

SAMPLE  
REPORT



# Practice Purchase Analysis

*Prepared exclusively for the office of:*

JOHN SMITH DDS

General Dental Office

Draper, UT

## Practice Summary

OPINION OF VALUE COMPLETION DATE	January 29, 2025
<b>ASKING PRICE</b>	<b>\$1,508,000</b>
<b>OPINION OF VALUE</b>	<b>\$1,306,544</b>
GROSS COLLECTIONS	2024 - \$1,629,086 2023 - \$1,477,044 2022 - \$1,442,645 2021 - \$1,436,506
ADJUSTED NET INCOME	\$475,537
OVERHEAD PERCENTAGE	68.2%
TRANSITION TYPE	Practice Purchase
CURRENT PRACTICE OWNER	Dr. John Smith, DDS
BUSINESS ENTITY	Partnership
FACILITY OWNED BY SELLER?	No
SELLER OWNS MULTIPLE LOCATIONS?	No
FACILITY	7 operatories Approximately 2,950 square feet
IN NETWORK WITH DELTA PREMIER?	No
PATIENT BASE	Fee For Service – 100% Insurance – 0%
	New Patients – average of 15 per month



**QUESTION 1:**  
**IS THIS A GOOD  
PRACTICE TO BUY?**

**QUESTION 2:**  
WHAT IS A FAIR  
PRICE TO PAY FOR  
THIS PRACTICE?

**QUESTION 3:**  
HOW MUCH MONEY  
WILL I MAKE?

## Pros – Cons

### Pros:

- Very high, and consistent collections. This is a sign of a well-run business with excellent goodwill, a strong staff with training and a solid reputation around the community. This shows a healthy patient base, decent demographics and a good reputation and location generally speaking.
- Lab and supply expenses are extremely well managed at 12.7% of total collections, in-line with high-performing practices which keep that number between 11-12% of collections. Often if the ordering of supplies and labs is well-managed, then other financial and clinical processes are also well-managed.
- Total facility costs including rent, utilities, repairs, and other miscellaneous building-related expenses are 7.9%, in-line with the average of 7-8% of collections most dental practices in the US pay. While facility costs are the most geography-specific expenses of any dental practice, this rule of thumb holds surprisingly constant when compared to the amount of space a dentist needs in any given city. Additionally, this expense line is important as it's nearly impossible to *decrease* and will in fact almost certainly *increase* year after year as rents and real estate taxes increase – assuming the practice remains in the same location.
- 2,950 sq/ft with 7 ops and other required areas is a very good size practice for this type of dental office, where you have enough room to work comfortably and to grow out the schedule aggressively, if desired, while still not overpaying for square footage not needed for anything beyond the doctor's ego.
- Building and upkeep is obviously a source of pride for Dr. Smith with the practice showing well. While individual tastes differ, this is a 'pro' as relative to the average owner's investment in the building it appears that some effort has been made to stay modern.
- The practice has achieved its results with only 1.3% of collections spent on advertising – indicating that new patient flow is relatively sustainable, and the practice isn't likely to be dependent on high advertising budgets or gimmicky sales techniques to bring new patients in the door. This makes it marginally more likely that a new owner could increase new patient metrics by simply investing slightly more in marketing and advertising and seeing a good return on dollars invested. Practices that spend <1% of collections on advertising are generally considered to be in "maintenance mode" with respect to reputation and attracting new patients. Practices spending between 1-4% are a little more aggressive with new patient acquisition, with practices spending more than 4% considered "very aggressive" in bringing new patients into the practice.
- Staff tenure has a good mix of established and newer team members, an indicator of a good overall office culture and increasing the amount of staff goodwill transferred to a buyer while decreasing the likelihood that a buyer will have a huge hurdle in changing behavior, if desired. Buyers typically find one of two types of staff difficult to manage in a transition – first, offices where everyone on staff has been in that office 15+ years and basically run everything without the input of the doctor, or second, offices where staff are all basically new and don't know much about active patients and aren't well-trained in high standards and procedures.
- Outstanding accounts receivable are much lower than averages for practices this size and indicate that the front desk has established and managed routines for collecting payments and reimbursements well and in a timely way, in general.
- The practice currently has a true 4-day workweek schedule, increasing flexibility for a buyer relative to other acquisition options who can choose to continue that attractive lifestyle choice or grow the practice by expanding days/hours.
- An active patient count of 2,346 people is a solid number for offices this size. It should be noted that definitions of "active" patients are notoriously difficult to define and should be verified by a buyer during in-practice due diligence. Comparing the active patient count to the financial results of this practice is also an indicator of high patient retention.
- Average monthly new patients' number, while not phenomenal, is strong and indicates a solid reputation among the population and also indicates a seller who hasn't completely given up on running the business prior to selling.

