

## It Pays to Invest in Your Tangible Assets



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We are often asked to value practices with old old equipment (25 to 35 years) but with a steady patient base of 500 to 1000 patients. The doctor does not see the equipment as old because he has aged with the equipment. Part of owning and managing a dental practice is keeping the practice appearance up to patients' expectations - reinvest in your practice! In a sale situation, seldom are purchasers excited to see equipment older than themselves.

A comfortable ratio of "goodwill", as a percentage of the sale price, is about 60%. If Goodwill is 70 or 75% of the total sale price this means that the equipment, leaseholds and supplies are only 25 to 30% of the value. The purchaser would be concerned about the additional cost of new equipment and leaseholds on top of the cost of the practice. Although the practice is making a good income, the value of the practice is going to be limited since there is a limit to the value of a chart; the equipment is not adding its fair share to the total value of the practice.

A good guideline is: the current market value of the equipment, leaseholds and supplies should be about 25% of the practices gross billing for the year. So, if billings are \$600,000 then one would expect the fair market value of the tangible assets of the practice to be worth about \$150,000.

Assets below this figure, say \$80,000, would mean that since a reasonable value for the practice, at 75% of gross billings, would be \$450,000, this leaves (450,000 - 80,000) \$370,000 in Goodwill which predominately represents patients. At an average billing of \$500.00 per chart that would indicate 1,200 charts. Therefore each chart is worth (\$370,000 for Goodwill/ 1200 charts) \$308.33 per chart. This is noticeably above average or to put it another way, the practice is going to be worth less than \$450,000; it will be harder to sell, since the purchaser would be thinking of the additional costs, to improve the leaseholds and equipment, after he or she has purchased the practice.

Around 25% of gross billings, in a mature practice, indicates that the dentist has kept the practice equipment "up-to-date". One can also go overboard in the other direction, too many assets for the level of production. This does not leave enough room for Goodwill thus limiting the value of a chart.

I recently recommended that a vendor take some of his major equipment with him as there was not enough net earning to carry the level of assets in the practice. New practices tend to fall in this area as the billings are too low to support even reasonable assets.

I prefer to see a “balanced practice” with contemporary assets, controlled costs, reasonable billings per patient and one that is clean and visually appealing. This makes an attractive proposition for a purchaser.

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