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STRATEGIC BUYER CASE STUDY: AN EXCERPT FROM *THE OWNER'S JOURNEY*

Experiences shared and lessons learned from entrepreneurs who successfully sold or transferred their businesses to family members

U.S. Trust was inspired to commission "The Owner's Journey" to address what we observed to be a critical need: better preparing business owners for the eventual transition of their companies. Our advisors, in conversations with entrepreneurs, investment bankers, family business consultants, CPAs, attorneys and others were hearing a consistent and passionate message that early planning and enhanced education about exit options and the exit process were in great need. In our quest to focus on this issue, we came across an earlier Columbia University white paper on exit planning that shared personal stories and insights from owners dealing with reinventing their lives after the sale of their companies. We found their personal journeys to be highly instructive and recognized the opportunity to add to this knowledge base by approaching Columbia[1] to author a follow-up paper to study the exit process from the beginning, to capture how entrepreneurs approached the decision and navigated the transition. The power of their first-hand experiences and the corresponding lessons learned are now captured in this paper and can be accessed by those who have yet to embark upon this journey.

The following case study chronicles Dr. Alan Bagden, an orthodontist from a middle-class New Jersey suburb who, after buying the first specialty dentist practice outside Washington, D.C., spent the next 25 years building a thriving private practice to become a nationally recognized leader in his field. Recognizing that estate and succession planning are complicated and time consuming, Alan spent years preparing his business for sale and managing through these complexities. ■

Dr. M. Alan Bagden

Age 61, Orthodontist

Sold his practice to a strategic buyer

Dr. Alan Bagden has had a long-term plan to sell his practice and retire in March 2017, at the age of 65, and he has successfully implemented every step. Still, he was surprised by the actual selling process.

Alan began his journey with a middle-class childhood in suburban New Jersey. His father's lifelong career at Western Electric began as a floor sweeper and advanced to senior management. Alan saw his father put himself through college and earn an MBA, working during the day and attending classes at night and on weekends. He also saw his mother commute every day to a job as an executive assistant, which was rare at that time in New Jersey suburbs.

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Alan remembers that from a very early age he wanted to be a doctor. While in college, though, two summers spent as a scrub nurse convinced him that he did not want the "on call" life of a doctor. After finishing college in 1974, Alan was awarded one of the 50 scholarships for a full dental school education in exchange for working for two years for the Public Health Service in rural Virginia. At the end of the two years, ownership of the dental practice was transferred to him, and he built it for an additional five years.

However, attending a wedding in New York City, he and his wife realized they wanted a more urban lifestyle. Alan also had a professional goal — to become an orthodontist. Approximately 300 people a year are trained in orthodontics in the U.S. In 1985, Alan sold his rural Virginia dental practice, and the University of Maryland gave him the opportunity to specialize via one of the few coveted spots in orthodontics with an educational stipend.

In January 1986, Alan saw an advertisement on the university job board posted by a 55-year-old orthodontist seeking a young person to buy into his practice. In 1962, Dr. Bill Wallert had begun his practice as the first specialty dentist in the suburbs outside of the Washington D.C. Beltway. In 25 years, his practice had exploded with the growth of these suburbs. His philosophy was to ask high fees to enable a comfortable volume, while maintaining the highest possible quality. In 1987, Dr. Wallert and Dr. Bagden became partners.

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Alan used the proceeds that he had received on the sale of his first practice to buy the hard assets of Dr. Wallert's practice. Because of his scholarships, he had no debt. To complete the purchase of the partnership, for the next five years, both Dr. Wallert and Dr. Bagden were paid the same amount, but Dr. Bagden worked four-and-a-half days and Dr. Wallert worked three days each week. As planned, as of July 1998, 10 years later, Dr. Bagden acquired the rest of the practice. He was 46 years old. Dr. Wallert retired at 65.

As sole proprietor of the practice, Alan continued Wallert's credo: comfortable volume, high fees, and work of the highest quality. As Alan states, "There is always a market for quality, for doing the best job...No one can compete with you when you focus on being the best." In the first years of his sole ownership, he ran the practice by himself and focused on making as much personal income as possible.

He became a recognized leader in his field, becoming a contracted spokesperson for a revolutionary orthodontic technique, which led him to speak on the technique in more than 40 countries and throughout the U.S. His mantra was to be recognized as the highest quality service provider and to market by building the best relationships with his clients. His growth was almost exclusively because of his reputation and word of mouth.

In 2003, he hired his first orthodontic associate and began taking methodical steps toward building a saleable practice. A key step was to move into an exceptional new space. He invested in state-of-the-art technology and created a lab on the premises to do the highest quality work, which he could control and monitor. All along, he invested steadily in his office's appearance and in technology, which added considerable value to his business.

