked with the Vendor at the dental practice for a number of years. The parties have worked well with each other and share the same practice philosophy and values. The Vendor wants an exit strategy but, for various reasons, wants to retain an ownership interest in the practice and continue to practice dentistry as a co-owner.

The associate wants to buy the practice and agrees to do so over time. Why? Having the Vendor remain as a co-owner of the practice is excellent support for the Purchaser. The Vendor may have far more experience in dentistry and has run the practice successfully for many years. The wealth of experience and having an in-house mentor is invaluable to the associate.

The arrangement often works as follows. The parties enter into a purchase and sale agreement whereby the Vendor sells a portion of the shares of the Vendor's dentistry professional corporation, or, in the case of an asset sale, the Vendor sells an undivided interest in the Vendor's dental practice assets. The percentage sold might be less than 50% so that the Vendor still retains control of the practice.

The Vendor and Purchaser become common shareholders in the case of a share sale or partners where assets are sold for a period of time until the staged sale is fully completed. A detailed shareholders' agreement or partnership agreement is the primary document governing their ongoing relationship during the sale in stages. The shareholders' agreement or partnership agreement will provide that the Purchaser agrees to purchase the remaining portion of the dental practice from the Vendor at a future specified date or dates for a specific price. The price may be a fixed price or based on a formula that is sufficiently clear so the parties will be able to determine easily what the price will be for the next stage or stages of the sale.

If the Vendor dies or becomes disabled, the agreement should provide that the future staged sale dates for the Vendor's remaining interest in the practice will be accelerated upon this type of triggering event. To ensure the Purchaser can fund the buy-out in such events, the Purchaser typically obtains life insurance and disability insurance policies on the Vendor, with the Purchaser as beneficiary.

Similarly, the Vendor should obtain life insurance and disability insurance on the Purchaser. If the Purchaser dies or becomes permanently disabled before completing the final stage of the purchase, the Vendor should have the right to re-purchase the Purchaser's interest in the practice at a specified price.

Insurance issues when selling a practice in stages can be very complex and require careful tax planning. The parties must retain insurance advisors who have expertise in advis-

“ Selling a dental practice in stages can be an excellent arrangement for both the Vendor and Purchaser in certain circumstances. However, staged sales are complex and require careful planning and extensive legal agreements.

ing dentists, and who understand these issues to provide appropriate advice to the parties. Insurance policies should be arranged early in the process to ensure that the parties qualify for such insurance and that appropriate buy-out funding is in place.

Selling a dental practice in stages can be an excellent arrangement for both the Vendor and Purchaser in certain circumstances. However, staged sales are complex and require careful planning and extensive legal agreements. The best advice is to retain professional advisors, including an insurance advisor, accountant, and lawyer, who have expertise in these structures and who focus primarily on advising dentists in transitioning and selling dental practices. ■

Please send comments to david@drilaw.ca

David Rosenthal is a senior lawyer with Spiegel Rosenthal Professional Corporation whose practice is devoted to corporate, commercial and business law, with special emphasis on advising dentists. He can be reached at (416) 865-0736 or e-mail to david@drilaw.ca.

Live Off Your Dividends



Mark McNulty
BA, CIM, CFP

In 2022, eleven of the families that we work with sold their dental practices. In total they deposited (or will be on closing) over \$60,000,000 into their investment accounts with our firm. As you can see, that's an average of over \$5,000,000 per family.

The goal for most of these dentists is to live off the dividends of their portfolio - and not to ever eat into their hard-earned capital. To illustrate how that will work we will use the historic cash flows of our Live Off Your Dividends platform (started in 2013).

As you can see from the chart above, if they had invested the \$5,000,000 in our firm's dividend platform at the inception in 2013, by the end of 2021, the dividend income from the portfolio would have more than doubled from \$190K to \$390.6K. Furthermore, if they had lived solely from the dividends, the capital would have appreciated to \$8.9M.

