

# A Guide to Practice Valuations





## TOP 10 REASONS TO HAVE A PRACTICE VALUATION

- 1 SELLING OR BUYING A PRACTICE**  
A third-party valuation helps both sellers and buyers secure a fair price.
- 2 MERGING OR ACQUIRING ANOTHER PRACTICE**  
Closely examining the assets and operations of another practice to determine its fair value ensures a financially sound merger or acquisition.
- 3 DSO PARTNERSHIP OR ACQUISITION OFFER EVALUATION**  
Understanding your Total Enterprise Value (TEV) as well as a full view of your potential in the competitive marketplace is critical when evaluating any offer, ensuring you negotiate from an informed position.
- 4 ESTATE PLANNING**  
As mentioned before, the dental practice is likely the most valuable asset a practitioner will ever own. Not knowing its value leaves a significant hole in estate and financial planning.
- 5 DEATH AND DISABILITY PLANNING**  
A full valuation report helps owners determine the worth of a practice and set up a proper transition plan in the event of an untimely illness or death.
- 6 PARTNERSHIP BUY-IN OR BUY-OUT**  
A valuation sets the table for a partnership buy-in or buy-out, as it provides a clear picture of the practice's financial and operational health.
- 7 ADDING AN ASSOCIATE**  
A detailed valuation can identify whether there is sufficient patient flow and financial capacity to support another practitioner.
- 8 SECURING FINANCING**  
A comprehensive valuation provides lenders with an accurate assessment of a business so they can make more informed lending decisions.
- 9 BUSINESS AND GROWTH PLANNING**  
A formal valuation can reveal specific strategies to improve profitability, enhance cash flow, and maximize future sale price.
- 10 TRANSITION PLANNING**  
Developing a plan of action 5 to 10 years before you plan to retire or sell helps you make proactive decisions.





# About Henry Schein Practice Transitions

Henry Schein Dental Practice Transitions is one of the nation's largest practice transition companies and is a subsidiary of Henry Schein, Inc., a Fortune 500® Company and a member of the S&P 500® and the Nasdaq 100® indexes. As the largest provider of health care products and services to office-based practitioners, Henry Schein, Inc. is committed to its customers by partnering with them in business and providing value-added services to help support their practice goals and ensure their success.

Our experience has shown that practice valuations cannot and should not be based on cookie-cutter formulas that fail to consider unique variables that can significantly increase (or decrease) overall value. Also, practitioners should be wary of "free" practice valuations that only look at the surface of the practice and may or may not be accurate. In the end, these "free" valuations can cost you tens of thousands of dollars or your ability to sell your practice at all.

In this booklet, we've highlighted some of the most important elements of accurate practice valuations that are crucial considerations for anyone buying or selling a dental practice. For sellers, accurate practice valuations are the first step in ensuring that years of hard work in building your practice are rewarded fairly.

As you read further, we hope our professional insights on practice valuations will save you time, effort, and money, just as they have for our clients nationwide.

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# “What’s My Practice Really Worth?”

Certain factors will either raise or lower the value of a dental practice. Some of these factors are within your control and others are intractable. Location, for example, is a key determinant that cannot be changed, but investment in technology and systems can be changed, which may increase overall value. Running an efficient practice and maintaining good profit margins also enhance a practice’s value.

At Henry Schein Dental Practice Transitions, we utilize three different valuation methods to reach an accurate assessment of your practice’s market value. These methods are those that are used by The National Association of Certified Valuation Analysts.

The same elements that affect the value of a general practice also affect specialty practices. However, specialty

practices must also be analyzed with regard to specific conditions unique to each specialty. All evaluations include a review of regional demographics, size and makeup of the practice by way of patient, procedure, and payor mix, facility, equipment and technology, overall location as well as staffing and systems. For specialty practices, there is a further analysis of the size and age of the practice’s referral or marketing base, the use of current or new techniques and equipment/technology, the perceived value of the specialty in the market area in addition to a look at how many like specialty practices are in the area.

To answer the question, “What’s my practice really worth?” takes real analysis. An accurate valuation depends on that.







