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FOR DENTAL PROFESSIONALS

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Shifting Paradigms in the Wake of the Pandemic

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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.

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.

Dr. Ron Weintraub is the founder of Innovative Practice Solutions (IPS) and former owner and founder of Bayview Village Dental Associates and Downtown Dental Associates. He practiced dentistry from 1963-2004 and has consulted on behalf of major dental suppliers, manufacturing companies, as well as individual dental offices for over 20 years. In 2004, Ron gave up clinical practice in order to focus solely on Practice Management.

David Chong Yen and his chartered 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.

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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.mcnultygroup.ca

Notes from the editor:

Shifting Paradigms in the Wake of the Pandemic

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

Over the last 2 years, give or take, we have been on a roller coaster ride – emotionally, economically, and socially. For months at a time, we have adjusted and re-adjusted to closures and different stages of re-openings. People's work lives and vocations have changed with many opting to work virtually from home and others opening home-based businesses. This "new normal" has resulted in significant changes. In the dental industry, we now have more stringent infection control protocols, new processes for patient visits, physical changes to our clinical spaces as well as more staffing challenges. This issue of The Professional Advisory guides you through shifting paradigms in the wake of the COVID-19 pandemic so you can transition to a new level both, professionally and personally.

In the first article, "Manage Your Premises Event Horizon", Ian Toms recommends dentists consider a reasonable timeline of practice, first, when choosing premises for a practice. Often, our clinical practice time span is not what we consider at the outset of setting up, relocating a practice, or renegotiating lease renewal terms. However, "working backwards" with this timeline can eliminate future hassles and hiccups.

Dr. Weintraub's article, "The Urgency of Optimizing Internal Opportunities for Clinical and Financial Growth", encourages us to look within our practices rather than externally for ways to increase productivity and revenue. In this changing landscape, practice teams are invaluable as they have a wealth of information at the ready that can be reviewed, reconsidered, and put into action to help the practice grow by shifting internal processes.

Through the pandemic, dentists experienced degrees of high and low points. As David Chong Yen's article, "COVID-19's Subtle and Pervasive Impact on Dentists" illustrates with a retrospective view of the last 2 years, dentists' perspectives have changed, they have "gotten their houses in order" proactively and have adapted to the unstable environment which has allowed them to thrive.

"What to Expect When Selling Your Practice" by Colin Ross reminds potential vendors that a successful sale results from preparedness. Dentists willing to sell their practices must alter their mindsets to view their practices from the perspective of a prospective buyer and maintain some flexibility to realize the best outcome.

For dentists looking to purchase a practice, David Rosenthal provides a "Legal Checklist to Purchase a Dental Practice" that will help eliminate issues that can be challenging later in the purchase process. Again, a shift to being more proactive earlier on in the process will reduce overall stress for all involved.

Lastly, "Live Off Your Dividends – Never Eat into Your Capital" by Mark McNulty shows us that by modifying our outlook on investments, our capital can literally pay off dividends that will sustain us. His team speaks to the ways in which money can be invested so that it generates cash flow.

Practically every aspect of our daily lives has been affected by the pandemic and yet, as professionals we are more resilient than we sometimes realize. With an everchanging world, we must remain agile and fluid in our minds as well as our businesses to be successful. From all of us at The Professional Advisory, we wish you the very best that 2022 has to offer! ▮

Manage Your Premises Event Horizon

Ian D. Toms B.Sc. (Hons)

You spend countless hours planning bank financing, personal investments, tax strategies, taking continuing education credits, learning treatment modalities, developing marketing initiatives, executing staff recruiting, retention and training strategies, but most tenants rarely look at their premises arrangements because it's not an immediate concern.

Your practice is in a premises. No premises, no practice. Your premises is the foundation, the home of your practice. Your premises defines key elements of your practice including the location, shape, size, signage, parking, hours of operation, rent, use, leasehold improvements, and timeline. Premises defines the actual value of your practice. One of the most important and overlooked premises element is the timeline.

The timeline or length of time you expect to practice in your premises in the context of premises attributes is critical. You need to be aware, always, of what your timeline is and plan accordingly. You would not drive your car forever without checking the gas gauge every now and then and planning accordingly, because you would eventually run out of gas at an inconvenient time. Similarly, you need to check your lease timeline now and then and plan accordingly, so you don't run out of time.

Those who fail to plan, plan to fail.

Consider your premises timeline a "premises planning event horizon". Take a moment and think about the period from today until 10 years past the day you expect to sell. This amount of time is your "premises planning event horizon". You need time to practice for the rest of your career, and then time for your successor to amortize the loan they borrow to buy your practice and fund your retirement. For example, if you are now 30 years old and plan to practice until the age of 65 and then sell, your premises planning event horizon is 35 to practice plus 10 years to amortize the sale loan or a total of 45 years.

