



**Bernard Dolansky**  
BA DDS MSc



**Bill Henderson**  
HBA

# The Top Five Factors That Drive Practice Value

Which of the five factors can you control?

In a previous article for *Ontario Dentist*, we wrote about the general increase in dental practice values, the market factors that are driving that increase, and the new pricing reality that this is creating for at least the short and medium term (see “Dental Practice Values” in the March 2015 issue of *Ontario Dentist*).<sup>\*</sup> This article is about the factors that you can control, and how to determine value for the individual practice that you own or would like to buy.

There are certain determinants of value that are not changeable. These are: location — if, for instance, you are in the “hot markets” of the Golden Horseshoe; urban versus small town versus rural practices; or specialty versus general practices. These factors can greatly affect the value of any given practice, but they can’t be changed by the seller or buyer. Indeed, they act as a filter for selecting the buyers who are seeking a particular practice.

## Top Five Factors That Improve Practice Values

After consideration of location and type of practice, here are the top five factors that can be controlled, and that we believe drive individual general practice values.

**1) Cash flow.** Cash flow is the money that remains after you have paid all the costs associated with your practice. It does not include billings; you can’t pay off your bank loan or buy a new car with billings. You can only pay off a bank loan and fund your lifestyle expenses with what is left over after you’ve paid all the expenses in your practice. The expected future cash flow, not billings, is the fundamental determinant of what a practice is worth.

**2) Patients.** Much has been written and discussed in the last year about whether there are too many dentists in Ontario. From our dental practice marketplace perspective we also suggest that the corollary is true: there is a shortage of patients — thus the patients in a practice are its most valuable asset. Therefore patient factors really drive value. The most important are how many total patients there are, how many recall patients there are, how much they are spending on hygiene versus dentistry, and what levels of attrition and new patient flow the practice is experiencing. Other factors, such as a patient’s language, ethnicity, age, socio-economic status and benefits coverage can also play a role.

**3) Revenue base.** The breakdown of practice revenue between hygiene and dental production is also very important, since hygiene production is seen as an attribute of the practice that will likely be reproduced after ownership changes. It is also more profitable and more sustainable than dental revenue. Increasing hygiene revenue in line with good patient-care considerations will enhance practice value.

Dental production is more tightly tied to the individual dentist and may or may not be completely transitioned to a new owner. For a practice owner, value may be enhanced if dental procedures performed in the practice are likely to be able to be performed by a younger, less experienced dentist.

**4) Efficiency.** A general dental practice in which costs are in line with or better than the averages reported in the ODA's *Economic Survey of Dental Practices* is going to have enhanced value. By far the largest single variable cost in a dental practice is staff-related, and staff costs should not exceed 28 percent of total gross production. Consumable supplies should be below eight percent of total gross production, unless the practice is doing a lot of implants or orthodontic work. Rent is a fixed cost and the only way to lower its impact on practice expenses would be by increasing total top line production. Rent should be below seven percent of total gross production.

New equipment, if bought three to five years before transition, can not only enhance an owner's enjoyment of the last years of practice, but also provide greater efficiency and therefore greater practice value.


**5) Contracts.** Practices with good contracts are more valuable to buyers because they come with less risk. Staff contracts that are written fairly and limit owner dismissal-related liability are a definite enhancement of practice desirability and value. A strong non-solicitation clause that prohibits a departed employee from attempting to lure away patients or other staff is also important – particularly for hygienists. Associate dentists working in a practice must have contracts that are properly drawn up, since the absence of a good contract can be a serious impediment to a sale. Associate contracts should include reasonable non-compete and non-solicit clauses, as well as an option to assign the contract to a new owner.

A premises lease is a contract between the dentist, or the dentist's professional corporation, and the landlord. "Toxic clauses" in a lease can materially diminish the value of a practice and, in some cases, render the practice unsellable. The clauses that can decrease value include termination or demolition clauses, relocation clauses with inadequate compensation, and difficult or punitive provisions for transferring the lease upon sale of the practice. A purchaser is going to need at least 10 years of tenancy certainty to get the bank to provide an affordable loan for buying the practice, so it's important to ensure that the time remaining on the lease, including the current term plus all renewals, is always greater than 10 years.

### In the End, It's About Oral Health

This is a brief synopsis of what buyers or sellers (and practice appraisers) need to look for when determining the value of an individual general dental practice. This is a business approach to the purchase or sale of a practice. However, this particular business entity "sells" a unique product called oral health. Therefore we are very aware that, to most buyers and sellers, a dental practice is much more than just a business and that there are many tangible and intangible factors that go into the decision to buy a particular practice.

There is a document called a complete practice appraisal that tries to provide a thorough picture of most of those factors. As well, there are several companies that provide appraisals for Ontario practitioners.

Both buyers and sellers of practices should be aware of these controllable factors so that they can make informed choices about one of the most important decisions of their professional lives. 

---

*Dr. Bernard Dolansky is Past President of the ODA, the Ottawa Dental Society, the CDA, and the Dentistry Canada Fund. He is currently a partner at Tier Three Brokerage Ltd., and assists dentists with transition planning, practice purchase and sale, evaluations, associateships, retirement planning and partnership arrangements. You may reach him at [bernie.dolansky@tierthree.ca](mailto:bernie.dolansky@tierthree.ca) or 613-794-1977.*

*Bill Henderson is the President of Tier Three Brokerage Ltd., one of Ontario's leading dental practice brokerages. A recognised industry expert in dental practice valuations and sales, Bill is a regular presenter for the ODA as well as other industry organisations. He may be contacted at [bill.henderson@tierthree.ca](mailto:bill.henderson@tierthree.ca), or 416-578-7061.*

\*All back issues of *Ontario Dentist* are available online. Visit the ODA website at [www.youroralhealth.ca/member/](http://www.youroralhealth.ca/member/) and click on **Ontario Dentist** in the top banner.