# Why Do I Need a Practice Valuation?

Practice owners should have an up-to-date Practice Valuation (professional appraisal) completed or updated every 12 months.

Besides helping you set a listing price when you are ready to sell your practice, Practice Valuations are vital to:

- Complete a Letter of Instructions (LOI) Package
- Apply for Financing
- Form Merger/Partnership Agreements
- Plan for a Future Transition of Ownership
- Review a Third-Party (Private or DSO) Offer to Purchase

A full valuation for the noted purposes above, should consider both tangible and intangible assets of the practice (e.g., equipment and the value of the "goodwill"), rather than a percentage of gross revenue. It should also be provided in a formal, comprehensively written document that is dated and signed by the appraiser. This analysis is a more scientific and accurate calculation of the true value of the practice, which is then detailed in the subsequent report documentation.

Remember, your practice is your (or one of your) most important assets. Doesn't it make sense for you to know what it's worth?

# Standard of Value

Oftentimes valuers refer to their practice value as being that of “Fair Transactional Market Value,” which is defined as the agreed upon price at which property would exchange between a buyer and seller, each behaving in their own best interest. However, since most valuations are done for specific transitional purposes, the valuation definition used is Transactional Market Value.

Transactional Market Value provides a snapshot based on financial facts, market conditions, and a host of other intrinsic practice factors that weigh into the ultimate equation of true practice value. After formal calculations are made, most general practices are typically valued between 60 and 90% of the prior year’s gross revenue, and Specialty practices generally range in value between 50 and 75%. It’s important to note that local market conditions do have a significant impact on valuation, so a practice may sell for much more or much less than the usual ranges, depending on these factors.

## What Affects Practice Value?

Dental practice values consist of two asset classes – tangible assets and intangible assets. Tangible assets include dental equipment, office equipment, technology,

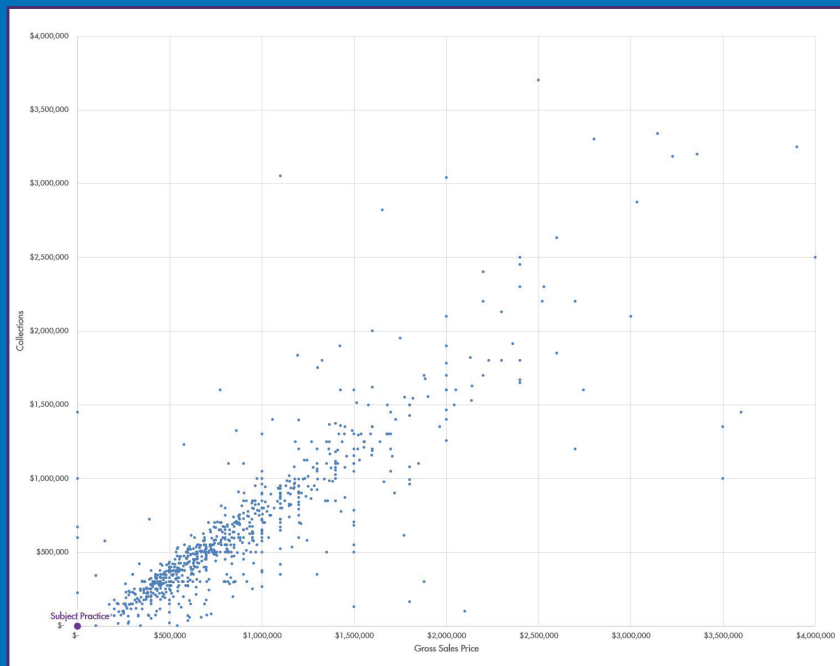
dental supplies, small instruments, and leasehold improvements (in certain instances).

Intangible assets, however, are more difficult to measure, but they are the most crucial determinants in your value equation. Your practice’s goodwill, the value of your patient list, even your phone number are valuable intangible assets that must be considered. In the ultimate analysis of practice value, these assets may make or break your Transactional Market Value.

