



The Whole vs. the Part

Appraising a Dental Practice with Multiple Owners

Our company regularly appraises group dental practices, and in most cases the dentist who has requested the appraisal has not informed his cost-sharing or equity partner(s) about the process. Confidentiality concerning financial affairs and future intentions is the usual reason given to us. With this in mind, how does one go about appraising ‘part’ of a group dental practice when the ‘whole’ is not aware of what’s transpiring?

We have always promoted the ‘whole’ theory of appraisal, which means that the entire practice should be appraised, including all the equipment, leaseholds and goodwill. Proceeding in this manner allows for the individual(s) share to be more easily identified. When asked to appraise just one portion, we often discover — sometimes after the fact — that items have been overlooked. Therefore, the appraisal may be inaccurate — which is a very frustrating situation for a purchaser (in the case of a sale) and also for the accountants, bankers and lawyers who may be relying on the accuracy and completeness of the appraisal.

Leaseholds

About 20 percent of Canadian dentists share the ownership of their premises with another dentist. When determining the value of each owner’s share of the leaseholds, we strongly recommend that the entire facility be appraised so that an individual value and ownership share can be more easily allocated. Occasionally a dentist has said to us: “Don’t bother with that side of the office, it’s not mine” and we find that shared space did indeed exist (i.e. mechanical rooms, staff areas, laboratory space,

etc.) While it is always best to appraise the entire facility, some may argue that this means a partner is getting a ‘free’ appraisal (and yes, this may be true), but it is the most prudent way to identify and record the value to which you may be legitimately entitled. An alternative is to be open about the purpose of the appraisal and for each partner to share in the cost, thus lowering each dentist’s proportionate share of the appraisal fee and reducing the chances of ill feelings later.

Equipment

As with leaseholds, dentists often tell us to ignore certain rooms: “Nothing in there is owned by me.” Later they call to say: “Sorry, I forgot to tell you about the xyz machine that we share 50/50 — it was in ‘his’ room when you were here.” Once again, this frustrates the dentist and the appraiser and in some instances, has accidentally caused a transaction to become adversarial when the buyer learns, late in the process, that he or she now must pay more for something that was honestly overlooked. Our advice is to list and record every single asset in the practice, regardless of who owns what. At that point it is easier to delete the individually owned equipment or identify excluded items.


Goodwill

Goodwill is actually one of the easier assets to appraise. If the financial statements of the partners are jointly recorded (i.e. all revenues and expenses are reported through one entity) the appraiser will value the entire goodwill and then apportion the rightful value according to the

Shareholder Agreement. Most of these Agreements distribute value equally between the partners (i.e. 50/50). One complication that often arises occurs when one partner earns a larger percentage of the overall income (either dental or hygiene) than the other. While their Agreement states that an equal distribution should occur, the reality is that if one produces a larger share of income, he or she will invariably feel entitled to a greater share of the goodwill. In the end, it is the Shareholder Agreement that is the determining factor — perhaps you should review yours to see what you are legally entitled to claim.

When the partners maintain totally separate financial statements (as is the case of most cost-sharing relationships), the appraiser will simply examine the income produced and expenses incurred solely by the client, similar to the appraisal of a solo practice.

“Occasionally a dentist has said to us: ‘Don’t bother with that side of the office, it’s not mine’ and we find that shared space did indeed exist.”

So, whether you are in an equity partnership (shared revenues) or a cost-sharing arrangement (shared expenses only), be certain that you understand your entitlements. This “whole” approach to valuations is the best method to determine the fair market value of the entire group practice. Once completed, a consultation with your appraiser, accountant or lawyer will help you to accurately determine: what you own, what you can (or cannot) sell, and what your practice is really worth. 

Timothy A. Brown is the President & C.E.O. of ROI Corporation & ROI Capital, companies that specialize in dental practice appraisals, brokerage, consulting, locum placements, associateships and practice financing across Canada. Timothy may be reached at 905-820-4145 or at timothy@roicorp.com.

ONTARIO DENTAL ASSOCIATION
4-COLOUR
1/2 PAGE HORIZONTAL AD