



Timothy A. Brown

Break-Up Value

Can a practice be worth more in part than in whole?

On occasion, a purchased dental practice must be relocated as a condition of the sale. This can occur when the lease is expiring and the building is being torn down or when the real estate owned by the retiring dentist is more valuable when vacant than when occupied by a dental office — something that is common with many older, converted residential homes/dental offices in highly desirable neighbourhoods.

The Value of Goodwill

When the typical dental practice is sold “as is, where is,” the purchaser is responsible for the assumption of the rent, the staff, the existing equipment and other practice commitments. When the goodwill of a dental practice (i.e. charts, patient lists, etc.) is the only item sold, professional appraisers know that for certain dental practices, the valuation method for goodwill will yield a different result for the owner when compared with the traditional valuation methods. Central to this valuation is the ease with which the vendor’s patients can be relocated within the buyer’s practice, partly because of the vendor’s recommendation to do so and partly because the buyer’s location is close to the vendor’s practice location.

In special circumstances, the goodwill value may exceed the total practice value if certain conditions are met, for instance when some key staff members are willing to relocate or when the purchaser’s economies of scale can be dramatically enhanced due to the merger. This may simply mean that the purchaser’s practice is underutilized at present and the increased patient flow from the vendor’s practice may result in increased profitability. The purchaser’s staff will also be more fully utilized and more productive.


Purchasers who have a large under-utilized facility near that of the selling dentist are quick to recognize the opportunity. The cost to attract a new patient to a dental office is increasing as advertising and promotion methods become more sophisticated. In short, the purchasers can add hundreds of new patients to their existing hygiene program, make more efficient use of the existing staff and facility, and obtain a direct endorsement from the selling/retiring dentist.

Optimize Your Sale

Prospective dental practice purchasers may be wise to consider the value of having the vendor dentist make a specific recommendation of the new dentist to his or her patients. For most sales, the purchaser dentist’s phone number and a letter of introduction are essential to encourage patient transfer. A reception or retirement party is also a nice touch to reinforce the transfer of trust from one dentist to another.

Recent open-market sales of goodwill indicate that purchasers are willing to pay a substantial premium for goodwill if they can relocate the practice into their existing office immediately. In a recent sale, the goodwill sale price was well above the annual gross income of the practice and six offers were made by local dentists. This sale consisted of about 500 active patients, and the final sale price was \$250,000 — or \$500 per patient file.

The vendor dentist may be able to donate the old equipment and obtain a tax credit to reduce income taxes; the property, if owned, may actually become more saleable in certain markets, thus yielding potentially higher real estate valuations as well.

The break-up scenario is applicable to those who are thinking of selling but are fully aware that their facility is a detriment to the sale. By timing the sale of your practice to coincide with vacating the premises, it may be possible to maximize the value and get the most out of your practice. 

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