



Over-Capitalization

Is Your Practice Too Large for Today's Buyer?

The dental profession continues to expand, due in large part to the increase in the average consumer's dental IQ. According to my conversations with experts in the industry, I predict that total dental fees in Canada for the year 2006 will exceed 10 billion dollars.

With this trend towards ever-increasing billings, many solo dental practices are now generating gross fees in excess of \$1 million per year. What does this mean for the appraisal and the sale of such a practice?

A profile of the typical dental practice buyer reveals that he or she is:

- 30 – 35 years of age.
- has three – five years experience in full-time dental practice.
- is comfortable, at this early stage, in producing \$30,000 to \$50,000 per month in dental fees.

On average, a full-time dental associate, working 20 days per month:

- generates fees of \$1,500 – \$2,500 per day.
- earns 40 percent of those fees, or roughly \$600 - \$1,000 per day.
- earns from \$100,000 – \$200,000 per year. (Part-time associates may earn \$50,000 – \$100,000 per year.)

When asked to define the ideal practice, a buyer suggests he or she wants

- a practice with one or two full-time hygienists.
- a practice with annual gross revenues of \$500,000 – \$1,000,000.

Similarly, the same buyer does not want:


- a practice employing associates. The question arises: "Why won't the associate buy it — is there something wrong?"
- the previous owner to remain, in most instances.

- to buy the real estate and the dental practice at this early career stage.
- to be in any form of partnership or cost-sharing arrangement.

A brief analysis of the past 100 appraisals I have prepared reveals that over 20 percent were of dental practices with gross revenues of \$1 million or more. Most of these practices employ associates, part-time specialists or have partners. Given the buyer's criteria, as set out above, who will buy these dental practices if they are put up for sale? What price will these large, sophisticated practices sell for?

Unfortunately, I predict a continuing trend towards the offering of lower and lower prices for these practices, when compared with the smaller, more manageable solo practices. I also predict growth in an emerging trend for investor dentists. These absentee owners will continue to purchase some of the larger practices, and then staff them with past owners or new associates.

Today's young buyers are ambitious and confident. Financial institutions are more than willing to lend them 100 percent of the purchase price, but only to a point. When the practice is too large, in terms of total revenues, total investment required, or total obligations to staff and time, it becomes less saleable and less manageable in the minds of today's buyers.

The dental practice with gross billings exceeding \$1 million is a status symbol that may be difficult to sell in the future. Much like the most expensive and grandiose home in your neighbourhood — it's admired by many, desired by few. 

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