Does your lease ensure your use for the next 45 years? You can check by adding the number of years in the current term plus all the years in each of the term renewal options. For example, if you are in year three of a five-year term and have two options to renew for five years each then you have 2+5+5 or 12 years ahead of you. The exceptions would be if:

1. You have a termination for demolition clause valid at any time on six months advance notice which effectively reduces your premises planning event horizon to six months, or

2. You are lucky, and the landlord agrees to delay the termination for demolition clause and give you a number of term renewal options.

If your premises planning event horizon is less than the time you need to practice and sell at full value, your practice value is potentially impaired by the cost to relocate. For example, if the relocation cost is $300 per square foot, then the cost to relocate and the impaired practice value is $450K for a 1,500 sq.ft. practice.

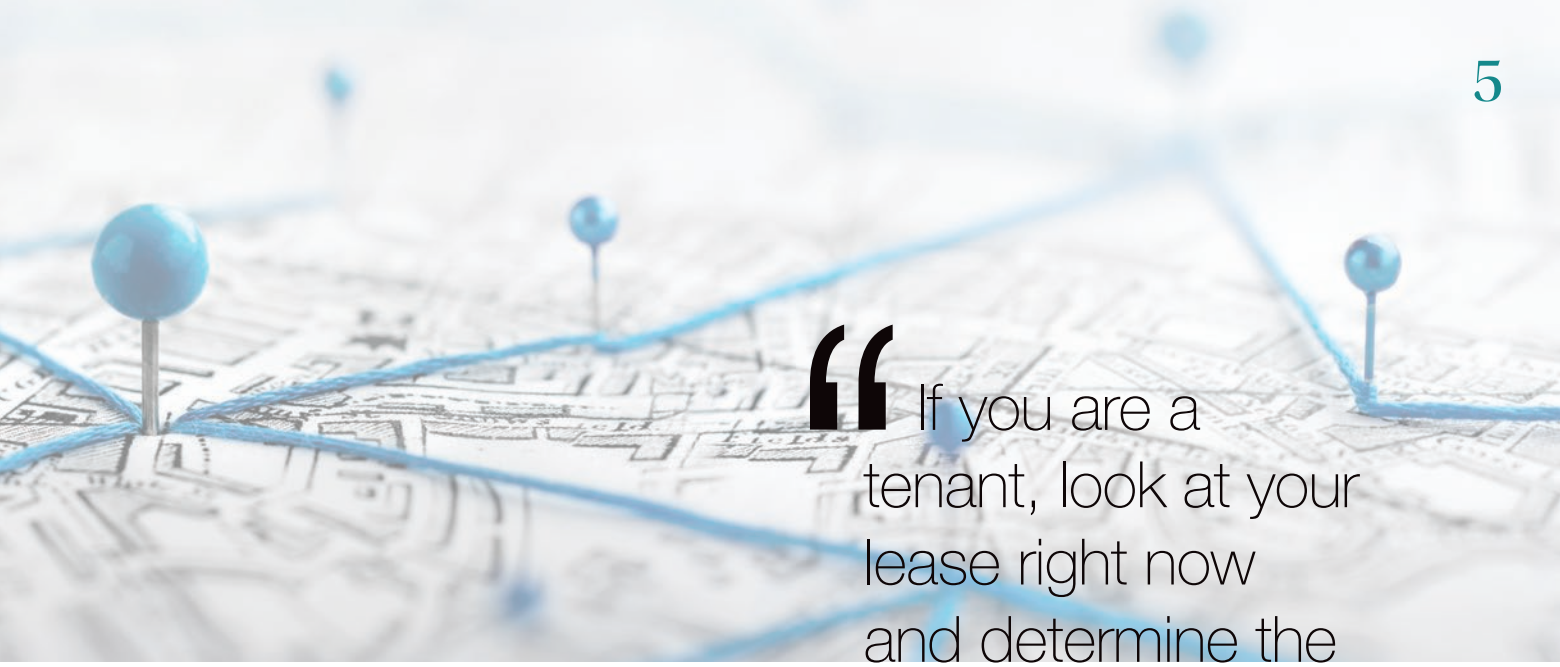
Consider two premises planning event horizon strategies.

Leased Premises

A primary advantage to leasing includes the relatively low entry cost. Because your capital is not tied up, you can relocate from time to time and you can enter a market where there is no appropriate realty for sale. Ongoing rental payments approximate the cost of mortgage payments, and the cost of realty tax. Maintenance and insurance would apply in both owned and leased property.

Two disadvantages to leasing are that:

- The tenant does not accumulate any increase in realty value both in terms of market appreciation and mortgage paydown, and
- Most leases have a premises planning event horizon of 20 years of less, which is shorter than most occupants need.



