

Irrational Exuberance or The New Normal?



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The dental practice sales market, particularly in the large urban centres has experienced a prolonged period of growth in practice values. When compared with even a few years ago, practices now sell for between 20 and 40 per cent more on a relative basis. It is common to receive multiple offers for good practices, which leaves both vendors and purchasers struggling with how to deal with it. We are constantly queried by both sides of this unbalanced market with, “when is it going to change”?

When we hear that from Vendors, they are probably really asking, “should I sell my practice now because the market has peaked?” My standard answer is quite bluntly, no! The decision to sell a dental practice should be driven by the dentist’s personal circumstance not because they may or may not catch the top of a market. It is not like a stock where you can get in and out multiple times and generate profit if you get the timing right. Frankly, from a financial point of view, the best strategy is to work until the day you stop working. You will make far more working a few more years than you will selling. Dentists sell for various reasons; freedom, health, time, stress, and other interests. When the time comes, you will know and it won’t be based on money.

When the question comes from purchasers, they are probably really asking, “If I wait a while longer will practices become more affordable” or “when will the bidding wars subside.” To answer this I will turn to a quote from Warren Buffet, “It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price”. In other words if you find a practice that is suitable for you and it is run like “a wonderful company” than you should buy it and never look back. This is a life decision that will have impact on your life for 20 years or more. Therefore, getting the timing exactly right is somewhat irrelevant. Find the right one and go for it!

So will the market change? Of course that is asking me to predict the future which I do not have the clairvoyance to do. However there are some compelling reasons to believe the market is going to stabilize.

- The aging population of dentists has been written about over and over again. According to the CDA, the average age of a dentist in Canada increased from 46.8 to 47.9 over the five year period from 2007 to 2012. This modest aging is not going to have a dramatic effect on the number of dentists who want to sell. As I

mentioned earlier, it is not age that motivates a dentist to sell, it is other things. So while I expect the choices buyers have will grow over the next few years, I do not expect a glut of practices to come onto the market that would increase supply enough to cause prices to drop.

- The oversupply of dentists in Canada has been the single biggest factor that has contributed to the heated market. CDA stats show that from 1997 to 2013 the population to dentist ratio shrunk from approximately 1,900:1 to 1,700:1. Fewer dentists are retiring, more dentists are graduating from Canadian dental schools and more foreign trained dentists are choosing to immigrate to Canada. All of these factors contribute to this statistic continuing to shrink.
- The purchaser population continues to be strong. Recently, several purchasers have given up finding a practice to set up instead. If a fantastic location can be found with a reasonable lease negotiated, this can be a successful path over the long term. Otherwise it can be very challenging to find enough patients to cover the overhead, let alone provide a reasonable income for the dentist.
- There are several Canadian banks that are very active and very talented at lending into the market. They are pleased with their portfolios of loans to dentists. These banks are historically well capitalized and are earning record profits quarter after quarter. There is no reason to think their appetite for these loans will wane.
- Corporate dentistry continues to put high values on the cash flow dentistry provides. This has also had a stabilizing impact on the market.

Overall, I believe there has been a slow steady paradigm shift in how both vendors and purchasers assess the market. We as dental practice brokers are living and breathing that shift every day and I believe what we have now is *The New Normal* and not *Irrational Exuberance*.

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