

# Dental Practice Transition Planning and Market Analysis

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March 2010

The number of active dentists is projected to continue declining through 2020. Currently, approximately 4,000 new dentists graduate each year while close to 6,000 retire. In the United States, there are, on average, about 65 dentists per 100,000 population, a lower ratio in many locations than for other health providers such as primary care physicians.

At the same time, demand for dental services, driven largely by demographics, is projected to grow at a compound annual rate of 5% between 2009 and 2014. Insurance penetration is increasing, and employers are playing larger roles in dental cost-sharing. The industry remains highly fragmented, with the large majority of practices being solo (one dentist) practitioners. However, some sources are reporting an increase in larger dental practices to offset the rapid advances in high-cost diagnostic and treatment equipment and to gain economies of scale in overhead costs, appointment scheduling, and insurance claims management.

To mitigate the risks of a declining pool of potential buyers and to maximize the opportunities that exist in the marketplace, it is crucial to have a transition plan.

## What is a transition plan?

A transition plan puts the goals, priorities, and strategies in place for a successful transition. It is not intended to be a binding contract or plan, but rather a guide committed to in writing that will allow for a smoother transition when the time comes to sell the practice. It provides realistic expectations and the opportunity to enhance value if there is a gap between the owner's expectations and current practice value. A transition plan should include the following key elements:

- **Stage of planning** – Early or long-range, pre-sale, execution
- **Value goal** – What can you expect after-tax from the practice, and at what age can you afford to sell/retire?
- **Exit strategy** – Is the practice going to be sold to an associate(s), a dental management service organization, another practice, an individual, or other exit?
- **Exit goals** – Is your goal to maximize price, manage ease of transition, manage associate or family buyer needs, or manage seller's other needs?
- Rough timeline to guide investment decision making

According to an American Dental Association report on the sale of dental practices, the estimated value of a practice peaks when the dentist is 50 to 54, and the later a dentist retires, the less the practice is worth. We have certainly seen exceptions to these specific age

ranges, but it is absolutely true that a more vibrant and growing practice will garner a higher price.

Many of our clients choose to start their transition planning with a market analysis value calculation. In the market analysis, Wipfli's valuation team summarizes data from live transactions as reported by one of three private transaction databases, as well as our own proprietary data where applicable. We compare the transaction sale multiples to the practice's current historical financial performance to calculate a range of value. The market analysis does not provide Wipfli's independent opinion of the practice's value, but it does provide a calculation based solely on the market or private transaction data. This is especially useful in the early stage of planning when a definitive value is not needed, but rather a rough indication, calculated by transaction data, is all that is necessary.

At some point before the practice is transferred, either an opinion of value from a third-party appraiser like Wipfli or a negotiated value between the buyer and seller will be necessary to lock in a specific value for the transaction. At that time, the deal structure (asset sale, stock sale), entity type, after-tax cash flow generated from the sale, and specific timing on close and post-close transition are also nailed down.

The sooner the transition plan begins, the more confident the practitioner can be in making business investment decisions, the more can be done about any value gaps, and the smoother the process will be when the time comes to consummate the transaction.

## About the Author

Karen Monfre, partner in charge of Wipfli's Valuation, Forensic, and Litigation Services team, possesses expertise in business valuations and assisting clients in acquiring a business or in the sale of their business. Her time is spent exclusively doing business valuation, litigation support, merger and acquisition, and related engagements. Due to her loyal client following, Karen is highly sought after for her experience and forthright consultation services.

## About Wipfli LLP

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