

Consider Cash Flow vs. Collections

By Brian Pender, CVA

The most common metric in the business of dentistry always seems to be collections or production. How big is the practice? How much have collections increased? What did you produce last year? While important, collections only tell you half the story of a practice's financial position.

For example, look at Practice A & Practice B below:

	Practice A	Practice B
Collections	\$1,000,000	\$600,000
Overhead* %	70%	50%
Cash Flow	\$300,000	\$300,000

Note*: Overhead refers to the cash expenses of a practice before the dentist pays themselves or loans related to the practice.

- All else equal: Which practice would you rather own? Which is worth more?
- Might you rather make the same income while working less?
- Does Practice A have room for overhead improvement?
- Does Practice B have more room for growth?
- Wouldn't it be great knowing you profit \$500 dollars for every \$1,000 collected vs. only \$300?

This example highlights that collections alone don't tell you enough about the financial position of a practice.

So why are collections so emphasized?

- To simplify things, the practice brokerage and valuation industry began highlighting collections because it was easier for dentists to understand.
- Many dental lenders reference the loan to collections ratio as an important metric on their practice loans.

For single doctor practices, the most important cash flow metric is **Owner's Discretionary Earnings**. This is the pre-tax income before the owner pays themselves for the dentistry performed, any debt obligations, and adjusting for non-cash or discretionary expenses such as autos or family members on the payroll.

For group practices, **EBITDA (Earnings Before Taxes Depreciation & Amortization)** may be a more important cash flow metric because this also considers a salary paid for the dentistry produced.

No matter which cash flow metric you want to calculate, this requires a detailed review of the practices expenses and understanding of what makes up overhead.

Cash flow is the combination of your collections and expenses, it tells you the whole story. As they say, cash (flow) is king!

This article was written by Brian Pender, Certified Valuation Analyst. Brian is married to GCDS member Dr. Erin Pender and he is President of [Fairway Healthcare Partners](#), a valuation and dental practice transition firm based in Northeast Ohio.

IN MEMORIAM

The Greater Cleveland Dental Society wishes to express their sympathy for the following Member who recently passed away:

Dr. Thomas McCune passed away December 22, 2017 at the age of 82. Dr. McCune served as the 110th GCDS President from 1996-1997. He graduated from Ohio Wesleyan University in 1957 and Western Reserve School of Dentistry in 1961. He was a member of Delta Sigma Delta and was an adjunct clinical professor at CWRU School of Dental Medicine. Dr. McCune was in practice for over 50 years and was a member of the ADA for 56 years. Dr. Thomas McCune is the father of Dr. T. Scott McCune of Medina.

COMMUNITY OUTREACH

Volunteers needed to present oral health care information to local schools, family counseling centers, and community centers.

If you are willing to represent dentistry in your neighborhood, please contact GCDS to be placed on a community outreach list for GCDS.

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Call GCDS Headquarters
at (440) 717-1891