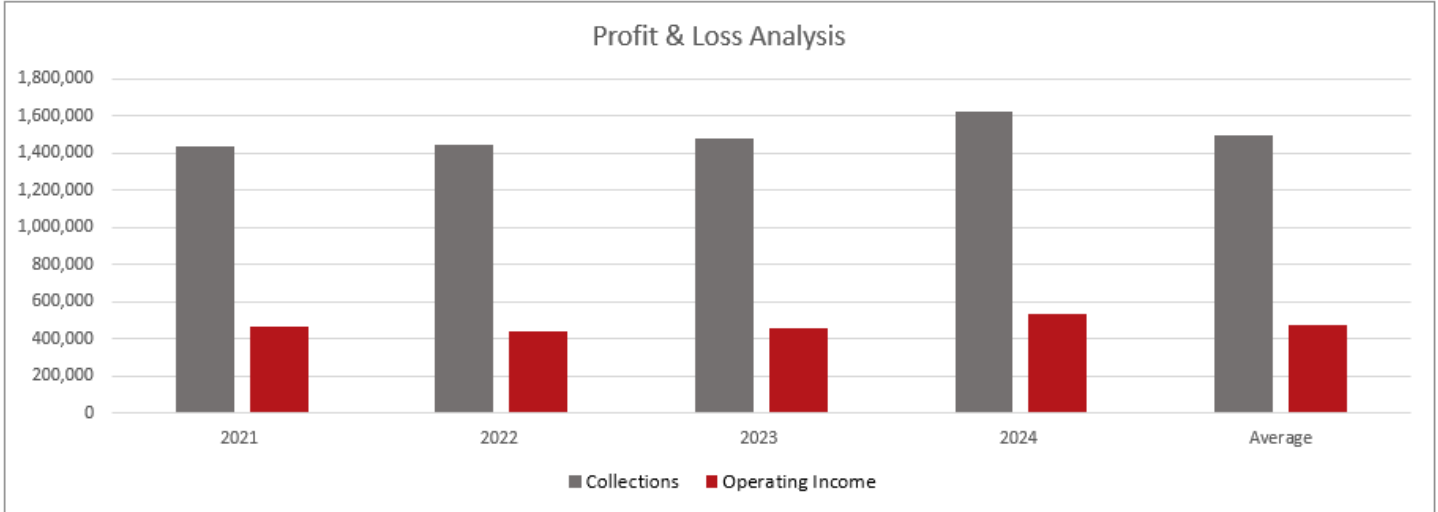
- Hygiene production is 43% of total practice production, a strong number that indicates high patient loyalty and likely speaks to plenty of untreated dentistry for a buyer to inherit. A buyer should always verify which procedures are coded to hygiene during due diligence to check the validity of these conclusions.
- The ratio of residents to dental offices in an area is called the saturation ratio. It can be an important factor to consider when choosing a location for a dental practice. A dentist-to-population ratio of 2,000 people per dentist and above is considered a good ratio for a geographical area. This means that the area is a desired location for a dentist's practice because it has a higher ratio of people to dentists, which can lead to easier growth. This practice's average saturation ratio of 2,851 is a strong number that shows the area is in high demand and has potential for continued growth.
- The current production mix is solidly bread and butter, offering a buyer a lot of flexibility to continue with the same strategy or potentially grow the practice by keeping some procedure referrals in house.
- This office has average to above-average signage and visibility for patients who pass by, increasing the likelihood of a positive mental reputation and top-of-mind awareness. As a buyer is buying the goodwill of the business, a good location and visibility are the whipped cream on top of the financial goodwill.
- Online visibility (at least as important as physical visibility) is good overall, with 59/62 positive Google reviews, and a handful of positive Health Grades and other reviews. Additionally, the website looks to be at least average to above average in quality. This is generally a positive for a buyer who can maintain online presence and visibility with limited investment.
- Speaking directly as someone who has reviewed thousands of dentist's financial records, the quality and overall organization of the information provided is generally high overall and better than average. While it's possible this is the work of one motivated person and everything else is disorganized, it's more frequent to find that a practice with the financial information carefully organized has *everything else* in the practice organized as well – hiring practices, procedures & training, time-off procedures, marketing, etc.

