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How much is a dental practice worth

Dental practice valuation is the process of determining the fair market value of a dental practice, considering various factors such as location, patient base, equipment, staff, financials, and growth potential. An accurate valuation is crucial when buying or selling a dental practice, as it ensures that both parties receive a fair value for their investment. It also plays a vital role in financial planning, exit strategies, and securing loans. Engaging a dental broker or appraiser with industry experience helps obtain an accurate appraisal, which can be used to negotiate a fair price during a practice sale. Understanding the process of dental practice valuation better prepares dentists for successful practice transitions and maximizes the value of their clinics. We have broken down the complicated process of dental practice valuation into an easy step-by-step guide. Read on to get a clear picture of what informs practice valuation and get hands-on advice for determining practice value. Many Practice owners ask us: "How can I determine the fair market value of my dental practice?" And it's a great question! Why? Because knowing how much your practice is worth will help you make better decisions. You know that saying, "Knowledge is power?" Well, it's true — especially if you want to sell or buy a dental practice. Spare a thought for the dentists who underprice their practice - as a result, they miss out on an excellent opportunity to get top dollar. Or the buyer who thinks they've hit gold by buying a dental practice only to find that it's a costly mistake when they discover they can't make it work financially. Don't be like any of those above: Fortunately, with a bit of planning and preparation, as your advisors, we can help you get the best possible price for your dental practice - so hurry get in touch with an expert right here. To reiterate: ● If you are considering selling your practice, it makes sense to have a valuation to get an idea of the worth of your business. ● Suppose you are thinking about buying another practice. In that case, it makes sense to get a valuation so that you can decide whether or not it will be worth the investment. That said, this article will provide you with information on the following: ● Factors that can affect the worth of a dental practice. ● How to do a dental practice valuation. Let's get started! While the price of a dental practice is a function of several factors, it's essential to understand them to know what you're getting into and make informed decisions. Hint: Nothing beats a tailored selling strategy if you want more money from selling a dental practice. Take, for example, a client who was able to get 2.6X more than the initial asking price he felt was a good deal just after 90-days of listing his practice with us. You can get similar outcomes: get in touch now, and we'll be happy to discuss how we can help. As we delve into the factors affecting practice valuation, it's essential to hear from those who have experienced the process firsthand. Before we move ahead, take a moment to check out these video testimonials from our clients, Dr. Sharon Gorman and Dr. David Graeff, who have experienced the incredible benefits of partnering with Transitions Elite when it comes to practice valuation and selling. Discover why understanding the true value of your practice is crucial and why Transitions Elite is the best choice when looking to sell. "I had previously looked at selling the practice on my own, and I had talked to five different companies about this and had gone through the process individually, and none of it turned out to my satisfaction. After I signed up with Tom, he marketed me to these interested companies. There was competition amongst those interested. It was so relieving at the end of it to know that I got the very best deal possible!" David Graeff, Cedar Rapids, Iowa I knew that I would get the best value for my practice if I had a professional helping me. And it definitely turned out to be true that having Tom in my corner. I have zero doubt that I would not have gotten the value for my practice if I didn't have him on my side as well as the ease of it. It was such an easy transition and he made the entire process very simple. Sharon Gorman - Las Vegas, Nevada Click here for your Practice Value Let's get back to the key factors that affect the worth of your dental practice: Arguably, this is one of the primary things prospective buyers would look at. If your practice is doing well - making a good profit evidenced by cash flow, you can expect to get a significant amount for it when you sell. If buyers discover that a practice is involved in a legal battle, they won't want to touch it with a pole. Those hold enough would like to pay below its value. Dental practices in high-traffic areas and those that serve a large number of patients can command higher prices than those in less populated areas or those with a smaller patient base. The reputation of the dentist and the staff is also essential when determining the value of a dental practice. If people are happy with their service, they'll come back again and refer others as well. The more referrals you have, the better off your business will be. If many other dentists are offering similar services within driving distance, then it's likely that it would cost less than a similar practice with no or few other dentists. Practices that use cutting-edge technology tend to be worth more than those that don't because they can treat more complicated cases and provide better patient care. If key staff members are well-trained and experienced in what they do, this can make them more valuable to buyers. An outdated dental office can have a negative impact on buyers, so it's essential to keep everything up-to-date at all times. While significant renovations might not be necessary, minor updates here and there can help keep your place looking fresh and modern, even if you're not thinking about selling anytime soon. Other factors include: ● The state of the economy - A recession can cause people to cut back on dental care, hurting your practice's worth. ● Specialization (types of services offered) - Some procedures are more profitable than others, so a practice specializing in them would likely command a premium price. ● Age - More often than not, older practices have more value than newer ones because they have more established patient bases and referral networks. ● Debt load - How much debt do you have on this practice? If there's no debt on it, it's worth more than if there was debt on it. ● Other contingencies - Be aware of all the potential contingencies that could affect its worth. For example, existing contracts and terms of your lease: if it is non-transferable to the new owner, it could be a reason the buyer would push for a lower price during