

What's my practice worth?

Many dentists want to know what their dental practice is worth, even if they are not selling. There are numerous other reasons for getting a valuation/appraisal such as bringing in an associate, key man insurance, valuation for divorce or just to benchmark the practice with a view to identifying areas for improvement. Like many small businesses, they are operated in isolation with very little opportunity to compare against similar practices (benchmark), and there is a desire to know how well the practice is operating compared with its peers. If business improvement is sought then benchmarking the practice is a preferred option to obtaining a valuation, as a benchmarking report will highlight weaknesses that can be addressed by the principal to improve the value of the practice.

In most industries, there are "rules of thumb" which tend to give a broad indication of what the business is likely to be worth. "Rules of thumb" are a generalisation which is not appropriate in providing even an approximate valuation for a practice which is not an "average practice". The rule of thumb for valuing an average dental practice is currently around 50% of gross fees which means if the gross fees of the practice are \$900,000 then the practice would be valued at \$450,000. This valuation would be inclusive of goodwill and equipment which means that a practice generating \$900,000 in fees with state-of-the-art/modern equipment will have the same valuation as a practice generating \$900,000 using dental equipment which hasn't been upgraded for 20 years!

From the above example you can obviously see that there will be a number of factors that can have a significant effect on valuing the practice by using a percentage of gross fees as your valuation methodology. The size of the practice also determines the percentage, so if you don't want a formal valuation or appraisal of your practice then you can use the following "rules of thumb" for your practice. \$250,000 - \$500,000 fees = 80%, \$500,000 - \$750,000 fees = 70%, \$750,000 - \$1,000,000 fees = 60%, over \$1 million fees = 50%.

The most appropriate valuation method for a dental practice (and for most businesses) is to calculate the value as a multiple of future maintainable earnings (profits). Future maintainable earnings are known as EBDIT which stands for Earnings Before Depreciation, Interest and Tax. To put all dental businesses on a level playing field, depreciation, interest and tax are excluded because these are variables that should not impact how the core business is operated. By way of example, two identical surgeries that are next

door to each other with the same expenses and the same level of gross fees may see one of the surgeries pay more tax than the other because of the legal structure that it operates in or one of the surgeries may have no loans at all and therefore no interest costs. The two surgeries should be valued the same irrespective of their legal structure or level of borrowings.



Albert Gigl
Executive Director

The future maintainable earnings must also be adjusted to allow for a fair salary/wage for the principal (usually 40% of production less labs) and also for legitimate tax deductions that are discretionary, personal, or do not directly relate to the production of profit - such as motor vehicle expenses or travel/CPD expenses.

While the calculation of future maintainable earnings (EBDIT) can be done by most qualified accountants the real skill is in applying the multiple to that EBDIT. Most practices will run with a multiple of between 3.5 and 4.5 which means that if the EBDIT for a practice was \$200,000 and the multiple calculated by the valuer was 4.0 then the practice would be valued at \$800,000. Should the valuer have insufficient background data on dental practices and if the true multiple for the aforementioned practice was actually 4.5 then this .5 error has resulted in the practice being undervalued by \$100,000. (i.e. \$200,000 X 4.5 = \$900,000). Accountants that are performing dental practice valuations need to have a sufficient pool of data to accurately determine the correct multiple. This does not just mean that the accountant has several dentists as clients but that they have access to data from a sufficient number of dental sales. Recently BOQ Specialist has teamed up with BStar to provide specialist advisors with dental benchmarking information for valuations, financial performance and operating costs. Over time, this benchmarking data should result in more accurate business valuations.

MW Partners specialises in providing taxation advice to dental practices throughout Victoria. If you are buying or selling a practice and require a valuation, or are looking to benchmark your practice to identify areas of improvement, then we can assist. To book an appointment call (03) 8825 5400.



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ADA member survey - Thank you to members

Thank you to all our valued members for completing the 2016 ADA membership survey. The ADA is your association and your say will help shape the benefits and services we offer to better suit your needs.

The results are in and we are currently analysing the data to summarise the common themes and issues, and how to address these. We look forward to bringing you more information soon.

Prize winners

The winners were randomly drawn by staff at Survey Matters, the consulting business that conducted the survey.

1st prize (\$750 of ADAVB credit) - Dr David Bladen - donated to the Benevolent Fund.

2nd prize (\$500 of ADAVB credit) - Dr Claudia Losonski

3rd prize (\$250 of ADAVB credit) - Dr Leon Strauch

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ADAVB members receive prompt, individual attention from Managing Partner, Albert Gigl.

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