

# Let's Talk Transitions: Determining the Value of Your Dental Practice

*A Q&A with Kathy Watts*

When buying or selling a dental practice, one of the key elements in a successful transition is to accurately answer the question – how much is your dental practice worth?

Dental practice transitions rarely involve the selling dentist “turning over the keys and walking away” from operations. With this in mind, a dental practice valuation includes the difficult tasks of projecting future operations and discounting those projections to a single and subjective present value.

Kathy Watts, the partner in charge of HORNE's healthcare practice, has over 25 years of experience advising dental practices on how to navigate transition. In this Q&A, she addresses how to determine and increase the value of your dental practice, and how it goes hand-in-hand with a transition that is seamless and successful.



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## 01 I'm thinking about growing my practice to increase its value. What are my options?

A common way to increase the value of your practice is to add locations and providers. The more locations you have, the more patients you can serve, which ultimately brings you a higher value in private equity deals.

However, if you have not analyzed your financial and clinical operations to boost your bottom line, you need to start there. At HORNE, we help practices establish goals and put into place processes and procedures to optimize performance and control costs. Examples of places to start are:

- Revenue: maximize operatory capacity, analyze profitability by procedure codes, evaluate hygiene vs treatment mix and payor mix
- Managing Overhead: assess personnel, supplies, advertising, facilities and operational costs – benchmark against industry standards and your budgeted goals
- Cash Flow Management: manage cash flow to maximize the investment in your business

Another way to increase a practice's value is to diversify your services and become a "one-stop-shop" to offer patients a unique dental experience. We have worked with dentists who have been successful adding specialists – like oral surgeons or orthodontics – and offering multiple services in one location.

If you are interested in forming an independent DSO, aligning with like-minded practices is an advantage to your success. That may sound like an obvious observation, but we see practices far too often DSOs where the owners didn't consider the differences in practice mindsets, and those differences negatively impact profitability and the value of the practice.

## 02 I would like to expand from one office to having multiple locations. Where do I start?

You start with a market analysis to determine what is already available in your area. It's important to analyze where other practices are located, and if there's enough market availability to support additional locations.

Next, you need a business plan to understand financial implications. We often assist clients in building out these business plans that include pro forma financial analyses that can quickly be revised based on different scenarios. One thing you can't forget is investment to market your practice to attract new patients and increase market share.

## 03 I just graduated from dental school. Is it too early to begin thinking about transition planning?

A common misconception is that a transition plan is not needed until a dentist is near retirement. This is not true. In fact, a transition plan can begin at start-up or anywhere between that and succession.

Transition plans can help you establish a clear vision of your goals and gain control of your financial future – both personally and professionally.

## 04 What types of operational technology investments could advance or increase the value of my practice?

Today, cloud-based solutions that offer instant insights and real-time visibility into financial metrics are a must.

You must also leverage the power of your clinical data to make better informed and more confident decisions. Using both financial and clinical data facilitates good business decisions and behaviors that increase profitability and practice value.

Our clients benefit greatly from our performance enhancing technologies.

### KATHY WATTS

collaborates with dentists to achieve both personal and business goals ranging from startups to succession plans.

While she's known for financial consulting and strategy, she's also known to go above and beyond for her clients.



## 05 When (or if) should I sell, and how do I know if an offer from a private equity group is good?

As mentioned earlier, a practice's valuation is one piece of the transition. Each transition is unique, because no two practices are the same. However, a successful transition begins with knowing the value of your dental practice and balancing the desires of all stakeholders to produce something mutually beneficial.

It's also important to have an advisory team that knows your financial and practice goals. They can quickly help you understand whether or not a particular deal is "good".

To decide if it's wise to sell now, you must consider three important things:

1. How does your reduced compensation as a result of the sale compare to having access to all of the profits of the business?
2. How will tax rates affect the appeal of the offer?
3. What are the pros and cons of you managing your practice vs a DSO managing it for you?

I'll add one other thing that may sound like a cliché, but it is true. In helping clients both buy and sell practices many times over the years, the best transactions are ones that are win-win for both the seller and buyer. And knowing the value of your practice is a key component to getting there.

**FOR MORE INFORMATION ABOUT HORNE HEALTHCARE**

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