How we do it

To live off your dividends, we invest in a portfolio of high-quality companies that pay a stable and growing dividend income stream, sufficient to fund our client's lifestyle. As the dividend income covers their spending needs, the capital invested in the underlying stocks can continue to grow.

Our process starts with quantitative models, which reduce our investible universe to a more manageable level by screening for size, growth rates, debt levels and profits. The next step is where the rubber hits the road, using a "4-M" analysis. This stands for Macro, Management, Margin and Moat. Each factor is an important part of the investment

process and, when put together, form our thesis for what a high-quality company should look like.

Macro

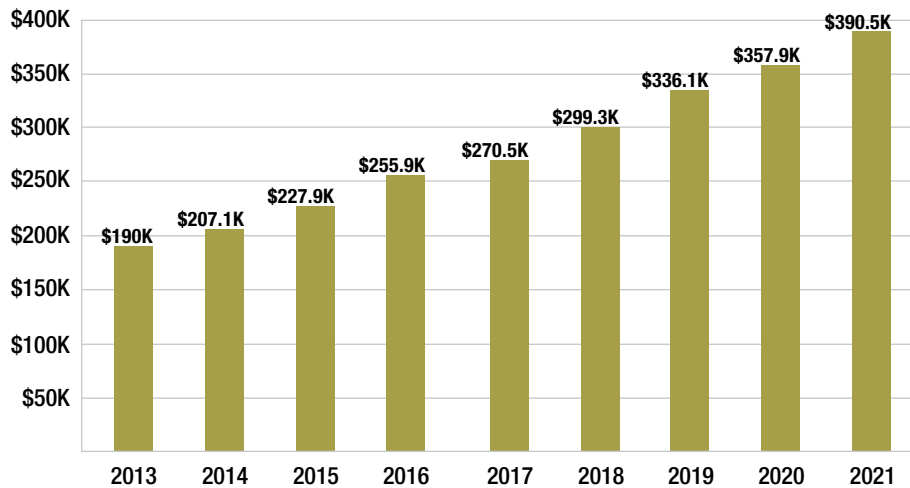
Whenever possible, we want to be investing in businesses and industries that have the "wind at their back". To that end, we look for investment themes that will benefit certain sectors of the economy more than others. These themes must have a degree of predictability and staying power.

Management

How a company is run is arguably the most important factor in our analysis. Businesses are only as good as the people who lead and operate them. The best new widget, smartphone app, oil well or gold mine can quickly be ruined by bad management. For this reason, we study the people in key positions at the companies we invest in, looking not just at their resumes and past successes, but also how they treat shareholders and their capital.

Margin

This topic is shorthand for profitability. Different business sectors within the economy have different levels of profit, but by owning the businesses that consistently generate above average returns within their peer group is a great way of identifying high quality companies. To this end, we are not looking for the company with the absolute highest return on a year-by-year basis, we are looking for those companies that consistently are at the higher end.



Moat

The idea of an economic moat is one that has been popularized by world famous investor Warren Buffett. Just as the moat around a castle defended it from enemies and rivals in medieval times, an economic moat is a key attribute(s) that protects a business from competitors, new entrants, and technological advances. In an era of technological disruption, owning companies with strong and wide moats are more important than ever for investors.

Dividends are also more tax-efficient than other types of passive income. For example, \$150,000 in dividend income nets out to \$140,000 after-tax, a full \$20,000 more than the same amount earned as rental income.

Finally, the benefit of investing in companies with growing dividends is that we expect the passive income stream to grow over time, providing our investors with protection from inflation. In short, the “Live Off Your Dividend” platform attempts to provide a growing and tax-efficient income stream while continuing to grow your savings. ■

To learn more, visit our website www.mcultygroup.ca or sign up for our monthly videos at info@mcultygroup.ca.

“ In an era of technological disruption, owning companies with strong and wide moats are more important than ever for investors.