> "If you are a tenant, look at your lease right now and determine the premises planning event horizon.

You can manage your liability to a certain extent by choosing to locate in leased premises that are in a relatively new development, are unlikely to be re-zoned for an alternate use because of the neighborhood and making sure you have multiple options to renew for your premises event planning horizon, or plan to leave.

Owned Premises

Consider ownership challenges. Many markets do not have any commercial real estate readily available for purchase at a financial or effort cost that makes sense. Purchasing ties up capital either as cash or borrowing power, requires a lot more administrative time than leasing, and is a long-term commitment. You cannot leave without selling. You will need your successor to remain as a tenant to protect your investment which means selling or leasing your property to your successor. However, the advantage is that you have a premises planning event horizon for as long as you want, your rent decreases the mortgage, your premises asset value floats up with the market, and you can sell your property or lease it to your successor.

Consider buying a condominium, a redevelopment property such as a house, or a small plaza. In each case you would want the cost to you and your practice to make sense. For example, at a 5% rate of return to buy a 1,500 sq.ft. premises, you could buy a condominium at $1,000 per square foot, or redevelop a house, or buy a small plaza (after collectively factoring in other tenants rent) for $1,500,000. A 5% return-on-investment equates to $75,000 per year or $6,250 per month for mortgage service. Remembering you would still need to pay realty tax, maintenance and insurance costs, your ownership cost roughly approximates leasing expenses. Factoring in the cost of borrowing and the advantage of asset appreciation, over time you will generate equity and have a premises planning event horizon.

Hope is not a strategy.

If you are a tenant, look at your lease right now and determine the premises planning event horizon. Compare the lease timeline to your premises planning event horizon. Define the difference. Then, develop a strategy to accommodate your plan. You might accept that because you are in leased premises with a premises planning event horizon shorter than you require, you may have to sell charts at the end of your career, or pay the cost of relocation, or hope that the landlord does give you additional options to renew as time passes. You might invest available cash as you go to offset the decrease in expected practice sale value at the end of your career.

Alternatively, you could start searching for available realty to buy, factoring in the level of effort and time required to secure property and build your premises.

In either case, you need to be aware of the premises planning event horizon, schedule a consult with a capable advisor to help plan your strategy, and add planning for eventualities to your list of periodic projects. ∎

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The Urgency of Optiziming Internal Opportunities for Clinical and Financial Growth

Dr. Ron Weintraub

Although the pandemic appears to be abating somewhat despite new variants, the path forward to a viable dental practice requires careful consideration of several issues. Having a plan to optimize internal opportunities for clinical and financial growth is of primary importance. To regain the former momentum of the practice, invite new patients, and explore new opportunities, an opportunity analysis and an action plan are required.

Attracting New Patients

For a dental practice to be a sustainable entity, the first issue we need to tackle is having a sufficient patient base. Currently, access to significant patient flow is limited by various factors. The most obvious issue is that the after-effect of the pandemic has destroyed many former patients' normal oral health protocols, and they are slow to return to their normal routine behaviours. Additionally, because of pandemic closures, the rising cost of living has a negative connotation for routine procedures such that they are viewed as discretionary instead of as necessary health protocols. There are fewer opportunities to attract new patients given the decrease in the patient population available which is also affected by fewer new immigrants settling in our province. As well, an abundance of practitioners from other jurisdictions are being licensed in Ontario and are opening practices which results in more competition for the same number of patients.

Practice Performance

After considering issues related to the patient base, the practice's performance needs analysis. If the premise of the necessity to increase practice performance is internalized, the next obvious question is how do I effect the necessary enhancements?

As with most operating issues within the practice, it makes sense to begin with a team meeting with all staff and associates to outline the problem. Demonstrating the increased cost associated with seeing the same number of patients as pre-COVID-19 days and charging the same fees inevitably will result in loss of practice income. The objective of this meeting is to have everyone concerned buy-in to practice enhancement or protocols as you assure them that these enhancements benefit the entire team.

Taking Remedial Action

Yet another issue for consideration is to explore different aspects of the practice and seek improvements in providing the service. Looking at protocols and services with a new eye provides opportunity for change and this new viewpoint of operations could benefit the bottom line. Moreover, the owner/operator's introspection coupled with the team's input has the potential to improve the delivery of some clinical dentistry. Oftentimes, the assistance of a third party offers an objective viewpoint.

Administrative Department

After examining the need to attract patients, practice performance, and possible remedial actions by careful self-evaluation of existing protocols inside the clinical area, we need to look at the administrative team.

