

Why Do I Need Buyer Representation?

Two fairly short stories on buyers that I've helped during the past several months.

The first was a quick project on my end because the buyer had already made up their mind when they came to me that the deal they were offered was the greatest deal around; therefore no need for any due diligence, price assessment or advice on the structure... alright then.

This was a practice valued at \$2 million and the buyer was offered a structure whereby they would purchase 50% of the seller's STOCK for \$1 million. That's right, a STOCK sale: the WORST situation for a buyer unless certain concessions are provided by the seller OR it's combined with other strategies. This wasn't. The proposed compensation arrangements of the partners (including the profit sharing allocation) were also favoring the seller even though they were selling HALF the practice AND the shareholder agreements were written so that the seller retained TOTAL control over any decision. Still, this buyer thought they were getting a great deal and was willing to give this seller and their advisors the benefit of the doubt (by advisors I'm referring to the seller's broker transition consultant company).

Long story short, I'm now assisting this buyer who is looking at another practice where they will own 100%. It seems that after the deal was signed and the buyer started working in the practice, ALL the skeletons started coming out of the closet. So this buyer was BADLY burned going in, and paid several thousand dollars of professional fees to get in and get out. It's a sad story that will hopefully have a happy ending with this new practice.

The second story is a deal I'm currently involved with on behalf of the buyer and involves two issues at the moment, the actual deal itself and the future proforma prepared by the agent. The buyer called me to explain that they were being offered the opportunity to partner up with an existing owner where they would each be 50/50 partners; they have already signed the Letter of Intent (LOI). They explained that they were asked to pay for half of the practice at first for \$400,000 (supposedly the full value is \$800,000). The practice does a little less than \$1,200,000. When the seller is ready to retire in five years or so, they'll buy out the other half for 50% of 75% of the prior year revenues. All of this seems ok so far and at this point I haven't seen any data or the LOI. The first item I received and looked at was the proforma and I compared it to the prior three years of tax returns and profit and loss statements of the seller. I started to notice that there were some expense categories on the tax returns NOT listed on the proforma and other expenses listed on the proforma that were LOWER than the historical expenses. Neither were seller discretionary expenses or expenses that any buyer could easily reduce, they were real OH expenses of the practice. They totaled about 5% of the revenue or \$60,000 of annual expense MISSING from the proforma. A \$60,000 annual

reduction in OH could easily increase an estimated value by \$200,000-\$300,000; those are significant numbers. Hopefully it was an oversight.

The next thing I looked at is the LOI (prepared by the brokering company of the seller). It said the buyer will pay \$800k (not \$400k) for 50% of the practice and in five years they will buy the other 50% for a price of 50% of 75% of the prior year collections. WHOA! STOP! Do you know what you signed? I bring this to the buyer's attention and they tell me that's not what was "told" to them by the seller and the agent, "that's NOT how the deal is suppose to work." They tell me that the two of them are supposed to form another entity, which they will own equally to purchase the seller's exiting practice. I inform the buyer that the LOI that he AND the seller signed says that the BUYER is the only buyer who agrees to pay FULL value for only half the practice. Now I like to give people the benefit of the doubt and I'm sure this was simply another oversight so we've asked the seller/agent to revise the LOI to correctly state what was presented verbally during a couple of meetings. That was a week ago and we're still waiting for the revised LOI.

Stay tuned...

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