Feedback can be sent to info@mcultygroup.ca

Mark McNulty is a Senior Wealth Manager with McNulty Group of Raymond James Ltd., a firm responsible for managing \$500 million of retirement savings for Ontario dentists. In addition to writing two books on retirement planning for dentists, Mark is the creator of the new video series, “How smart dentists sell their practices and win in retirement”. In 2021 Mark was recognized by The Globe and Mail as one of Canada’s top wealth managers. For more information, visit www.mcultygroup.ca

No lease, no premises, no practice.



Ian D. Toms B.Sc. (Hons)

Remember that your lease controls how long you can practice in the premises, your rent cost, the value of your practice and your retirement fund. Therefore, your lease and its terms are critically important.

Your lease was carefully negotiated years ago to provide terms and conditions to protect you and your clinic. Time has passed and now lease negotiation is very different than it used to be. Mishandling your lease term renewal will give your landlord the negotiating advantage which could result in high rent, negative lease amendments, or even the loss of your lease – And the closure of your practice!

Tenants need to understand the current leasing environment and update their thinking and approach to lease term renewals.

In the past, it was a tenant's market. There was an abundance of vacant real estate in most markets providing a strong tenant leverage position which resulted in favorable lease terms, conditions, and relatively inexpensive rent. The value of real estate compared to other investments was low and therefore, the value of rent was low. Many landlords were not technically sophisticated and did not understand the implications of many lease terms or conditions, or the value of certain lease provisions such as termination for

demolition or relocation clauses. Leases and their clauses were simple, clear, and easily understood. "Negotiation" amounted to a 20-minute discussion over coffee, a handshake, and a signature.

Today's market is a landlord's market. In many areas, there is no available real estate for lease. Landlords understand the value of their investment grade real estate. Now, landlords are sophisticated; many have advanced education. Leases are sophisticated. Landlords have the leverage position to dictate rental rates and all lease terms and conditions. Therefore, the landlord can control your lease, your premises, and your practice. "Negotiation" can amount to 113 emails, 42 unanswered calls and a final answer which could be "no".

There is light on the horizon, but tenants must take their lease term renewal very seriously and have realistic expectations. A properly handled lease term renewal in this market can still result in a reasonable rent with lease terms and conditions in the tenant's favour, preserving the tenancy and value of the practice.

The key to achieving successful lease term renewal negotiation is to methodically plan the strategy to administer your lease term negotiation.

1. First, tenants need to establish a negotiating position by having a lease review completed to understand lease terms and conditions including the critical timeline. Overlooking one issue could cost them the value of the practice.

2. Second, based on the lease review, tenants must define needs including adding options to renew, setting fair market rent, adjusting assignment provisions, finessing early termination and relocation provisions etc. Failure to understand subtle nuances could cost the value of the practice.

3. Third, tenants must assess and understand the real estate market to know what available, and fair market rent is. To be unaware of even one opportunity could make the difference between a successful and unsuccessful negotiation.

4. Fourth, tenants must administer the lease term renewal negotiation timeline properly. The process includes understanding and administering both the lease term and option timelines in the context of the renewal option language expressed in the lease. Tenants should also understand when to approach the landlord to avoid inadvertently derailing an otherwise successful negotiation.

5. Finally, tenants must know when and how to approach and negotiate with the landlord. The days of doing it yourself are over. Anything besides being professional, persistent, personable, patient, and realistic will have significant negative results for you. Your representative must be experienced enough to understand the difference between an institutional leasing manager and a developer and understand what the landlord's needs are and how to integrate

“ A properly handled lease term renewal in this market can still result in a reasonable rent with lease terms and conditions in the tenant's favour, preserving the tenancy and value of the practice.

landlord needs with the tenant needs. Talking to the wrong person at the wrong time with the wrong attitude will result in an unsuccessful negotiation.

