

WHO SAYS YOU CAN'T BUY A GOOD REPUTATION? GET YOURSELF INTO THE GOODWILL BUSINESS!



Finding unique ways to build a sustainable brand is tough in any profession. The tried and tested route in the dental field is to acquire long established goodwill at a desirable location, ideally own the property and proceed to “do the right thing” as best you can every day thereafter. The brand you build today will be the asset you sell in future. I speak to associate dentist’s weekly, eager to acquire the brand of established owners. It’s a diverse pool, with most having worked in private practice, for an average of 5 years being cautiously ready to take the leap into practice ownership. These conversations are a gift. I engage with these individuals in a meaningful way, impart knowledge, and build my own reputation accordingly. Many eventually go on to buy a practice through a broker or via private sale and the cycle continues.

The relatively carefree existence of an associate is enviable. They are paid well to build their skillset, enjoy autonomy, and don’t have the myriad of stress factors associated with maintaining a business. However, my phone continues to ring, and it is evident that many of the individuals drawn to dentistry, do so with a desire for entrepreneurship. Once comfortable in the work they feel ready to step out on their own and enjoy the profit and equity created in the business instead of a % of what they produce. The initial stages of ownership are stressful but when given time to settle and start building on the goodwill, most of these individuals flourish and very often expand to multiple locations.

There are two ways prospective owners can go about accumulating goodwill. Buy a practice or start a practice. Each have their own benefits but as a very biased observer, I feel that usually buying a practice with existing goodwill gives them a stable platform from which to grow what already exists. Additionally, with the rising cost of start-ups you essentially end up paying a premium for a competitive space. The older practice may not have the brand-new chairs and personal touches but importantly (especially in our current environment) it has proven transferable cash flow from day one. Provided the successor is prepared to show up consistently and work hard, the debt repayment associated with a goodwill acquisition is easily covered by the former owner’s latent goodwill.

You can’t see, tax or fully define goodwill. However, it is saleable, transferable and scalable. For these reasons it is hard to quantify or qualify. In the ROI Corporation appraisal methodology, we use top and bottom-line revenue to ascribe a goodwill value but it is our 50 years of experience



in the appraisal and sale of all manner of dental practices that underpins the final decision. Goodwill is a feeling, and it is linked to the virtue of the owner, it is sometimes described as the best way to capture the work done by a selling dentist when nobody was watching. Every practice is unique and an appraisal that neglects to have a holistic view of the intangibles does a disservice to the subject office.

The last half decade in practice sales was dominated by corporate dentistry, large players ratcheted up a highly competitive market that saw many dentists divest their goodwill to join a larger group. These very well funded organizations usually run by dental entrepreneurs designed a business model to accumulate as much of this highly coveted asset as possible in the hope to sell for a higher multiple in the future. The corporate model works well for the selling dentist that wants to champion a similar management style and potentially roll over some of their equity in the hope that they might have a second potentially bigger payday should the share price rise, or the group get acquired by a larger PE firm. Activity in the PE space slowed in 2023 due to higher interest rate environments and the difficulty involved in managing the goodwill. Purchasing goodwill conveys ownership in an immediate sense, to compound it involves dynamic management and a commitment level that can be hard to find in uninvested associates and staff. There will always be accumulators of goodwill that compete with the owner operators. Our individual owner will never have the access to capital or the ability to leverage a larger group, but they will always have an advantage in being able to provide a one-of-a-kind localised service and literal hands on management to actively nurture their goodwill.

The current market favors individual owners or smaller groups seeking to acquire larger practices, previously out of reach. Multiples have corrected from the zero-interest rate period we all enjoyed leading into 2023 and we have seen buyer dentists make some fantastic value for money acquisitions this past 12 months. There is a massive cohort of buyer dentists on the sidelines looking for a reason to invest. Some have been discouraged by an accountant or banker, others are uncompromising and bemoan the lack of inventory and some are “waiting for the next cycle” endeavouring to time the market. Either way, those that want to own, should be prepared to compromise, and look to get in the business of compounding goodwill ASAP. This is why we tell our kids to start investing at an early age. It can be helpful to avoid thinking in years and instead think in decades. If you are trying to time the cycle as a buyer you may end up on the sidelines permanently. Many of those market-timing investors invariably end up doing the opposite. Get in when you are ready, in doing so you transcend the short-lived peaks and troughs of the business cycle and make a more timeless investment for your future self.

When properly managed, nothing grows at the same rate as business goodwill. All that is required to build it is an appreciation of compounding and applying yourself to your task. Unlike other investments that incur capital gains in your diversified portfolio, equity growth in a dental practice is not subject to taxes until it is sold. Even upon sale, there are multiple strategies to manage significant tax liability.

In most cases, hardworking dental owners will grow tired of the responsibility and want freedom of ownership after approximately 10 – 20 years. The faster and more profitable exit will belong to those who get in early and create freedom through compounding goodwill strategically, growing an equity base. Whatever the path these individuals walk having transitioned out of ownership, the investments made by their younger self, allow them abundant leverage to dictate their future.

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