

# How Do I Value My Dental Practice?



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If you are considering the sale of your practice the first question that comes to mind is “*how much is it worth*”? You may ask your accountant, but unless they have access to actual market sales it can be a difficult exercise for them. This may result in a disparity between the asking price and market expectations. This is often your number one asset in most cases, so give it the respect it deserves and discuss it with a specialist in business sales.

A common technique to access a value of a dental practice is to apply a multiplier to last year’s gross revenue or take an average of the past several years. Assessing your practice with such a simple approach may be a mistake. If you are selling and get the price you want, that’s fine, but what if you are a purchaser using this methodology? It has the potential to cause major problems if all factors are not considered.

How does this methodology work?

Let’s assume we have two dental practices:

**Dental Practice A**

Gross Income \$600,000

Overheads 55%

Profit \$270,000

**Dental Practice B**

Gross Income \$800,000

Overheads 66.3%

Profit \$270,000

The adjusted profit in this case would be identical at \$270,000.

Let’s also assume both practices have been assessed at 60% of gross income.

**Dental Practice A**

Price \$360,000

**Dental Practice B**

Price \$480,000

Comparing these values would mean a purchaser may pay \$120,000 more for a practice netting the same. So what’s wrong with this scenario? Obviously, a purchaser would be paying more money for the same profit. This example proves that using Gross Income Multipliers are only useful when overheads are comparable. In most cases they are not. Therefore, be wary of Gross Income Multipliers when assessing a practice’s worth.

Practice A would provide an additional \$148,882 in income (without adjustments) over the loan period. The worst thing about buying Practice B is that you’d be working 33% harder to get the same net. Not too appealing!

So, if Gross Income Multipliers don’t work, what does? In my opinion, the tried and true method of valuing a dental practice is based on the net profit plus a fair market value of the Tangible Assets (equipment, leaseholds, supplies etc.). The bottom line is that when you are buying a dental business you are buying an income stream. Consequently, methodologies using cash flow, net profit and value of assets will more accurately reflect the true worth of a practice.

So if you are considering selling your practice, call me for a preliminary and confidential chat about your plans, aspirations and goals.

I’ll be delighted to provide you with a no risk or obligation FREE MARKET APPRAISAL OF YOUR BUSINESS.

*Gary Lay*