Administrative: The administrative team is tasked with writing clear definitions of job descriptions that highlight responsibilities and accountabilities. Among their duties are implementing chart audits, scheduling daily huddles, and monthly team departmental meetings. Implementing contracts to ensure compliance from team members is effective for transparency of job responsibilities and accountabilities. Another task is the office responsibility for offering sick days, vacation, and absenteeism policies. Finally, they implement new patient referral and retention programs.

> An important task of the clinical and hygiene departments is personalizing patient experiences.

Financial administrative duties include explaining financial arrangements, account receivables, and implementing and tracking metrics.

Communication with patients: The administrative team ensures consistency and flow of patients into the office with congruent and subtle reminders. When patients book their next appointment, the team offers practice hours which align with patients' schedules. They also need to show consistency in the cancellation policy without billing patients.

Coaching and mentoring: An effective technique to gain familiarity with daily situations in the practice is to introduce role-playing scenarios. Perhaps a knowledgeable third party who is successful in other administrative positions or a knowledgeable consultant could participate in the role-play. Another exercise to improve communication skills is to help team members develop a friendly and professional tone when speaking with a patient on the telephone or in-person. It is also important to motivate and educate team members for a happier and more productive environment. A coach or mentor encourages team members and demonstrates how to deliver optimal patient service.

Training: After coaching and mentoring, generally training is available for identified areas of weakness; for example, offering the new role of patient coordinator.

Evaluation: Evaluating team members in their respective roles is important. Should team members show skills in other areas, assigning them to more appropriate positions after training is wise.

Clinical And Hygiene Department

An important task of the clinical and hygiene departments is personalizing patient experiences. As an oral health practitioner, pointing out the general health value of the service the patient will receive creates a culture of promoting general good health. Showing empathy helps build patient loyalty and an explanation of the value of the procedures overcomes objections to a slight increase in the fee.

Re-care Department

Instead of trivializing the next re-care appointment by saying "just rebook for the next cleaning" sometimes heard when patients finalize payment and rebooking, focus on the positive aspects of their dental care which contribute to the consistency of the benefits of good oral health care.

By implementing some of these practice enhancements, clinical professionals improve patients' oral health in the long term and create a positive attitude toward receiving dental care despite slightly more costly procedures rather than having to deal with preventable pathology. ∎

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Ron Weintraub is a founding partner with the Bayview Village & Downtown Dental Associates and brings over thirty-five years of knowledge and experience in the practice of general dentistry to The Professional Advisory. Large companies such as Patterson Dental, Ash Temple Ltd, Henry Schein Arcona, & the former Canadian Dental Co. have benefited from his insight. As owner of Innovative Practice Solutions, Ron advises dentists on practice enhancement, practice purchases, sales, location evaluations, associate buy-ins, and business mergers. Dr. Weintraub can be contacted at 416-473-9358 or drronips@rogers.com.

COVID-19's Subtle and Pervasive Impact on Dentists

David Chong Yen
CPA, CA, CFP

It is almost two years since the pandemic started.

How Did Dentists Fare?

The pandemic has had an unequal impact on society. Dentists have fared well in comparison to many in our society. 85% of our dental clients' billings from dentistry are higher than they were pre-COVID-19. This is partially offset by reduced hygiene production due to fallow time constraints and staff shortages. After collecting the Canada Emergency Wage Subsidy (CEWS) and other government subsidies, 90% of our dental clients generated more profit and cash flow than pre-COVID-19.

What Impact Did COVID-19 have on Dentists?

