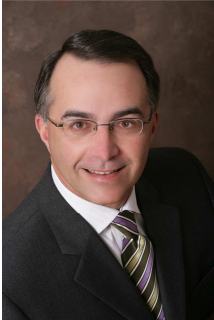


There is Life Outside the GTA



David Lind
Principal

The dental practice sales market has been extremely robust for the last several years. There is more demand than supply which has put upward pressure on prices. It is not unusual in this market to receive multiple offers on practices and in some cases achieve a sale for far more than the appraised value. This is true for good practices, with good balanced metrics, and, most importantly, in a good location in or near the GTA (Greater Toronto Area). For illustrative purposes, I suggest "near" means within one to 1 to 1.5 hours. For readers outside Ontario, the same can be said for most large urban centres, particularly in Alberta and British Columbia.

The reasons for this have been covered in other issues of the *Professional Advisory* but to summarize, in large urban centres:

- There are too many dentists
- Dentists are working longer by choice
- Dental school admittance is based on academic achievement
- Mature foreign-trained dentists, after obtaining their Canadian license, wish to buy a practice immediately
- Investing dentists are buying multiple practices

If this is the case, would it not follow that practices a little further from the GTA, for instance, 2 - 4 hours away, would also enjoy the same kind of market but with slightly lower values? Unfortunately the answer is no, particularly in smaller, more remote centres that are not near the 401 corridor. The reasons can be summarized as follows:

- Lack of geographic appeal. (already a shortage of dentists in many areas)
- Dentists work longer because they have to, or their patients will not be treated
- Dental school admittance requirements do not take into consideration the need for dentists in remote communities (as they once did many years ago)
- Foreign trained dentists in general wish to locate in large urban centres
- Investing dentists avoid remote communities due to the difficulty in getting associates

We have recently been involved in a sale in Northern Ontario that I will use for illustrative purposes with a comparable to a very similar practice we sold just west of the GTA.

| | Northern Ontario | West of GTA |
|-------------------------------|------------------|-------------|
| Gross | \$2,060,000 | \$2,078,000 |
| Sale Price | \$1,300,000 | \$2,030,000 |
| Sale Price as a % of Gross | 63 | 98 |
| Active Patients | 4,300 | 4,200 |
| Asset Value | \$298,000 | \$368,000 |
| Adjusted after tax net Income | \$577,000 | \$454,000 |
| Coverage Ratio | 2.36 | 4.77 |

In the example above you will notice that these two practices are very similar. The production on a per-patient basis of approximately \$500 per year is very similar indicating that treatment acceptance is reasonable and the results should be reproducible by most dentists. The adjusted after-tax net income is the income available to the owner after paying all overhead expenses, paying the dentist producers (including the owner) 40 per cent of their gross collections, and after paying the corporate tax that is due on Dentistry Professional Corporation income at the rate of 15.5 per cent. In essence, this is profit from ownership and is the amount that the owner will use to pay for the practice. The \$123,000 difference in net income is typical of the difference in profit between remote practices and urban practices. This is due to much higher overhead for things like rent, common area expenses, and staff in urban practices. We are left with the coverage ratio which shows us how long in years it will take the buyer to pay for the practice if he or she were to use all the net income and not have to pay any interest. This is obviously not practical but it does show that you could pay off a practice in a remote community twice as fast as you could near-a major urban centre. Stated another way, if you took 10 year loans for the purchase of both practices you would have approximately twice as much net income left over (after paying yourself as a dentist) in the remote practice.

This is a compelling financial argument for considering a practice in a remote community. There are many other benefits in a remote community to be considered as well:

- Patients have very high regard for dentists
- Patients are extremely loyal
- Hours of operation are more reasonable--typically 9 - 5, four days per week.
- Your cost of living will be less
- Far less crime
- Commute to the office is usually measured in minutes not hours
- More favourable work/life balance

I am aware that there is some awareness of this situation with organized dentistry. I believe the CDA has begun analyzing this as there will definitely be an increase in the shortage of dentists in remote communities in the future. I would urge dentists who are frustrated with the bidding wars that go on in the GTA, or dentists that just want to get out of the "rat-race" and live a more balanced life, to consider the remote communities across Canada as a very viable option.

David Lind is a Principal in Professional Practice Sales Ltd. (www.ppsales.com), which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1-888-777-8825 or e-mail at: david.lind@ppsales.com