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Tatamagouche vs. Toronto

An explanation of the Market Factor Calculation

The ROI Corporation News

Issue # 9 ...of a Series

Appraisal of practice goodwill involves many variables.

Any Appraisal is but an opinion. However, we would like to suggest that the more **variables** that are considered, the more **detail** that is examined and reported, and the more **experience** with which this opinion is framed, will all lead to an EXCEPTIONAL APPRAISAL REPORT.

In the course of my discussion with different health care practitioners, I am often challenged with a comment that goes something like this: "...you guys are an Ontario company - how can you value my practice in Atlantic Canada?" To which I reply - "NO PROBLEM, WE'RE NATIONAL!"

⇒ See page 2 for an explanation of how we do this, through the use of the Market Factor.

Since 1974, ROI Corporation

- has appraised over 3,500 Canadian practices (in every Province), and
- has acted as the exclusive broker in the sale of over 850 of these.
- In fact, we have over 60 practices listed for sale right now!

...but, WE WANT TO DO MORE!

As we are unable to publish testimonials from our satisfied clients (because preserving their confidentiality is of the utmost importance to us), we are now calling on ALL PAST CLIENTS to refer their colleagues to us for their appraisal and brokerage needs.

If they retain us, we will be happy to perform an update of an existing ROI Corporation Appraisal for no charge as our way of saying thank you.

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The Market Factor Calculation

Goodwill values can vary considerably from practice to practice and from one specialty to another. Over 850 actual fair market sales brokered by ROI Corporation across Canada confirm this, with goodwill value ranging anywhere from 18% to 74% of the total value of the practice.

Experience indicates that, where the ratio of practitioners to population is average, the value of an established location with patient flow is recognized as a prudent investment. In addition to this ratio of practitioners to population, the location of the practice geographically, the dental I.Q. of the patients, and the supply of practices for sale in that market and demand for them are other important factors. MARKET FACTORS DO CHANGE FROM TIME TO TIME - BASED UPON PRACTICE SALES ACTIVITY.

The best way to understand the impact of a market factor is to think of it as a multiplier, which influences the calculated goodwill value. An example with a market factor of 0.750 follows:

Practice Gross Income	3 Year Weighted Average of \$654,031	x	0.375	=	\$245,262
Cash flow (pre-tax)	3 Year Weighted Average of \$373,108	x	0.750	=	\$279,831
Add and then divide by 2 to get a preliminary figure of					\$262,547

Several other adjustments are applied (upon consideration of variables which cumulatively influence value by as little as 1 or 2 %, to as much as 40% - either positively or negatively) to this preliminary figure to arrive at the final goodwill value. Examine these when you request a copy of our sample appraisal.

All things being equal, a practice located: 1) in a market deemed highly desirable by purchasers, 2) where the supply of practices listed for sale cannot keep pace with the demand for them, 3) which contains a large proportion of patients with a high dental I.Q. (and the means and desire to pay for advanced dental care), and 4) a lower dentist to patient ratio (i.e. too few patients to go around) – will command a higher market factor. Remember, the selection of the market factor is based upon over 850 actual, arm’s length, sales controlled exclusively by ROI Corporation and has ranged from 0.30 to 0.95 since 1974.

Some examples of recently used Atlantic Canadian Market Factors for General Dental Practices (which do change from time to time, based upon market activity):

Halifax	Dartmouth	Truro	Saint John	Moncton	Fredericton	St. John’s	Grand Falls-Windsor	Summerside	Charlottetown
.70	.60	.65	.50	.60	.55	.60	.40	.45	.60

FYI - Several other practices we have appraised in smaller towns and villages in Atlantic Canada cannot be indicated in the table above due to potential confidentiality breaches; they are reflected by market factors ranging from .35 to .60.

Specialist practices rely heavily on referrals from other practitioners. Therefore, Goodwill tends to be of a more personal nature (as opposed to of a practice nature in a general dental practice) and might not be as transferable to a new specialist practice owner. All things being equal then, specialty practices will usually attract smaller market factors due to this and a lower demand by buyers.

View our SAMPLE APPRAISAL - Call to have one couriered to you today

ROI Corporation is pleased to announce that:

Dr. Wayne Raborn, DMD, MS has joined the firm as Senior Associate, Alberta/Saskatchewan. *Dr. Raborn is a Professor of Oral Medicine and is outgoing Associate Dean of the Faculty of Medicine, Chair, Department of Dentistry, University of Alberta. Wayne still maintains a part-time private practice limited to Oral Medicine / TMD / Facial Pain and is a licensed Realtor® in Alberta. He looks forward to participating in this very exciting marketplace. Wayne can be reached at (866) 416-2146 or wayne@roicorp.com*