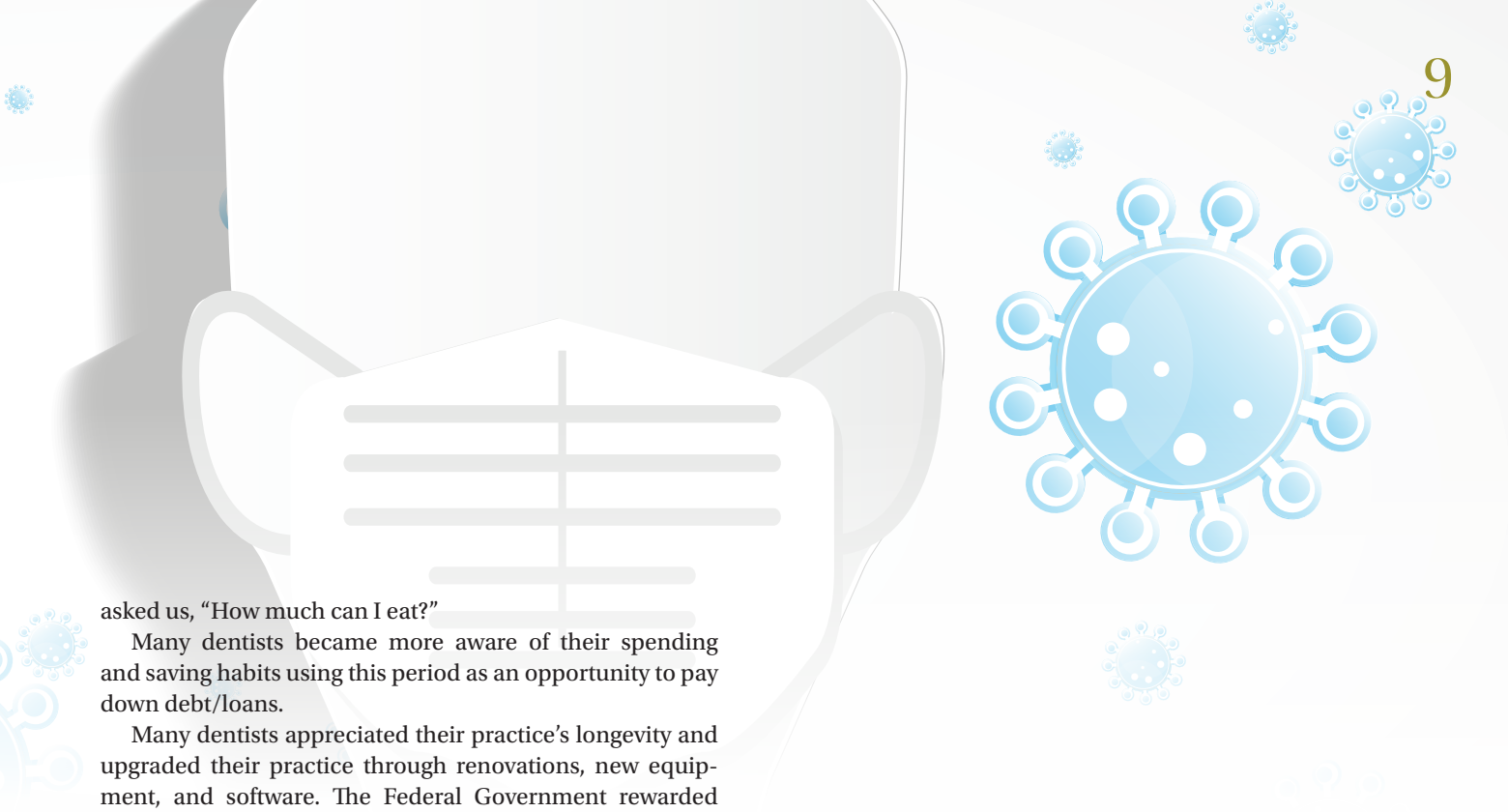
Many dentists were not treated well by their landlords during Covid. This led to more dentists looking to buy a dental building to secure their future and preserve or enhance their dental practice's value. Building ownership avoids the consequences of landlords imposing a demolition or relocation clause. These clauses negatively affect a practice's value as the building could be demolished or force a practice to be relocated without much notice.

Dental associates were encouraged to buy their own practices due to the insecurity which COVID-19 had on their livelihood. In essence, some dental associates decided to buy themselves a job.

COVID-19 emphasized mortality. Some dentists went to their lawyer sooner, to prepare double wills to save probate fees, in the event of their death. Other dentists decided to pass on some of their wealth to their children while they are alive. This took the form of lending where loan proceeds were often used by children to buy a home. Because the loan was documented, this loan serves to protect the money if the child were to be divorced. In other cases, cash gifts were given to children 18 and older. The children invested the money and had the investment income taxed in their hands at a lower tax rate, thereby saving the family taxes.

COVID-19 taught many to appreciate their team. In many cases, services were restricted as team members were not available to do the work. Indeed, pre-COVID-19, dentists viewed salaries as an expense/cost. The pandemic taught dentists and others to view salaries as an asset, a goodwill generator.

COVID-19 extracted its pain and left in its wake a greater appreciation for life. Some dentists started to focus on loving themselves and investing in their health. This resulted in some dentists deciding to sell their practice. One client



asked us, "How much can I eat?"

Many dentists became more aware of their spending and saving habits using this period as an opportunity to pay down debt/loans.

Many dentists appreciated their practice's longevity and upgraded their practice through renovations, new equipment, and software. The Federal Government rewarded them by permitting 100% tax deduction with respect to most capital purchases in the year of purchase. Previously, the tax deduction for such expenses had to be spread over several years. This fast write-off will be available until the end of 2023. Where possible, purchase these assets before your year-end to get the write-off in the current year.