negotiations. Takeaway: These factors would be considered by buyers when they want to negotiate prices. We recommend that you fix any ongoing issues you can. If you have any questions or need other assistance, head over here. Quickly, let's address this pertinent question... As a dentist, you are good at what you do - including running your dental practice. But it differs from being qualified to value and sell it for top dollar. Putting it differently - chances are high that you can't accurately determine the fair market value of your practice if you do it yourself. Why? Dental practices are a unique asset class. And the valuation methodologies used for other types of businesses may not apply to dentistry. Here's the thing: Considering the importance of valuation, this is not something you want to gamble on and hope for the best. You don't do that when caring for your patients, so you shouldn't do that when valuing what took you years, lots of sweat, and blood to build. Practice advisors can help with valuation of your dental practice - they will have experience with these types of transactions and know precisely what to look for when conducting an appraisal. dental practice advisors can help with valuation However, it will be good to understand the various methodologies employed in appraising a dental practice. The multiplier approach is a method that's been around for a long time. This valuation method is based on the principle of the "rule of thumb." The rule of thumb is that the gross revenue a practice generates yearly would be multiplied by 1.5 to 3 times. Similarly, a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortization is another approach widely used. In this case, the multiplier is 4x to 15X (might be more) the EBITDA. For those who don't know, EBITDA is calculated by adding back interest, taxes, depreciation, and amortization to earnings (net income). Lastly, other people would calculate the value of a dental practice by averaging 70%-80% of the previous three years' collections. The biggest caveat: This method is often not an accurate representation of the fair market value of a practice. Thus, it can be misleading. The premise is that a dental practice is worth as much as any other similar dental practice in its market. You can use the market comparison approach to estimate what a specific dental practice should sell for on the open market today. It does not consider intangible factors such as goodwill, reputation, or patient loyalty. Still, it does take into account factors such as location, equipment and technology used within the practice, number of employees, patient base size, and more. The major problem with this method is that it won't work if there's a big difference between your practice and others in terms of location and type of patient population served. Plus, you may discover that other practice owners who sold may not be willing to disclose the amount for which they sold their practice. The income approach estimates the future earnings of a practice based on historical data and projected costs and revenues. This method considers tangible and intangible assets such as cash flows and growth potential. Most savvy buyers rely on this method to determine the worth of a dental practice. Suppose your practice has a large patient base backed by solid revenue and growth. In that case, this is the valuation method you should consider. 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The primary benefit of this method is that it allows for flexible taxation of individual assets based on the buyer and seller's preferences. What is goodwill? Goodwill is a business's intangible asset in its brand, reputation, customer base, or other factors influencing a buyer's decision to purchase the company. When you sell your dental practice to an acquirer, the goodwill value is included in the purchase price. Unfortunately, goodwill is not an objective measure defined by a formula or algorithm. It's an intangible asset that cannot be measured by financial statements alone - it is what separates successful practices from struggling ones. It's what makes one practice worth more than another in the eyes of buyers. In fact, goodwill accounts for 80% to 85% of a dental practice's worth. Important Disclaimer: This is not a substitute for professional or tax advice. Always consult your accountant and/or attorney before making any decisions. Let us take care of all the details. Contact us today! Our team of dental practice advisors can help you every step of the way. At our boutique practice advisory firm, we focus on addressing the unique needs and challenges of dental practice sales. Our team of experts is here for you every step of the way—from finding the right buyer for your practice to helping you negotiate an agreement that works for both parties. Don't let an excellent opportunity to make life-changing money slip through your fingers. Get in touch now - and we'll discuss how we can help you. Dental practice valuation is the process of determining the fair market value of a dental practice, considering various factors such as location, patient base, equipment, staff, financials, and growth potential. An accurate valuation is crucial when buying or selling a dental practice, as it ensures that both parties receive a fair value for their investment. It also plays a vital role in financial planning, exit strategies, and securing loans. 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Contact us today! Our team of dental practice advisors can help you every step of the way. At our boutique practice advisory firm, we focus on addressing the unique needs and challenges of dental practice sales. Our team of experts is here for you every step of the way—from finding the right buyer for your practice to helping you negotiate an agreement that works for both parties. Don't let an excellent opportunity to make life-changing money slip through your fingers. Get in touch now - and we'll discuss how we can help you. When buying or selling a dental practice - one of the key elements of the deal is the ability to accurately answer the question - how much is your dental practice worth? For buyers, specifically, the answer to this question is the second of the three big questions we help them answer when buying a dental practice: Is this a good practice to buy? If yes, what price is fair to pay? If I pay that much, how much should I expect to make? As a seller, the selling price of the practice can feel like the culmination of a career's worth of effort growing and developing a dental business. When I help buyers consider the price of a practice, I remind them of a key fact: you don't want to overpay for a practice, BUT wealth in dentistry does not come from buying and selling dental practices. The true value of a dental practice is the ownership of a stream of income - hopefully for a period of decades. Still, as the buyer, you want to feel like you're not getting ripped off. Analyzing Dental Practice Values We've analyzed the data of the fifty+ transitions we've been involved with at Practice Financial Group recently and compared it to public data provided by Jonathan Martin, CPA in the McGill Hill Group Newsletter. Full disclosure: Jonathan and the folks at McGill Hill did the heavy lifting here, and we supplemented with our own data. Their original article is definitely worth a look. The total number of transitions analyzed is 816 over the last 15-year period beginning January 1, 2003. Average fair market value to collections looks at the sales price relative to the amount of annual revenue, usually over the last 1-3 years. For example, if an oral surgery practice is collecting \$1,000,000 sold for an average of 68.57%, the sales price would be \$685,700. In our example, that \$685,700 would be split between goodwill and tangible assets. 