

Do dental equipment and dental technology affect a practice value?



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In our business as dental practice valuers, most of our practice valuations are for dentist's who are not planning to sell their practices for at least five years, but want to make their practice more valuable for the future. We are constantly asked about whether or not the adoption of new equipment and or technology can increase the value of a practice.

The short answer is; Yes, under favorable conditions, the adoption of new dental equipment or technology can increase a practice's value beyond the value of that specific piece of equipment. This fact actually creates goodwill in the practice, which is the goal of dental practice owners. From a practice valuation standpoint, the reason that a practice value may change is due to the possibility that the equipment or technology somehow affected practice cash flows and earnings.

When researching this article, one of the dentists I spoke with said that the successful adoption of technology into his office let him do in two hours what it formerly took him an entire day. He called this success, his offices "Techwill".

In a typical dental practice valuation, the typical value of equipment (excluding leasehold improvements, and supplies) relative to a practice's total value is approximately 10-15 per cent. Therefore relative to the entire practice, equipment and its contribution to a practice's performance is sometimes overlooked. There is a significant investment in equipment that is functional in nature – compressor, cabinets, chairs, X-rays, handpieces etc. – which are required to operate a general practice. And then there is the other category which may include new or high technology. The acquisition of the functional equipment is necessary to keep a practice operational and it needs a proper budget allocation for eventual updates. But it is the adoption of technology that needs to be well planned, because if the investment fails, there is a cost to your practice. I believe that your goals should be to remain current with technological advancements and to determine if they fit your practice, as well as the possibility of a return on the investment.

While there are advantages to the adoption of new equipment and technologies, there are occasions where having too much, the wrong type, or unused equipment will detract from the value of a practice due to depreciation inefficiencies. In addition, if the technology is overly specific, there may be a limited number of buyers who will place value on that technology. Also, just because an asset doesn't add value, it may enhance your clinical satisfaction, and make you happier to go to work, which is priceless.

The most important factors to equipment and technology decision making should be: 1. Does it have a clinical advantage? And 2. Does it have a benefit for my patients? Once that is determined, and you are confident in the technology, the financial portion of the evaluation of the asset can begin.

Here are some examples of very generic purely, mathematical models of how a piece of technology can affect practice value. Let's take a practice that we valued in 2014. The practice was valued at just over \$900,000, and had all factors in balance - good production, good patients, good profits and good location. If we simply made the following adjustments to the input factor in our valuation template here is what we found:

Example 1

If this practice had a four year old Intraoral Digital Radiography system valued at \$15,000 and produced savings of approximately \$8,000 per year in film and time costs, the value of that practice would have increased \$23,000, or \$8,000 in goodwill.

Example 2

If this practice had a four year old Digital Panoramic system, valued at \$30,000, and its revenue less loss revenues from FMX, was \$4,000, the value of that practice would have increased by \$39,000 or \$9,000 in goodwill.

Example 3

If this practice had a four year old CD/CAM system valued at \$65,000, and produced \$30,000 in lab savings per year, the value of the practice would have increased by \$102,000 or \$37,000 goodwill.

Example 4

If this practice had a four year old CAD/CAM system valued at \$65,000, and it was unused, the value of the practice would have increased by \$47,000, a decline of \$18,000 of goodwill. These examples are very simplistic, as maybe other factors changes in the practice that may not have been exact, however, if cash flows can be improved, practice values can be increased.

These examples are not the only examples of equipment enhancements, as there may also be equipment that I have missed, including cone beam Panoramic X-rays, soft tissue lasers, office expansions to add capacity, cost savings due to time savings, etc. In addition, I have not considered the tax or financing considerations of these decisions, as those matters should be dealt with by your accountant.

In addition along with the possible practice enhancers, because we are in a more competitive dental environment, there may be an advantage to consider technology. In some cases, it may also help attract or retain patients due to the perception of being a technologically current practice.

In summary, your equipment and new technology plan should receive as much attention as your marketing, practice management, and clinical areas of your practice. The goal is to create an equipment plan that has budget to replace and update functional assets, and a budget or strategy to review the costs versus benefits to your practice to possibly take advantage of the currently available technology. I hope that down the road some if this new technology will help you to create your own practice "Techwill".

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