



Dental Practice Values in 2020-2021

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It is no surprise that Covid-19 has impacted the sale and valuation of dental practices. The question is, by how much and for how long?

During April – September of 2020 most buyers delayed purchasing a dental practice and wanted to see whether the practice recovered from the drop in production caused by Covid-19. At the same time most banks insisted on seeing at least three months of bank statements showing the return to prior collection levels. As of October 2020 many practices have returned to 85% to 100% of prior production levels.

Many dentists are asking “what is my practice worth in these strange times”.

As a Certified Valuation Analyst, I determine the value of a practice by considering three different valuation methods; the market, asset and income approaches. The most known method is the market approach which is based on how area practices sold in the recent past. It is often based on a multiple. As an example; if 3 area practices recently sold for 90% of their gross receipts, some would assume their practice is worth 90% of their gross receipts. However, the multiple approach does not take into consideration whether the practice is growing or declining, whether it has a healthy mix of hygiene and procedures, its overhead percent, and whether the insurance mix is attractive.

The asset approach simply looks at the practices assets minus liabilities. However, the primary value of a dental practice is its intangible asset (its goodwill and revenue stream). The asset approach normally fails to properly consider the value of the intangible assets.

The income approach looks at the current cash flow of the business, the risks associated with the business in question, and the rate of return the buyer would need for the particular practice in question. A Certified Valuation Analyst with Dental practice experience will start the valuation with an analysis of the last 3 to 5 year financials for the practice and its current monthly trends. This analysis will determine the true profitability of the practice. They will then attempt to assess the risks associated with the practice by looking at the patient base, procedure mix, the insurance mix, the area demographics & the need for new equipment or renovations, etc. After looking at the risks the analyst will assign a needed rate of return in order to justify a buyer taking on these risks. By dividing the true profitability by the desired

rate of return one can back into the value of the practice. As an example, a practice with profits of \$100,000 (after a fair value for the dentists time) and a buyer's desired rate of return of 15% would be worth \$667,000 ($100,000 / 15\% = \$667,000$).

Dentists seeking to obtain the maximum value for their practice in 2021 will need to show a return to pre-Covid-19 production levels and should be working to control their overhead (and thereby their profitability). If possible they should also be attempting to lower the risks associated with the practice by ensuring a healthy diversification of insurance carriers and procedures.

The above article is courtesy of Dental Practice Sales, LLC – www.dentalpracticesalesllc.com.

*Please contact jg@dentalpracticesalesllc.com for assistance with your dental practice transition.