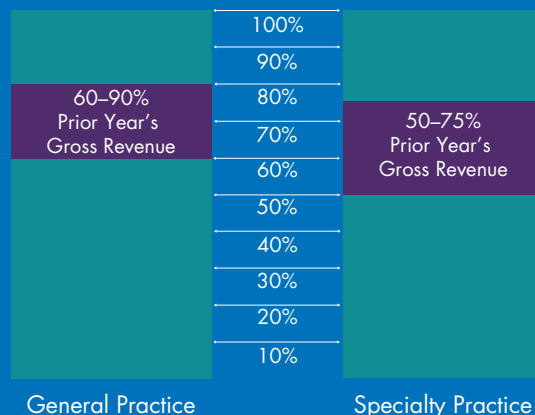
Henry Schein Dental Practice Transitions reviews the financial and related data of well over 500 practices per year and maintains a database of thousands of practice valuations and sales, completed just in the last few years. This database is unmatched, nationally, and allows for the most robust and deepest review of your practice in the marketplace.

Remember not to discount the importance of your patient relationships, client lists, practice reputation, and other factors that are not easily measured. Be certain that these elements are considered when Transactional Market Value is determined so that the hard work of building your practice receives its just dues.

## National Distribution of Practice Valuations and Revenue



### Market Value







# DSO and Corporate Group Practice Valuation Method: EBITDA

DSOs, iDSOs, and other corporate dental acquirers apply a different methodology when valuing practices being considered for acquisition.

This method uses the calculation of a metric known as EBITDA, which stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. This method has become the “valuation standard” for this segment of the dental industry because it has been used in the private equity (PE) world of Wall Street. Since many DSOs have PE firms involved in their operations, this method has been universally adopted, as its keenly focused on the “investor” model of acquisition and return.

If you are considering a sale to a DSO or corporate dental group, the group will almost assuredly establish an offer price based on a multiple of their calculation of your EBITDA. For example, a single-standing general practice may command a TEV of 4 to 7+ times EBITDA. However, as in the case of traditional practice

valuation ratios being higher in certain instances, the EBITDA multiple range can be higher for an exceptional practice.

Multiple practice locations, certain specialty practices, and opportunities to combine several complimentary specialty practices can also command a higher multiple of EBITDA, increasing their calculation of value (often 8 to 12 times EBITDA).

EBITDA valuations sounds fairly simple and can be straightforward, in concept. The mechanics and details of establishing EBITDA and then the subsequent multiple can be quite complicated, also varying from acquisition group to acquisition group. Entering in to this type of analysis without a deeper knowledge base of a host of factors, in addition to understanding the seemingly small adjustments that can yield significant return can be the difference between a great deal, or a true undersell (by you).



# Market Variables and Other Factors

Extending a review of financial statements, management systems, patient base, location, clinical production profile, and clinical equipment, the following factors are crucial to determining market value:

## Area Demographics

The disparity in value between identical practices in different locales can be directly related to supply and demand, as well as the number of willing buyers in the practice's geographic region. Additionally, as new dentists look to purchase their first practices, statistics show that rural areas and small towns are not as desirable, and thus carry lower values. This factor, along with practice profitability, are the primary drivers of a practice's market value!

## Economic Values Within a Practice

### Equipment/Technology

When was the last time you updated your dental equipment? How efficient is your operation? The age and condition of your dental equipment, as well as the presence of current technology, will certainly be a positive in your practice's value. Most young buyers were

trained in state-of-the-art clinics, with all of the clinical technologies available in today's dental market. So, if you are behind the times, your marketable value will be negatively impacted.

### Overhead

Is your operating overhead in line with national range norms? Practices with high overhead will command less market value than those with lower overhead. Simply put, more profitable practices provide better cash flow, which enables a potential purchaser to support an acquisition loan while maintaining a good personal income. With the high cost of dental education, available cash flow becomes an even weightier factor. Profitability yields a higher value and excess overhead is viewed negatively, if not prohibitive to a transaction, in almost in almost every case.

### Staff Expenses

In many well-established practices with experienced staff, salaries are often higher, benefits are good, and the staff overhead ratios may be more than 30 to 35%! While a strong staff is an asset, the expenses associated with it can drive practice value down by inflating practice overhead.