The key message, here, is in a lease term renewal negotiation you don't get what you deserve, you get what you negotiate. You can't do your own lease term renewal anymore. What you don't know can and will hurt you. Lease term renewal negotiation has become a specialized field and as such, you need to hire an experienced and competent professional. You can't afford not to. ■

Please send comments to info@realtyleaseconsultant.com

This article was prepared by Ian D. Toms, Jennifer Madgett and Colleen Collins of Realty Lease Consultants Inc. who as lease consultants have advised dentists for over 26 years. Additional information can be obtained by calling 877 216 1013 or by emailing colleen@realtyleaseconsultant.com. Visit our website at www.realtyleaseconsultant.com. This article is intended to provide planning ideas and is not intended to replace professional advice.



David Chong Yen
CPA, CA, CFP

Key Factors Affecting Dental Practice Values

With many changes affecting the dental profession and the dental industry, a topical question is: What factors affect my dental practice's value? Below, we will discuss some of these factors and how they impact the value of a dental practice.

1) Demand/Need for dental services.

A practice with 1400 or more active patients, should generate enough demand to keep one dentist, hygienist, two assistants, and a receptionist, gainfully employed/busy. It is important to understand that an active patient is defined as a patient of the practice for several year and has attended the practice in the last 12 months. Patients, and team members, generate cash flow. We have observed state-of-the-art, aesthetically pleasing facilities with few patients generating little cash flow. On the other hand, some practices with several decades' old equipment and aesthetics to match have many patients and generate significant cash flow. Cash flow drives practice value.

2) Team members.

The dental business needs a team to service patients. Currently, there is a shortage of team members, (dental associates, RDH, assistants, etc.). This negatively affects production, billings, and cash flow. This, in turn, negatively affects practice values.

3) Interest rates.

The prime interest rate has risen from 2.70% in March 2022 to 5.95% as of December 5, 2022. Rising interest rates negatively affect practice values. Why? Practice values are a function of future cash flows. These future cash flows are

discounted in order to convert these amounts into present day (today's) practice value. A higher interest rate results in a lower present day (today's) practice value.

4) Inflation.

With inflation being 6.9% as at October 2022, the price of sundries, salaries, and cost of operating a dental practice rises leaving less profit/cash flow. The provincial fee guide usually increases in tandem with inflation, offsetting some of the rising operating costs associated with a dental practice.

5) Internationally trained Dentists and immigration policies.

Internationally trained dentists have increased the demand for practices, as many wish to contribute to Canada by owning their practice, thereby providing employment for Canadians and security for their own family. Increased demand enhances practice values. To the extent, Canada has a welcome and open-door policy for immigrants, this bodes well for practice values. With changes permeating throughout the world, there has been a fundamental shift from globalization (one world) to nationalization (every nation fights to bolster their own interest). If Canada moves toward a closed-door policy, this may negatively affect demand for dental practices and practice values.

6) Dental Investors.

Dental investors with capital, money, have increased the demand for practices. Their presence in Canada and U.S. indicate there is room for both independent practices and

dental investors to co-exist, and there is likely ongoing demand for dental practices from dental investors. Recently, with interest rates rising, some dental investors have hit the pause button as far as practice purchases are concerned. This may negatively affect practice values in the short term.

7) Value Synergy.

Some prospective buyers will pay a premium to buy practices close to existing practices. Their goal is to reap synergies by combining an existing practice with the target practice, thereby generating increased cash flow, and enhancing their practice's value.

8) Licensing of Dentists.

If licensing of all internationally trained dentists is more protracted, this could decrease the demand for dental practices and negatively affect practice values.

9) Government-funded dentistry.

The impact is too early to assess. However, practices with a high component of socio-economically challenged patients will be affected more and likely negatively than practices who serve few of these patients, especially in the presence of staff shortages and inflationary pressures.

10) Location and Competition.

