

What Makes Your Practice Valuable?

By Martin and Risë Mattler

You've spent many years practicing dentistry and have built a practice and reputation to be proud of. When the time comes to phase out of your practice, you are entitled to achieve the maximum value possible.

As a rule of thumb, most general dentistry practices have a value of between 50 and 75 percent of their last year's gross income. However, this is only part of the story. A number of other factors must be considered before a fair market value can be assigned to your practice.

The following six practice characteristics make it valuable to a prospective new owner:

1. Peak production and profits:

Ideally, your general dentistry practice should show steadily increasing gross income over the most recent three-year period, netting 40 percent or more on an annual basis. Net earnings are derived by restructuring practice expenses to reflect the true profit and cash flow of the practice. In calculating true profit, non-cash deductions (for example, depreciation and amortization) and personal expenses not necessary to run the practice (for example, the owner's medical insurance or car lease payments) are added back to profits.

2. Solid patient base:

The size of the patient base has a direct impact on its value. The number of active patients (that is, individual patients treated within the last two years) and new patients are important barometers of practice vitality and growth. Maintaining a busy schedule is also important to keeping your practice vital. Practices that show the dentist and hygienist booked solid at least a week in advance are most attractive.

Those practices with a large active patient base are usually considered more opportunistic than those with a smaller number of active patients. That's because they provide greater potential to build your dental production and income.

The production mix of your practice is also key, as it gives a prospective purchaser an idea of the type of services you are providing as well as documenting those procedures currently being referred to area specialists.

3. Fee schedule:

While many dentists are comfortable working with and accepting reduced fee insurance plans, practices that are 100 percent fee for service (i.e., expect to receive their full fee without dental plan reduction) tend to command a premium in the market.

Also, the fee schedule of the practice can affect practice value. Practices that participate in capitation plans and other plans which require the owner to charge very low fees for procedures tend to attract dentists who are looking for bargain-priced practices. Some of these dentists are businessmen who plan to have associates perform all the dentistry, which has the effect of increasing practice overhead and reducing the profits and subsequent value of the practice for a future owner.

4. Area demographics:

Practice location is a key variable to the success of many dental practices. We have found that practices located in desirable urban and suburban locations are in greater demand than those in rural areas. Many of our buying clients prefer to practice within 50 miles of a major metropolitan area, making practices in these areas more valuable. Regardless of whether your location is urban, suburban or rural, the vitality of the area and population growth trends will have an impact on the value of your practice.

5. Functional facility:

The general appearance of your practice will either add to or detract from its value. We are often asked whether to invest in a practice in preparation for selling it. Generally, we don't recommend making any substantial leasehold improvements or buying new equipment or fixtures, strictly to increase practice value. That's because these assets are likely to be highly depreciated by the purchasing dentist. However, maintaining your physical plant and equipment in good order is expected. If the office appears tired and worn, some minor cosmetic improvements like painting and new carpeting can go a long way towards making a better impression on prospective new owners.

6. Staff continuation:

Employees who know your patients and perform daily duties competently are valuable to your practice. These staff people will also be an important asset when it's time to transfer your practice to another dentist, because they can make it easier for the new owner and existing patients to get to know each other. Cross training employees to handle more than one office function is a good way to help assure the continuity of the practice. If your spouse works with you and is the only employee, you should consider hiring and training a new employee six months to a year before planning a practice transition.

In the end, the best way to realize the true value of your practice is to be able to clearly document its positive features and then find a prospective purchaser who appreciates these attributes and is willing to pay a fair price for them. By demonstrating exactly what you are offering, why it is valuable and how your practice can be transferred to a new dentist, you are well positioned to achieve the optimal result.

Countrywide Practice Brokerage is endorsed by the Ninth District Dental Society and by the Queens County Dental Society. Martin and Risë Mattler can be reached at 800-222-7848 or on the web at www.ddsbrokers.com