What are the main drivers that make a dental practice valuable?

Bernie Dolansky

Dr. Dolansky practised as an endodontist for over 35 years. He also served as president of CDA, the Ontario Dental Association and the Dentistry Canada Fund.

bernie.dolansky@tierthree.ca

This interview has been condensed and edited.

The views expressed are those of the author and do not necessarily reflect the opinions or official policies of the Canadian Dental Association.

It's a seller's market for dental practices according to Dr. Bernie Dolansky, transition consultant, partner and sales representative at Tier Three Brokerage, a firm specializing in the evaluation and sale of dental practices. In most areas of Canada, having more buyers than sellers is driving an increase in dental practice values. But what factors are the best predictors of dental practice value in today's market? We spoke with Dr. Dolansky, a CDA past-president in 1992-93, to get his perspectives.

The most valuable commodity

"As evaluators of dental practices, we have to look at all the factors that any reasonably well-informed buyer would want to know about a practice. By far the most valuable part of a general dental practice in today's market is, quite simply, **its patients**. Active patients, defined as patients on regular recall who have been seen in the last 12–18 months, are particularly valuable. In most parts of Canada, we have too many dentists and not enough patients, and that's what is driving the market.

Traditional views of practice evaluations are changing

For a general dental practice, cash flow is related to the patient lists or charts. Up until about six years ago, we based our evaluations of dental practices on past gross revenues—usually an average of the previous three years. But buyers today are more sophisticated and are interested in **future projections of cash flow**. Today, the possible future cash flow that can be derived from those valuable patients is the major determinant of value for an informed buyer.

The challenge of predicting revenue

Future cash flow seems like a simple concept: it's future revenue minus future costs. But how do you predict future revenue per patient per year? Well, current revenue can be a very good

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indicator of future revenue. Based on the last 100 valuations of Ontario practices we've done at Tier Three Brokerage, the **average revenue per patient, per year, is $620** (excluding lab) for a general dental practice. But there are outliers. One practice averaged $1300 per patient, per year, and some average barely over $100. So the question for potential buyers of those dental practices is, how reliable are estimates of current revenue in predicting future revenue?

Components of revenue

To understand revenue contributions in a general dentist practice, you have to consider the three typical components of revenue: **hygiene, dentistry, and lab**. Lab is a flow-through cost because Canadian dentists do not markup lab fees. So we have to look at revenue from hygiene and dentistry to understand their potential future contributions to the practice.

To watch the full interview with Dr. Dolansky, visit:
oasisdiscussions.ca/2016/02/02/pv-2

Buyers can count on hygiene revenue

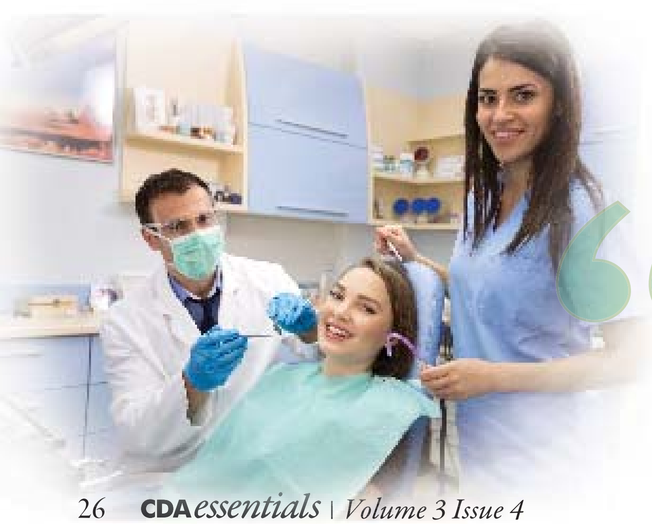
Revenue from hygiene is a transferrable asset of the practice—this means that when you buy a dental practice, patients will predictably keep coming to see that hygienist so **average revenue from hygiene per patient is reproducible**. For example, if a practice is doing over $550 per patient, per year, in hygiene services, even though the average for general dental practices is $220, some portion of that higher-than-average revenue can probably be maintained. On the other hand, if a practice is doing $65 per patient, per year, in hygiene, then unfortunately that relatively low revenue will also be maintained unless the buyer is able to bring revenue up. And that underperformance in hygiene can represent a possible upside in predicting future cash flow and thus the value of that practice.

Dentistry revenue is less predictable

On the other hand, revenue from **dental services tends to be specific to the dentist selling** the practice. So if a dentist produces over $1300 per patient, per year, in revenue from dental services, chances are a new dentist is not going to be able to reproduce that. In general, if we see a practice producing way above average in terms of dentistry revenue, we decrease our projections of future cash flow because a new buyer will probably not be able to reproduce those numbers. This would then represent a possible downside in predicting future cash flow and thus the value of that practice.

More than a business

Increasing revenue is consistent with good oral hygiene and patient satisfaction—to a point. To be blunt, the point at which it stops being consistent is overtreatment. Overtreatment is not going to add to the value of a practice. The best way to increase your patient satisfaction—and thus new patient flow and retention—is to **keep your patients happy**. The best way I know of doing that is by delivering excellent oral health care."



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