Practices located in densely populated urban areas, where competition is intense, and occupancy/rent costs are higher, have been affected more than those in rural areas where there is little competition and operating costs are less. As one dentist stated, "The Provincial Fee Guide is the same in urban areas and rural areas although the cost structure can be vastly different." Another dentist quipped, "What was once considered rural is now urban, especially with improved infrastructure/toll highways." The demand for rural practices may be less than urban although one might expect this to gradually change over time.

11) Premises Lease.

Banks are reluctant to lend money to buy a practice where the term of lease and renewal options is less than the term of the loan, usually 10 -12 years. Additionally, getting loans to buy a practice where a demolition clause exists will be challenging. A demolition clause permits the landlord to demol-

ish the premises so there would not be a physical location for the business to operate.

12) Severance and termination.

Costs associated with employees of the practice who may be severed or terminated by the buyer also affects the practice's value.

Dental practice values dipped during March 2020- September 2020, the initial COVID-19 period. Dental practice values have subsequently recovered. Inflationary pressures, rising costs, rising interest rates, along with rising demand for dental practices from internationally trained dentists and moderating demand from dental investors have resulted in stable dental practice values. i.e., practice values today are similar to pre-COVID-19. Further increases in interest rates could reduce practice values.

As sure as there will be taxes, there will be future disasters. The business of dentistry has proven to be resilient and disaster resistant. Discussions about a future recession, rising interest rates and inflation have not decreased liquidity as banks are still willing to lend dentists money at less than prime rate to buy dental practices. Dental investor demand has recently waned, due to the rising interest rates. Buying or selling dental practices should be done with a long-term horizon in mind. ■

“As sure as there will be taxes, there will be future disasters. The business of dentistry has proven to be resilient and disaster resistant.”

Please send comments to david@dcy.ca

This article was prepared by David Chong Yen*, CPA, CA, CFP, Louise Wong*, CPA, CA, TEP, Basil Nicastrì*, CPA, CA and Eugene Chu, CPA, CA of DCY Professional Corporation Chartered Professional Accountants who are tax specialists* and have been advising dentists for decades. Additional information can be obtained by phone (416) 510-8888, fax (416) 510-2699, or e-mail david@dcy.ca / louise@dcy.ca / basil@dcy.ca / eugene@dcy.ca. Visit our website at www.dcy.ca. This article is intended to present ideas and is not intended to replace professional advice.

The “North Star” Along your Journey



David Chong Yen
CPA, CA, CFP

During your journey, at some point, there will be wind behind your back and other times, gusts blowing you backwards. Consider the following as your “North Star” as you move forward.

1. Place great emphasis on one’s actions, past and present; place little credence in one’s words. Research one’s past actions.
2. If something sounds too good to be true, 99.99% of the time, it’s not the package being sold; avoid it.
3. Reliability, sustainability, consistency, usually delivers better long-term results than the leading edge of anything.
4. Is the “new and improved” really a “knock off” of the “tried and true”?
5. With technology and the expansion of our dictionary, it has become more challenging to determine right from wrong; but timeless values know the difference.
6. When one treats their family with disdain, proceed with caution, especially, if you are not their family.
7. If money is your key to success, happiness and peace, good luck; money is numbers and numbers never end.
8. The best way to fight inflation and high interest rates is by improving yourself/skillset. Many of our clients started their career with a negative net worth, due to hundreds of thousands of dollars in student debt. Today, many of these clients are worth several millions. Why? Education unleashed their potential and monetized their talents. Improve your skills by taking continuing education courses which enhance you, personally and professionally. Few investments provide a better return-on-investment than education.
9. Most people want you to follow what they say, not what they do; wonder why?

