

Quarterly Supplement To

Business, Legal, And Tax Planning for the Dental Practice

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The purpose of the Quarterly Supplement is to continually update the material contained in **Business, Legal, And Tax Planning for the Dental Practice**, Second Edition, as "free-standing" articles relative to current business, legal, tax and pending legislative matters that affect your practice. These Quarterly Supplements also reflect my ongoing experiences as an attorney representing dental and dental specialty practices. At times, articles will be written by friends who consist of tax attorneys, accountants, actuaries and dentists. The articles contained in the Quarterly Supplements are consistent with the chapters contained in my book, which you may download at www.wickenslaw.com at no charge.



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Valuation Methods

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VALUATION METHODS

The asset summation approach is one of three general methods that I use in valuing a dental or dental specialty practice. The summation of assets values the dental equipment, office equipment, furniture, technology, dental supplies, dental instruments and goodwill, be it corporate or personal. The largest value in this approach is goodwill. Where all tangibles roughly average 12% to 15% of annual revenue, the goodwill typically averages 50% or more, excluding "unique" procedures (e.g., implants, cosmetics or orthodontics) and managed care revenue. Note that averages are not specific and few practices fall into this category.

The second method is a capitalization of earnings approach or a variation thereof. This method determines what a practice can afford to pay for itself in a complete or partial sale with a "reasonable" level of new owner compensation, repayment of the purchase price, payment of the new doctor's operating expenses and within a measured time period (e.g., five or seven years). I often use this method to verify that the asset summation method, particularly the goodwill, can support the purchase price, over a measured time period.

The third method is comparable practice values. I consider this approach very similar to a multiple of gross revenue approach because neither method measures practice profitability or other important factors. Unlike real estate, dental and dental specialty practices are operating businesses and a variety of factors need to be considered which affect practice profitability. This is distinguished from commercial or residential real estate which is not an operating business. Comparable values often apply to "destination" markets where valuation guidelines seem to be ignored due to the desirability of the location.

Under any valuation method, it is crucial for your CPA to verify that the practice properly "cash flows" and that the valuation is correct. This means that you earn the compensation of a reasonably paid associate dentist or specialist (e.g., 30% of production as a general dentist) and can pay all obligations within 7 years.