When their practice value dipped, some dentists used this circumstance to their tax advantage. They added family members (spouse, parents, and children) as equity shareholders to their professional corporation, thereby multiplying the Lifetime Capital Gains Exemption (LCGE) of $892,218 in 2021 to avoid taxes when they sell their practice in the future. Everyone is entitled to the LCGE which could result in tax savings of about $230,000, assuming 2021 tax rates. The dip in practice value facilitated more of the practice's subsequent rise in value to be tax sheltered since family members can only benefit from any rise in value in the practice after they become equity shareholders.

> "Dentists would be well advised not to squander this opportunity and use it to pay down debt and/or invest in their practice.

How do Dentists Move Forward?

We do not know when COVID-19 will end. However, we do know that dentists are in a fortunate position to survive and thrive during this pandemic. Dentists would be well advised not to squander this opportunity and use it to pay down debt and/or invest in their practice. ∎

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What to Expect When Selling your Practice

Colin Ross

Selling your dental practice may be one of the most important decisions of your life. Not only is the sale a significant financial transaction, but it is also a highly emotional decision. Depending on your preparation, the process can be an emotional rollercoaster and can affect the total value of your practice and possibly, the outcome of your sale.

From start to finish, the sales process is a stressful event and despite most sales concluding successfully, the actual process can either be rewarding or challenging. Although there are some events that aren't in your control, the better you "physically" and emotionally prepare, the better the outcome.

The physical preparation of your practice for sale should be an ongoing event, where you make business decisions designed to make your practice more attractive to a potential purchaser. We think that this preparation process should start well in advance of the actual date of the sale and can really begin with vigor a couple of years in advance.

Prepare the items directly related to the operation and structure of your practice. It may be your physical plant, the condition of your equipment, your lease, patients, staff, contracts, etc. Further, the preparation of your practice also includes ensuring that production and collections are optimized.

This advance preparation should be a continuous process. Remember that your practice must be attractive from the perspective of a purchaser, and what is important to them. The practice should be presented in its best light and must be able to answer every question from purchasers during due diligence.

Once you feel that your practice is prepared to sell, you need to ask yourself, are you? The decision to sell, and the sales process is typically stressful and full of emotion. Most dentists can deal with high stress situations, make quick independent decisions, and control outcomes. However, sometimes these traits that make a successful dentist, may create frustration and stress in a deal process.

First of all, the sale is an unfamiliar process, that in some cases may only happen once in a career. The process involves intense negotiations, a team of advisers with collective input, and the process is essentially out of the dentist's direct control. Also, as there are complex requirements legally and financially, the timing is usually beyond what one hopes. If that isn't enough, the deep dive that purchasers take into the practice is like an invasion of privacy, as

> “Despite the need for the agreement to be perfect, sometimes a simple and direct conversation with the purchaser can iron out any possible roadblocks.

they will scrutinize all elements of the practice.

The change in mindset required is to understand that once one has accepted an offer, hopefully from a well-chosen candidate, the dentist must be prepared emotionally to accept the complexity of the sale process. While remaining strong and in charge, there must be flexibility in negotiating with the purchaser, a focus on the result, and reliability on the team of advisers to ensure an excellent outcome.

Once an offer has been accepted, the sales process begins. The purchaser will start the due diligence process and their bank financing application. Essentially, due diligence is a combination of learning about the practice, validating data and numbers that were presented, and investigating inconsistencies, fraud, or lack of compliance. In due diligence, the amount of information to be gathered is sometimes overwhelming. The information includes detailed practice reports, premises lease, renewals, HARP X-ray tests, Ministry-stamped X-ray approvals, IPAC Compliance, lists of expenses, bank statements, relevant contracts including associateship and staff contracts, breakdown of practice expenses, review of procedures and actual treatments, a physical chart count, etc. The due diligence process feels very invasive as the purchaser and their advisers need to dig deep into the practice. This deep dive can make sellers nervous, and sometimes feels like an invasion of privacy. Despite the feeling that the purchaser is looking for flaws or faults in the practice or the data presented, it isn’t personal and is a necessary process. Although there is a tendency to push back on providing this data, it is always our recommendation to comply with all (reasonable) due diligence requests.

The other major item which must be prepared is the agreement that is prepared by the purchaser’s lawyer. When the purchaser submits the agreement, it is in draft format and is a work in progress document. Typically, the agreement goes back and forth several times, as the lawyers will adjust wording based on their experience and their client’s expectations. In this process, one must rely on the lawyer to protect his/her client’s interest and ensure that the client is well-represented. Normally, in the dental industry, the lawyers are able to work out a deal structure, but sometimes, there needs to be flexibility to make progress. While the lawyer is the most important person in this part of the deal process, the dentist should also be prepared to be part of the negotiations and solution, and for sure, don’t take the words personally. Sometimes, when reading a draft agreement, it is easy to misinterpret the purchasers’ intentions, and bad feelings or mistrust can occur. Don’t forget that the agreement was drafted by the purchaser’s lawyer who was only representing the purchaser. While it is up to the seller’s lawyer to defend the seller’s position, it is sometimes very helpful for the seller to intervene directly with the purchaser. More often than not, despite the need for the agreement to be perfect, sometimes a simple and direct conversation with the purchaser can iron out any possible roadblocks.

