



## **Importance of Practice Valuations**

Practice valuations are essential for fair transactions, strategic planning, and asset management. - Helps sellers and buyers determine fair price. - Critical for partnership buy-ins or buy-outs. - Ensures sound mergers or acquisitions. - Identifies capacity to add associates. - Evaluates offers from DSOs or corporate groups. - Vital for estate, death, and disability planning. - Supports securing financing. - Guides business growth and profitability strategies. - Aids in transition planning 5-10 years ahead.

## **Methods and Factors in Practice Valuation**

Valuations use multiple methods considering unique practice variables, with a focus on tangible and intangible assets. - Utilizes three valuation methods aligned with industry standards. - Factors include location, technology, efficiency, and profit margins. - Specialty practices analyzed with specific conditions like referral base and market perception. - Practice value typically ranges from 60-90% of gross revenue for general practices. - Specialty practices range from 50-75% of gross revenue. - Local market conditions significantly influence valuation outcomes.

## **Key Elements Affecting Practice Value**

Practice value depends on tangible assets, intangible assets, and market conditions. - Tangible assets: equipment, office supplies, leasehold improvements. - Intangible assets: goodwill, patient list, practice reputation, phone number. - Practice location, patient base size, and growth potential are crucial. - Practice profitability, overhead, and staff expenses impact value. - Active patient count: practices with fewer than 600 active patients are valued lower. - New patient flow of 15-25 per month is considered healthy. - Patient retention and hygiene-to-total production ratio influence growth prospects. - Facility characteristics and associate contracts also affect valuation.

## **Valuation Approaches for Corporate Buyers**

DSOs and corporate groups use EBITDA-based valuation, focusing on earnings before interest, taxes, depreciation, and amortization. - EBITDA multiples range from 4-7+ for single practices. - Exceptional practices or multiple locations can command 8-12 times EBITDA. - Valuation depends on market conditions, practice size, and specialty. - Higher multiples are associated with specialty practices and multi-location operations. - Understanding EBITDA and its adjustments is critical for accurate valuation.

## **Market Variables Influencing Practice Value**

Practice value is affected by regional demographics, patient base, and facility factors. - Area demographics: supply and demand, rural vs urban desirability. - Patient base: active patients (>600 valued higher), new patient flow (15-25/month healthy). - Patient retention and hygiene production ratios are growth indicators. - Facility location, parking, visibility, and transportation options impact desirability. - Associate employment contracts with non-compete clauses protect value. - Equipment age, technology, overhead, and staffing levels influence valuation. - Practice location and facility type vary in desirability based on regional norms.

## **Choosing the Right Practice Valuation Partner**

Selecting a qualified, experienced valuation firm ensures accurate practice assessment. - Credentials: CVA or IBA designations preferred. - Experience in practice sales management and local market knowledge essential. - Reputation and references from industry professionals recommended. - Avoid firms offering free or overly high valuations; focus on comprehensive, scientific assessments. - Proper valuation is an investment that helps maximize practice value and market readiness.

## **Critical Aspects of Practice Valuation**

Accuracy and thoroughness are vital for a reliable practice valuation. - No single formula; combines science and art. - Must consider all relevant elements, including intangible assets. - Simple percentage of gross revenue is insufficient. - Experienced consultants, like M&R Financial Solutions, provide realistic and useful valuations. - Proper valuation supports fair sale, strategic planning, and asset management.