10. Most people will seek to get compliance; few spend the time to earn self respect and other people’s respect.

11. If you drill beneath the surface, virtually every professional is faced with a conflict of interest: i.e. a dentist may suggest a treatment plan which results in more billings for the dentist, a medical doctor may deliver a service, which depending on the time spent and code used, delivers more fees to him/her, a lawyer may spend more time on/with a client and this may result in more billings, if the lawyer bills on an hourly basis and an accountant may suggest a tax plan which results in more billings, etc. There is no substitute for the fundamental principles of professional judgement, ethics, integrity, honesty, and honour. Time has a way of stripping away the veneer and getting to the core of these fundamental principles. When one has been practicing for decades in a regulated profession, if they have avoided disciplinary action, this is a start in the right direction; ensure they tick this box. When one has been practicing for decades, they have a history, a reputation, good or bad; check their reputation; if they have a good reputation, except for their fees or bedside manner, is their reputation and the related peace of mind worth the extra fees, poor bedside manner? Determine how one is truly compensated, then you’ll understand their motives.

12. There is no free lunch in life; when you receive a free lunch, determine the hidden cost; i.e. Where is the “catch”?

13. Addiction to alcohol, drugs, gambling, etc. has robbed many individuals of their talent and potential; only when one is aware of the pervasive cost, will they seek help for their sickness/medical health issue.

14. Most humans don’t like making decisions; hence, the presence of bundles, combos, packages, and all-inclusive deals in various aspects of our lives.

15. Diversification is a highly desirable academic goal/achievement; most billionaires, including Warren Buffett, Jeff Bezos, Elon Musk, Mark Zuckerberg, and our most successful dentists accumulated their wealth by investing in



their business/dental practice and real estate, the opposite of diversification.

16. All financially successful self-made individuals I have met, bet the house on themselves. I have met many financially successful self-made individuals, whose net worth excluding their home is >\$20m.

17. I am astonished by how many “average talented clients” consistently deliver extraordinary results, both in their personal and professional lives.

18. If you were with me when I cried, you deserve to celebrate my success, if any. This applies to team members, family, friends, and clients. Gratitude is a value of a bygone era.

19. It’s challenging to be successful when your homelife is in shambles.

20. Priorities invariably involve tough decisions. Sometimes one has to sacrifice a little good for the greater good. ■

“ Diversification is a highly desirable academic goal/ achievement; most billionaires, including Warren Buffett, Jeff Bezos, Elon Musk, Mark Zuckerberg, and our most successful dentists accumulated their wealth by investing in their business/ dental practice and real estate, the opposite of diversification.

Please send comments to david@dcy.ca

This article was prepared by David Chong Yen*, CPA, CA, CFP, Louise Wong*, CPA, CA, TEP, Basil Nicastrì*, CPA, CA and Eugene Chu, CPA, CA of DCY Professional Corporation Chartered Professional Accountants who are tax specialists* and have been advising dentists for decades. Additional information can be obtained by phone (416) 510-8888, fax (416) 510-2699, or e-mail david@dcy.ca / louise@dcy.ca / basil@dcy.ca / eugene@dcy.ca. Visit our website at www.dcy.ca. This article is intended to present ideas and is not intended to replace professional advice.

The Professional Advisory

FOR DENTAL PROFESSIONALS



Ian D. Toms, B.Sc. (Hons)
Broker of Record
Realty Lease Consultants Inc.



David Chong Yen, CPA, CA, CFP
DCY Professional Corporation
Chartered Professional
Accountants

The Professional Advisory consists of a group of 5 independent professionals who provide services to the dental profession, each of whom specializes in a different field. They have gathered to keep each other informed of the latest developments relating to the profession, and to produce this publication which is designed to provide expert information and advice solely for dentists and their advisors.



Mark McNulty, BA, CIM, CFP
Senior Wealth Manager
McNulty Group,
Raymond James Ltd.



David Lind
Principal, Broker of Record
Professional Practice Sales Ltd.



David Rosenthal, BA, LL.B.
Spiegel Rosenthal Professional
Corporation Barristers and
Solicitors



Visit our website at
www.professionaladvisory.ca
to view current issue and complete archives