In summary, dentists can influence the outcome of a sale, and the satisfaction level during the sales process. Most of the stress can be eliminated if the practice has been properly prepared in advance of the sale. The second part of eliminating deal stress, is to choose the right buyer that will fit into the seller’s vision. The last part of eliminating stress is to understand that the process will likely be frustrating, but that dentists are prepared to make balanced decisions that result in a successful sale. ∎

Please send comments to colin.ross@ppsales.com

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Legal Checklist to Purchase a Dental Practice

David E. Rosenthal
BA., LL.B.

When purchasing a dental practice, there are many legal issues to consider. Ideally, these matters should be dealt with early in the purchase process. This will enable you, the purchaser, to make informed decisions about the nature of the purchase transaction and help avoid costly problems later. Outlined below is a checklist of some of the legal matters to consider when purchasing a dental practice.

1. Review the appraisal of the vendor's practice with your own professional advisors carefully.

2. Conduct your own due diligence including a detailed patient chart audit. This is critical. When a dental practice is valued, typically the tangible hard assets comprise only about 20 per cent of the total practice value while the goodwill is valued at approximately 80 per cent of the total practice value. Goodwill includes the patient lists, custody and control of all patient records and files (including patient billing records and treatment plans), patient charts, X-rays and models, and use of any dental practice names. Given the value of goodwill, it is imperative the purchaser completes a detailed patient chart audit and satisfies himself or herself of the number and quality of the active patient charts and lists.

3. Determine what you are buying – shares or assets.

4. Understand the allocation of purchase price to different asset classes if purchasing assets and the tax effect of such allocation to the purchaser.

5. Determine the taxes payable by purchaser on various asset classes if purchasing assets.
6. Use a dentistry professional corporation as the purchaser.

7. Add family members as non-voting shareholders of the purchaser corporation.
8. Review the vendor's cost-share agreement or partnership agreement, if applicable, and determine if any changes are required as a condition to the purchase.

9. Review the vendor's existing arrangements with the current associates working at the practice, including:

   a) why is the existing associate not purchasing the dental practice?
   b) if proper written agreements exist with the associates? are associates bound by non-solicitation and non-competition covenants?
   c) can the associate agreements be transferred and assigned to the purchaser?
   d) are changes required to associate agreements as a condition to purchase?

> “Conduct your own due diligence including a detailed patient chart audit. This is critical.

10. Carefully review the vendor’s premises lease to determine:

a) that the term of lease is at least 10 years, including renewal options.
b) whether rent is to be fair market rent to be agreed for renewal options, or failing agreement determined by arbitration.
c) whether ‘danger’ clauses exist, including:

- **relocation** – landlord’s right to relocate the practice within the building or plaza.
- **demolition** – landlord’s right to terminate the lease early if building to be demolished or substantially renovated.
- **termination** – landlord’s right to terminate the lease when the vendor sells the practice and requests landlord consent to transfer lease to a purchaser.

d) whether changes are required to the premises lease as a condition to purchase.

11. Review the vendor equipment leases and other material agreements that the purchaser may be required to take over on purchase.

12. Carefully review all staff arrangements the vendor has, including:

a) whether proper written agreements exist for all staff such as dental hygienists, chairside assistants and others working at the practice
b) whether notice to terminate an employee is limited to Employment Standards Act (Ontario) minimums or does common law extended notice periods apply.

13. Determine if the purchaser will retain all staff after closing and on what terms:

a) Understand purchaser legal obligations regarding staff going forward.
b) Requirements regarding terminations costs. Will the vendor pay all or a portion of any termination costs of staff for several months after the closing date? The typical arrangement is a 50/50 sharing of staff terminations by the vendor and purchaser for the first three months from the purchase.
c) Implement new proper written agreements with all staff immediately after closing if the vendor only had verbal arrangements with the staff.

14. Ensure the vendor agrees not to solicit patients after closing and not to compete with the purchaser within a reasonable geographic distance and for a reasonable amount of time after closing.

15. To assist in transition of patients to the purchaser, retain the vendor as an associate after closing with a proper written associate agreement.

16. Understand your rights and obligations (and the vendor rights and obligations) in the definitive legal purchase and sale agreement.