Though neither of his sons chose to follow in his steps as an orthodontist, their careers were highly influenced by Alan's orthodontic practice. As the result of a beach conversation with his father, one of his sons started a Web and search-engine optimization firm that specializes in doing work for orthodontists and other boutique businesses. His other son secured a business student internship through a patient of Alan's. That son went on to work for the patient's company after graduation and is currently in a prestigious MBA program.

A few years ago, as Alan approached his 60th birthday, he began to seriously contemplate the options for the sale of his practice. He had a formal review with his wealth manager to understand the net worth he already had created for himself, his expected ongoing expenses, the number needed for his retirement, and the outline for a financial plan for his retirement after a sale.

But whom to sell to? His sons' business careers meant that a family transfer was not possible.

Alan's first thought was to duplicate what Dr. Wallert had done with him — sell to an ambitious, younger orthodontist. But the younger orthodontist (49 years old) then working for him did not want to buy. She saw that by the time she owned the practice, she would be at an age where she would have to sell it.

Alan then looked into finding a younger orthodontist. He quickly discovered that most young orthodontists now carried student loans with up to $700,000 of debt. He could not find a young orthodontist with the wealth or credit history to make a suitable partner. In fact, his practice had become too large and successful for any young orthodontist to be a credible buyer.

With his leadership and stellar reputation in the orthodontics field, Alan easily found the best consultants to advise him. For years, he had used one of the top orthodontic business practices consultants. This long-time advisor introduced him to a business broker specializing in the sale of orthodontic practices. He started working with his broker a year before the sale closed.

Alan's broker was known for favoring the seller. Other brokers who sell professional practices favor the buyers, which means they primarily look for residents still in medical and dental schools and put a low price on practices. The process of working with the broker began a year before the sale with a retainer and a valuation of the business.

Alan notes that the worst piece of advice that he got in the process of selling his practice was to start with as low an asking price as possible. The logic was that this would make the sale faster and easier with more bidders. Alan did not follow this advice and went with a high asking price. The stellar reputation of his practice made that the right strategy.

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The broker looked for established and growing corporate buyers. Alan liked having a middleman marketing his practice anonymously. Trust, honesty, quality and integrity were his personal brands. He was looking for those in a buyer, and he made sure his broker kept that in mind.

Within a couple of months, the broker had secured two corporations and an individual as potential buyers. The ideal buyer quickly became very clear to both Alan and the broker. He liked the group as people and felt they were honest.

This buyer offered several important advantages. They would allow Alan to work as much as he wanted for the next few years after the sale. He did not want to abruptly leave working, but he also wanted a definite deadline for stopping. He also liked the fact that this was a roll-up, where his practice would be "the biggest fish in the pond." He saw that there could be opportunities for him to consult as the company continued to acquire smaller practices. After a thirty-six-hour visit to his facility, the buyer and Alan signed a binding letter of intent for exclusivity for 30 days and a commitment to close within 90 days.

The 90 days of due diligence before the final offer was the most exhausting and arduous time for Alan. He was surprised at the probing questions and the detailed reports required to complete the final valuation. He admits he learned a great deal about his practice in the due diligence process. In hindsight, he wishes that he had had a valuation of his practice done a few years before he started the sales process.

Even though Alan had taken many astute measures throughout his career, the sale process taught him what he might have done to increase the value. He recommends paying particular attention to making one's receivables current, understanding any cyclicality of one's business and having a detailed analysis of the demographics of one's customers. Before one puts a business up for sale, one should streamline business processes and audit all costs and contracts. Had he done that, he knows that he could have found ways to further improve the valuation. He learned that he had perhaps relied too much on employees for information. "It is okay to delegate, but be sure to have controls that regularly make you look at the details of each aspect of your operation," he says.

Alan successfully sold his practice in October 2014. He has an agreement to work eight days a month at the practice for 24 months and more if he chooses. He also may be hired as a consultant for other acquisitions by the corporation that bought his practice. His facility, clients, brand and employees will remain relatively unchanged.

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Alan's number one counsel to others is to "be as firm and detailed as possible in your letter of intent. It is the time to list everything that is important to you about your employees and yourself, such as health insurance, consulting and work obligations, and ongoing payments to your professional associations. The purchase agreement then easily flows from the letter of intent."

His final reflection: "Don't be afraid to have someone come in and look hard at what your company is doing before calling in a broker or banker. Ask for totally honest feedback. 'Tell me what I need to know to sell my business at a higher price.'" ■

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