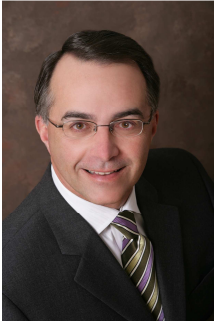


Bigger is Better



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Dental practices in general are growing. Dentists are taking more space and building bigger practices, buying neighbouring practices and merging them together, moving out of the “invisible” location and becoming more visible and accessible, extending hours and staying open on weekends. Why is this happening and what does it mean for dental practice values?

I believe this is happening for a few reasons.

1. Equipping and operating a dental practice is expensive. With average overhead expenses approaching 60 per cent, it is challenging in smaller practices to cover the overhead and earn a good income along with a return on capital investment. Bigger practices can afford to have all the latest technology such as digital x-rays, paperless charting, lasers, and CAD/CAM systems. All of these technology enhancements also produce efficiency gains, further reducing the overhead percentage. Smaller practices cannot afford these expensive improvements and are stuck being less efficient as a result.
2. Patients are demanding modern and more accessible dental practices. The older style practice that patients must walk up a set of stairs to get to, and is only open four days per week from 9:00 to 4:00 may still be viable for the current patient base that trusts and respects their dentist. However, I suggest the new patient flow would be waning in that type of practice as the new patients are attracted by the more modern and accessible practice. With new patient flow slowing the practice will eventually decline and become even less efficient.
3. The broader business world is noticing dentistry and is intrigued by the returns offered. There are several new entrants in corporate dentistry in Canada. These businesses are not interested in small practices but do have an appetite for large practices as long as the owners will stay for an extended period. What do they know? They know that there are economies of scale enjoyed in larger practices that are not available in smaller practices. The risk associated with goodwill transfer is less in a larger practice because they are generally destination offices rather than driven by one individual dentist. Further, the cash flow in smaller

practices is not worth the time it takes to analyze and acquire them. Corporate dentistry is not for everyone but it is here to stay and offers an alternative for some dental practice vendors.

4. The demographics of dentists have changed. The graduating classes of dentists in the seventies and eighties were primarily male. Most of these dentists set up from scratch, made a very good living and were happy and fulfilled with a one dentist, one hygienist practice in a traditional office setting. Now more than half of the graduating classes are female. Many want to own their own practice but want more flexibility in their schedule in order to accommodate the various demands on their time. A traditional practice model cannot accommodate that kind of flexibility.

I am often asked by owners of these larger practices “Is there really someone out there that will be able to pay for my large practice?” And further “will they be able to get the financing they need to close the deal?” The answers are quite simply – yes and yes. Some are surprised by that, but what they find even more surprising is the fact that their large practice will actually bring a premium in terms of its value. The efficiencies that are gained in larger practices make them more profitable and therefore more valuable and there is a demand in the market for larger practices. We have large lists of prospective purchasers who have target prices over \$1 million. We do have buyers for smaller practices but the demand is far less. Greater demand means greater value that the purchasers will place on the larger practices which is why the practice will sell for a premium. The reverse however is also true. The traditional small walk up practice will have less demand and will therefore be valued lower.

The real opportunity here lies for the practices that are in the middle of the pack. There are many practices that were built 20 or 30 years ago with an extra operatory or two to accommodate future growth; growth that never came. There may be room to expand hours too. A practice like this could be significantly enhanced by purchasing a smaller local practice and merging them together. You will not have to pay a premium for the smaller practice which is a benefit. The real benefit however comes from the economies of scale that the new combined practice will enjoy. This will produce a higher value for the combined practice than the individual practices were worth pre-merger. Philosophers may describe it as a whole that is greater than the sum of its parts. Financial types call this accretive to value and earnings. I call it a classic win-win!

(810 Words)

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