17. Hire industry recognized professional advisors who focus on advising dentists in purchasing dental practices. ∎

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Live Off Your Dividends – Never Eat into Your Capital

Mark McNulty
BA, CIM, CFP

The following is a transcript from our recent webinar, "Live Off Your Dividends". To request the recorded webinar and sign up for our monthly videos please email info@mcnultygroup.ca

Mark McNulty: Thank you for coming tonight. We are going to talk about living off your dividends - how to finance your lifestyle just from the dividends of your portfolio without ever eating into the capital. To me, that's the highest level of financial security that you can make. Living off just the income that your portfolio is generating, never eating into the hard-earned capital.

Rob, why don't you introduce yourself and talk about what you're going to be covering today?

Robert Mark: Hi. My name's Rob Mark. I head up all portfolio management at McNulty Group. Like Mark, I've been doing this for almost 25 years now. First, as a research analyst and then as a portfolio manager. I cut my teeth at a Montreal-based firm called MacDougal, MacDougal and MacTier or the 3Macs. 3Macs is the oldest brokerage firm in Canada and pre-dated Confederation. There, we specialized in managing money for high-net-worth families, multi-generational and so that was really where the idea of investing for the long-term in high quality dividend growing companies was instilled in me. And to that end, I started a fund that was based off dividend growth back in 2014. And that's still the basis of what I do here at McNulty Group and how we manage the vast majority of portfolios for the families that we work with.

Mark McNulty: Rob's responsible for making the money and Michael is responsible for making sure that we give as little as possible to Revenue Canada. Mike, you want to talk a little bit about yourself and a little bit about what you're going to be sharing with the audience tonight.

Michael Wilson: I'm Mike Wilson. I've been managing dentists' money for around a decade now and prior to that, I was a chartered accountant with Ernst and Young and Mark is right - my job is to make sure we keep as much of the money as possible because you can't spend what you can't keep. I think the impact income tax has on your ability to live off your dividends is often under-appreciated.

Mark McNulty: So, Mike, you're going to talk today to the audience a little bit about how to get money tax efficiently out of their corporations, out of their RSPs, etc.

So, Rob generates the income with his dividend growers, which he's going to cover, and Michael makes sure that we pay as little tax as possible as you take money out of your accounts to finance your lifestyle.

Rob, maybe you can talk about the strategy in specific terms so everybody can start understanding how you run things.

Robert Mark: Thanks, Mark. I've basically been training and implementing this type of strategy my entire career. And although today we're really talking about dividends and the power of dividend growth for retirement, ultimately dividends are just a feature of our investment strategy. Our investment strategy is all about investing in high quality, best in breed, world leading businesses for the long-term. The fact of the matter is one of the key characteristics of these types of businesses is they tend to pay dividends and they tend to pay dividends that grow. And so not only are you participating in the growth and success of these businesses, we're able to fund lifestyle on top of them through the dividend payouts that we receive.

If we think of our stocks in the business we own as patients, you know, using that metaphor, the dividend and the dividend growth is a temperature check, you know, their ability to pay the current dividend is saying how healthy the company is today in the here and now. And if that dividend is growing, if the board of directors is comfortable increasing it, it means the future health of that patient is not only good but going to improve. And so that's how we participate both from a capital appreciation standpoint and from an income standpoint.

Mark McNulty: Okay, so Rob, walk us through how you choose the best of the best.

Robert Mark: Yeah, so this is the process and what I really institutionalized in my time at 3Macs. It's four key principles that we use to find best in class companies. We call it "The Four M's". And that refers to, as you can see here, macro, management, margin and moat. And I'll go pretty quickly here, because there's a lot going on, but macros, we're looking for broad investment themes. Management is incredibly important. It's something that I frankly think only people in my position in our industry can do. This is one thing that the DIY's can't do. You just don't have the access to management that I do. You don't have 20 years' experience of vetting CEOs and finding which ones are good and bad.

Margin is a bit of a catch all that's on financials. We want to own companies that are leaders on most financial metrics. And then the last one is moat. This is a Warren Buffet truism that any investor worth his salt should know backwards and forwards. And it's just the analogy of the moat around the castle. You know, if we find companies that have that have macro factors at their back, amazing management teams and phenomenal margins and financial results, people are going to want to eat their lunch. And so you need protection, that company - that castle needs a protection around it and we'll give a few examples of what an economic moat looks like.

Mark McNulty: The benefit of this strategy is that we know where all our clients' money to finance their retirement is coming from on January 1 regardless of what happens in the stock market. We can sustain a crash. The cash flow that's being generated through Rob's strategy and the amount of money that Mike's keeping is our bread and butter.

We're not picking which stocks that we're going to have to sell next year to fund retirement, we're being paid dividends. I'd encourage you once again to reach out to us we. We're all happy to talk on any topics you'd like. We hope to hear from you soon thanks very much everybody for attending tonight thank you everyone. ∎

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Feedback can be sent to info@mcnultygroup.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.mcnultygroup.ca

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