74.41% of the sales price would be allocated to goodwill with the remaining 25.59% allocated to the tangible assets of the practice - equipment, supplies, etc. The most valuable type of dental practice continues to be orthodontics at 79.81% of collections. Pediatric dental practices are the next most valuable, currently selling for an average of 71.22% of annual collections, followed by general dentistry at 69.87% Next is oral surgery at 68.57%. Endodontics practices are slightly lower at 67.61% and periodontics practices command the lowest prices at 65.62%. It's important to note that prosthodontics practices are on the lower end of the spectrum at 67.13%, but the volume is low enough not to cross the line of a statistically significant sample size. The "true" average value could be lower or higher and without more data, we don't know for sure which is the case. If I'm buying or selling a prosthodontics practice, I would note that average practice values are on the lower end, but more likely reflect the average overall dental transitions market. It's important to remember that fair market value to collections, while the most common valuation method, is not the only method to value a practice. For example, if two orthodontic practices, both collecting exactly \$1,000,000 a year in collections, have different overhead - one at 50% and one at 60% - the better run practice, with 50% overhead should command a premium and sell for a higher price if all other things are equal. Why Goodwill is Important to Monitor We've discussed in another post (Negotiate Asset Allocation when Buying a Dental Practice) about the sales price of a dental practice being split into different asset classes. Goodwill includes not only the amounts allocated to "goodwill" on the tax returns but also the other intangible assets allocated during a practice transition. This includes patient files, covenants not to compete, etc. Why is this important? Because the seller will typically pay long-term capital gains rates on Goodwill, which run about 20% lower than ordinary income tax rates that are typically applied to tangible assets. The higher the allocation to goodwill, generally the better for the seller. This is because goodwill in a typical dental transition is taxed at long-term capital gains rates (0-20%) instead of ordinary income rates (10-39.6%). Endodontics practices command the highest goodwill premium at 82.18% ahead of pediatric practices which price goodwill at 81.05%, interestingly. Periodontics practices have average goodwill at 77.63% and general practices allocate on average 76.10% to goodwill. . Oral surgery, orthodontics, and prosthodontics practices all typically allocate around between 67-75% of collections to goodwill, give or take. Why Prices are Rising In general, we see practice values going up across the country. Several factors contribute to the rising prices. The most fundamental is the basic market dynamic of supply and demand. Dentists are working longer with the average retiring age closer to 70 than 65 (because they want to or they didn't have good financial advice along the way)! Fewer retiring dentists means a lower supply of established practices for sale which increases practice purchase prices. Another key factor is a sizeable rise in the number of corporate buyers in the market. Profit margins are so high in dentistry relative to other industries, that venture capital and private equity funds are looking to get in on the action, bringing even more demand for the fewer dental practices for sale! Newer dentists looking to buy are facing the double-whammy of fewer dental practices generally available and more buyers looking to buy them. When they find a practice for sale, it is probably selling for more than it would have sold for a few years ago. The Good News About Dental Practice Values While the trends in dental practice values are going up, without question buyers should continue to look at purchasing a practice as a solid career strategy. Again, while no one wants to "overpay" for their dental practice, the clear fact is that ownership of the income stream of a dental practice continues to be the most financially lucrative career choice in dentistry. Another key fact in the buyers corner is that bank lending is readily available today. More and more banks understand dental transitions and are getting in the game. All the reputable dental lenders will fund 100% of the purchase price on a profitable dental practice with some basic caveats. Many lenders will lend more than 100% when a working capital loan is included in the picture. Wrap Up While important to understand the trends, dental practices continue to be valuable for both buyers and sellers. Current practice owners: you can rest a little better at night knowing that the market is valuing your business a little higher than it did in the past. You can also feel good that if you were to sell today, your practice would be on the market for less time than in the past. Buyers considering purchasing a practice: know that you're going to pay a little bit more for your practice than you would have a few years ago. But the income stream produced from ownership of a good practice is still worth every penny you'll pay. With more buyers in the marketplace, it's more important than ever to work with a reputable attorney and accountant that specializes in dental transitions to help you move quickly through the process. ----- Interested to see the data of how much your dental practice may be worth? Send this blog post to a friend! Have a question about the value of a dental practice? Reach out directly to me brian@practicefinancialgroup.com with questions anytime! ----- Read the articles below about buying and selling dental practices - they'll help you avoid overpaying! A Letter of Intent Should Include This When Buying a Dental Practice How to Analyze a Dental Practice for Sale - The Quantitative Factors Negotiate the Asset Allocation When Buying a Dental Practice