



# 5 Reasons for a Practice Valuation

*Guest post by Brian Pender, President & Founder of Fairway Healthcare Partners*

What is the value of your dental practice? On any given day, you can find out the exact amount of:

- Cash in your checking & savings accounts
- Where your stocks, IRA, and investments accounts closed
- The death benefit & cash surrender value of insurance policies
- What your neighbor's house just sold for

But for your practice, are you relying on an arbitrary percentage of last year's collections you heard at a dental meeting or what your classmate's practice just sold for?

Having your practice formally valued annually (or bi-annually) makes good business sense, and here's why:

1. **You will learn:** Similar to dentistry, the practice of valuing businesses is part art and part science. Each valuation should be unique to the scope, purpose, and timing of the engagement. The most widely recognized valuation credentials include professionals with a CVA, ABV, or ASA<sup>1</sup>. Make sure your analyst has experience and knowledge of the dental industry. A dental-specific analyst will provide you with a breakdown of how your practice compares to industry averages, what financial and operational metrics really matter, and a network and resources specific to the dental industry.
2. **The Dreaded D's:** Divorce, disability and death... not fun topics to talk about, but they happen to dentists too. An updated business valuation, combined with a Letter of Direction or a Buy-Sell Agreement, will provide you with vital peace of mind while protecting your business interests, your family's assets, and your practice's value.

*Note: If you have partners, add firings, resignations, retirements, arrests, loss of license, loss of malpractice and ethics violations to list.*

3. **Cost should not hold you back:** Many dentists believe the expense of a practice valuation is only justified if you are effectuating a transaction such as a sale, associate buy-in or partnership. However:
  - The cost is usually less than 1% of a practice's overall value.
  - The cost of recurring valuations should be less than the initial valuation.
  - The cost of a business valuation is akin to fees paid to investment money managers or the cost of updating your home. When something has significant financial value, a proactive approach is recommended. Thankfully, the cost a business valuation is much less than a new kitchen.
  - The cost of a business valuation is tax deductible.
  - See #4 below
4. **It's a tool:** A quality business valuation should help a dentist:
  - Identify strengths, weaknesses, opportunities, and threats within their practice.

<sup>1</sup> CVA: Certified Valuation Analyst, ABV: Accredited in Business Valuation, ASA: Accredited Senior Appraiser



- Support their personal and professional financial strategies.
- Facilitate communication with family members, professional advisors and their team.
- Achieve valuable peace of mind and protection for the unknown.
- Having an updated business valuation is a great asset if ever approached by buyers, brokers, or DSOs, as well as for family, tax, succession and estate planning purposes.

5. **Identify areas to increase practice value:** A dental-specific business valuation should tell you *what* the value is, *how* the value was calculated, and *why* the valuation result and methodology was appropriate. For a practice owner, the fun part to think about and plan for might be the *what if?*

- What if we lowered overhead 5%?
- What if we added chairs, more hygiene days or hired an associate?
- What if we pulled some discretionary expenses out of the business?
- What if we acquired another practice or upgraded equipment & facilities?

**Final thoughts:** Talking about life’s uncertainties and the value of your dental practice is deeply personal. Work with a professional advisor whom you trust and has your best interests at heart. Be wary of people offering “free business valuations” or those who might be incentivized to provide you with unrealistic valuations that are either too high or too low. Shop around, get referrals, and most of all, trust your gut.

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