## Overall Patient Base

### *Number of Active Patients*

Because a practice's patient base is a primary driver for its revenue, having more patients often can equal greater potential for production and growth. In contrast, smaller patient bases will require greater marketing efforts to sustain or grow revenues if procedure mix and/or fees do not receive proper attention and focus. For this reason, a practice with less than 600 active patients is usually valued lower than a comparable practice, for example, 1,000 or more active patients.

### *Number of New Patients*

Whether or not any effort was taken to expand new patients per month tells a story about the practice's ability to generate growth. Healthy new patient flow for a stable, mature practice is typically between 15 to 25 patients per month with 24 to 32+ for one growing.

### *Patient Retention*

What is the ratio of hygiene production to total practice production in a general practice? If a practice has a low ratio of hygiene to total production, it may be an excellent opportunity to reactivate patients and increase revenue dramatically if the patient base is substantiated.

## Other Factors

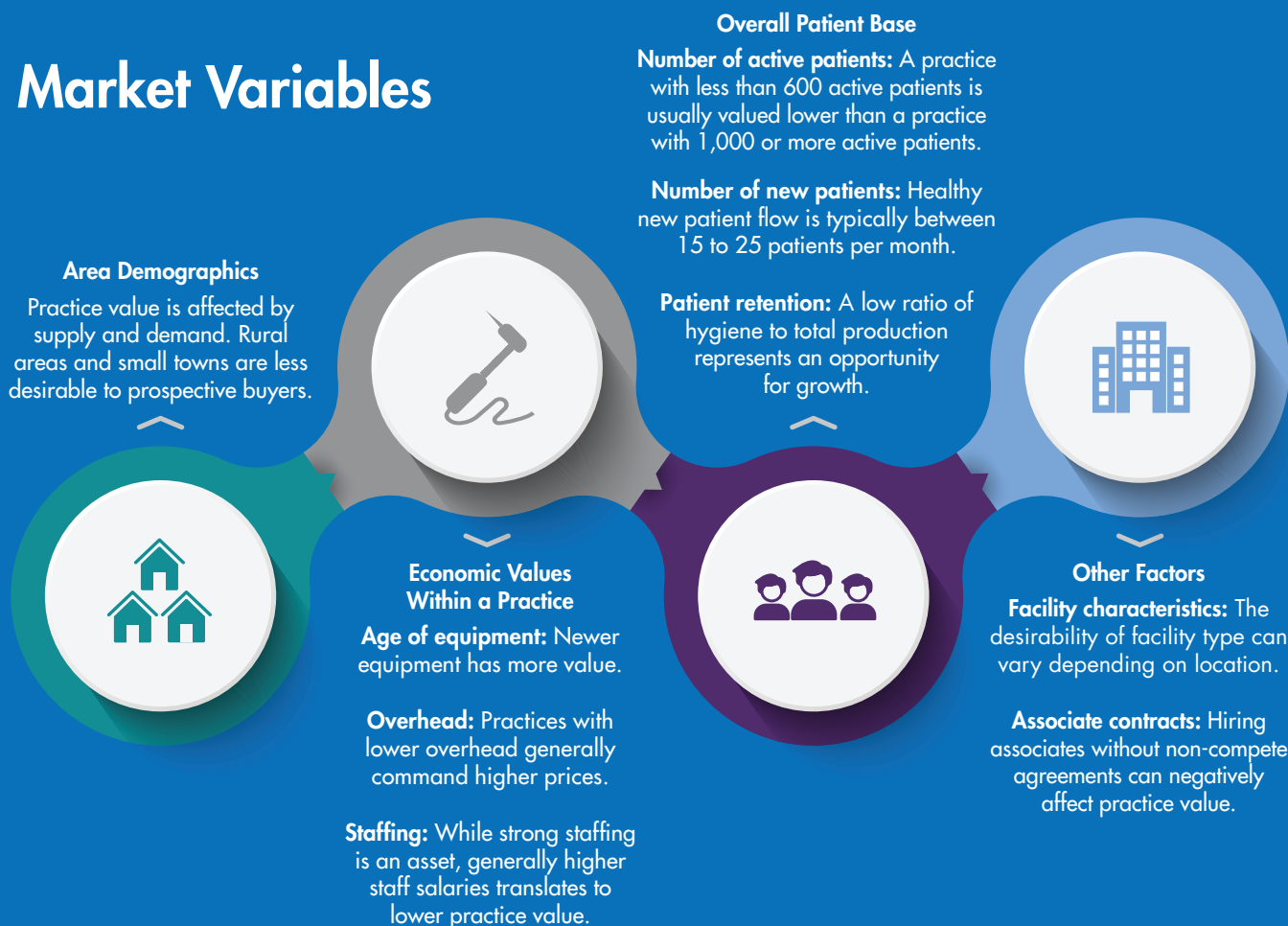
### *Facility Characteristics*

Is the practice situated in a free-standing professional building or is it located in a multiple-use facility with various commercial businesses? Is the practice located in a professional building or is it in a strip mall with high traffic and visibility? Is parking easy and convenient? Or must patients scour the area for on-street parking or pay to park in a garage? Is public transportation available? These factors may be viewed positively or negatively in light of the region, the competition, and what is usual and customary with regard to dental facilities in the area. What is favorable in one area may not be viewed as desirable in another.

### *Contracts for Current and Former Associates*

If you hire associates without contracts, the implication for practice value can be a huge negative. To limit associates without restrictive covenants leaving the practice upon its sale, and taking patients with them, protect your practice value by employing associates with contracts that spell out these issues.

## Market Variables



# Who Should I Hire?

Now that you understand the importance of having a practice valuation, how do you retain a proper professional consultant to do it?

Many transition firms are now offering “free” valuations to get your business. While a free appraisal or one offering an extremely high figure may sound nice, it won’t necessarily help you establish and understand a proper value, optimize your practice, sell and transition, or earn the most from the market.

You should look at obtaining and paying for a practice valuation as an investment, not an expense. A comprehensive valuation of your dental practice is critical in order for you to maintain a true assessment of the current market value of your practice, which is why there are a few factors to consider when selecting a firm:

- **Credentials:**

While the best credentials are for the valuator to have either a Certified Valuation (CVA) or Institute of Business Appraiser (IBA) designation, the most important factor is not the credential, but rather that the valuation is conducted following CVA or IBA methodologies along with demonstrable experience in evaluating practices and the associated data points and sets particular to dentistry.

- **Knowledge of Practice Sales Management:**

The credentials (CVA or IBA) notwithstanding, the firm should be actively involved in the actual brokerage of dental practices. We frequently observe that while companies providing “business appraisals” follow CVA or IBA methodologies, they fail to incorporate the specific dental market nuances that require modification of the market value ratios that apply to dentistry.

- **Experience/Knowledge of the Area:**

Find out how long the firm has been doing practice valuations in the area and how many they have done. Every area is different, and having a representative and team that knows your area is vital to a proper evaluation.

- **Reputation/References:**

Ideally, you should use a referral from someone in the industry whose opinion you value and trust. Short of that, ask for references and speak to the references.

When a dental practice valuation is prepared by Henry Schein Dental Practice Transitions’ team of top Transition Sales Consultants, you know you will get a realistic assessment and one that will be useful when needed, not just what you want to hear.







# The Most Important Factor

The most important factor when obtaining a practice valuation is ensuring the accuracy and thoroughness of the process. It's vital to keep in mind that a wide range of elements affect true market value. Settling for a simple, "off-the-cuff" percentage of last year's gross revenue as your "practice value" is a sure way to shortchange yourself and the hard work that went into building your practice.

It is often said that an accurate dental practice valuation is part science and part art, because there is no single, magic formula for reaching the right conclusion. That's certainly true when it comes to dental practice valuations. That's why it's smart to turn to the most experienced consultants in the dental profession—the experts on the team at Henry Schein Dental Practice Transitions.

Remember, your practice is your (or one of your) most important assets. You should know what it is worth. Use Henry Schein Dental Practice Transitions for your practice valuation. Because how it's done—matters.



To learn more about our Practice Valuation Services and how we can help, call, email or scan the QR code.  
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**We look forward to talking to you!**



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