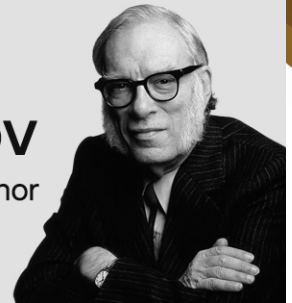


□ A COSTLY ASSUMPTION

“Your assumptions are your windows on the world. Scrub them off every once in a while, or the light won’t come in.”

Isaac Asimov
Futurist and Science Fiction Author



Credit: Corbis via Getty Images

I screwed up last month.

A remarkably successful dentist in a small Canadian city wanted to know the value of the practice.

Nothing urgent. Just financial planning and curiosity more than anything else.

I suggested a cost-effective alternative to our empirical appraisal.

There was no need to invest in the full ROI standard, deep-dive appraisal normally required by banks and accountants because the owner was not selling.

There was no plan to sell in the foreseeable future.

So, why charge the additional fee to travel (approximately 700 km from my office) and record every handpiece, every dental chair, and the hundreds of other valuable tangible assets?

No need to count the plugs or toilets for this assignment.

We agreed that the ROI e-Valuation™ * would be suitable.

No travel costs. No office visit. No full inventory.

Thousands of dollars saved.

The Back Story

This three-operatory practice had recently relocated into a customized facility.

A non-arm’s-length Holdco, also owned by the dentist, bought the property.

A very smart move.

No landlord – forever.

‘Well played,’ was my comment.

Along with the building came a very substantial investment in leasehold improvements.

And then the dangerous ASS-umptions.

The first assumption I made was that the equipment expenditure, approximately \$1 million, would be reflected on the balance sheet of the dental professional corporation (DPC).

And it was. No problem there.

This is not rocket science, and I was confident I could determine exactly how much had been spent because competent appraisers know how to read financial statements, including balance sheets.



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Yes, that was a job at some of the less than competent appraisers.

I have reviewed plenty of their work over the years. Shame on them for not knowing the basics.

Sorry, I digress.

The next assumption I made, and this is hard for me to admit, was that the real estate corporation that bought the building had NOT paid for the interior improvements.

Normally, dentists pay for the leaseholds, and landlords do not.

Whoops. My mistake.

In this instance, the real estate corporation delivered a fully built dental office, cabinetry and all.

The dentist only needed to purchase and install the equipment.

What this means is that the value of the leasehold improvements, which we would normally attribute to the dental practice, was actually paid for by the real estate Holdco and recorded on its balance sheet.

Contractor invoices don't always reveal the exterior vs the interior improvements during a renovation, new build or otherwise.

As a result, the leasehold value was absent from the DPC financial statements.

I failed to recognize that.

I normally do not need to review the financial statements of a real estate corporation because they are rarely relevant to a dental practice e-Valuation™ *.

Well, that turned out to be a huge miscalculation on my part.

Now that we have uncovered the oversight, it has revealed a substantial difference in value.

The building is almost 5,000 square feet, so you can imagine the investment required in leasehold improvements to accommodate a double-digit operatory facility.

There are many ways to acquire dental assets, and those assets may reside in different corporations.

If the appraiser does not ask the right questions or does not understand the ownership structure, you could be left short-changed.

In this case, I have now added over \$1 million in leaseholds and cabinetry.

This is exactly the kind of thing that can happen when no office visit is conducted.

We typically insist on a site visit for many reasons, this being just one of them.

The cost savings seemed like a good idea, but it almost resulted in a catastrophic error.

My error.

Yet Another Potential Oversight

Off balance-sheet financing can also deceive anyone reading a financial statement.

I am referring to equipment leasing.

If the bank or appraiser relies solely on the balance sheet to determine the value of your tangible assets, I have news for you: none of those leased assets will appear there, and they may be completely overlooked.

Your CPA cannot capitalize and depreciate something you do not own.

An appraiser who never visits your office may never know those assets exist.

Yet another reason to spend a little time asking your chosen appraiser about the firm's experience and methodology.

I consider our firm the gold standard in Canada.

Even so, the work we do remains a human endeavor. There is no AI at ROI.

And humans make mistakes.

When we do, we admit the error, correct it, and apologize.

Let's hope I do not make this one again!

More than 40 years in this business, and I am still learning.

**Trademark pending™*



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