## Cons:

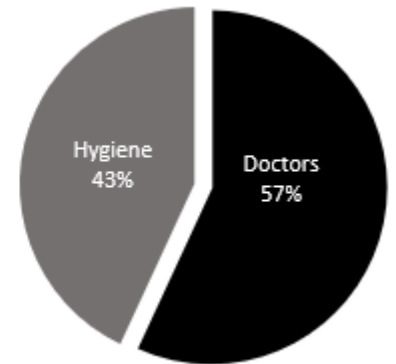
- The purchase price is high relative to common valuation methods. Often this is indicative of a seller who places a higher value on their after-sale take home pay, than on the smooth transition from seller to buyer. This can also cause problems for a buyer with banks who may not be able to finance the entire price of the practice, creating the possibility of negotiations (and possible loss of goodwill with a seller), or a seller needing to carry part of the purchase price of the practice.
- Adjusted overhead is 68.2%, roughly 6.5% higher than comparable benchmarks. This has two negative effects. First, this is probably the best indicator of a practice with below-average business goodwill for a buyer to purchase. Staff typically aren't as good; processes and procedures are typically poorer or non-existent and competition is frequently higher. Second, high overhead lowers cash flow to a buyer, which theoretically reduces a seller's valuation. In practice, however, many sellers don't actually reduce their valuation, setting up a scenario where a buyer has to decide whether or not to offer a 'high' price to get the practice.
- Staff costs (including wages, payroll taxes and benefits) are running at around 41.5% of collections, about 11.5-13.5% higher than national averages of 28-30%. This is particularly important for a buyer as it's the largest expense of any dental practice and reduces net take-home pay for a buyer relative to other potential purchases. Additionally, staff costs are a difficult expense to change in the short- or even medium-term as most buyers seek to minimize change, especially around staffing, during a transition.

## Profit & Loss Analysis

	2021	2022	2023	2024	Average	
Collections	1,436,506	1,442,645	1,477,044	1,629,086	1,496,320	
Employee Costs	588,293	615,669	633,584	643,722	620,317	41.5%
Supplies & Lab Costs	183,944	188,283	179,489	209,213	190,232	12.7%
Facility Costs	117,808	118,644	118,250	118,293	118,249	7.9%
Other Fixed Costs	77,194	81,247	84,710	124,792	91,986	6.1%
Operating Income	469,267	438,802	461,011	533,067	475,537	31.8%
Operating Profit Margin	32.7%	30.4%	31.2%	32.7%	31.8%	



Provider Production		2024
Doctors	\$	929,066.00
Hygiene	\$	703,420.34
<b>Total</b>	<b>\$</b>	<b>1,632,486.34</b>



Hygiene Percentage 43%

Collection Percentage 100%

Top 10 Production Codes	Procedure Code	Production	% of Production
2024			
1	D1110	\$ 441,205.00	27.0%
2	D2740	\$ 240,940.00	14.8%
3	D0120	\$ 201,342.00	12.3%
4	Composites	\$ 153,970.00	9.4%
5	D0274	\$ 136,460.00	8.4%
6	Individual PA Images	\$ 37,647.00	2.3%
7	D6058	\$ 35,512.00	2.2%
8	D0330	\$ 35,209.00	2.2%
9	D6057	\$ 34,828.00	2.1%
10	D6059	\$ 33,876.00	2.1%
<b>Total Production</b>		<b>\$ 1,632,486.34</b>	

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## A/R AGING ANALYSIS

Aging	Amount	Rate	Price	Discount
Current	\$33,289	85%	\$28,296	\$4,993
30 Days	\$10,489	75%	\$7,867	\$2,622
60 Days	\$3,472	50%	\$1,736	\$1,736
90 + Days	\$14,875	10%	\$1,488	\$13,388
<b>Total</b>	<b>\$62,126</b>		<b>\$39,386</b>	<b>\$22,740</b>

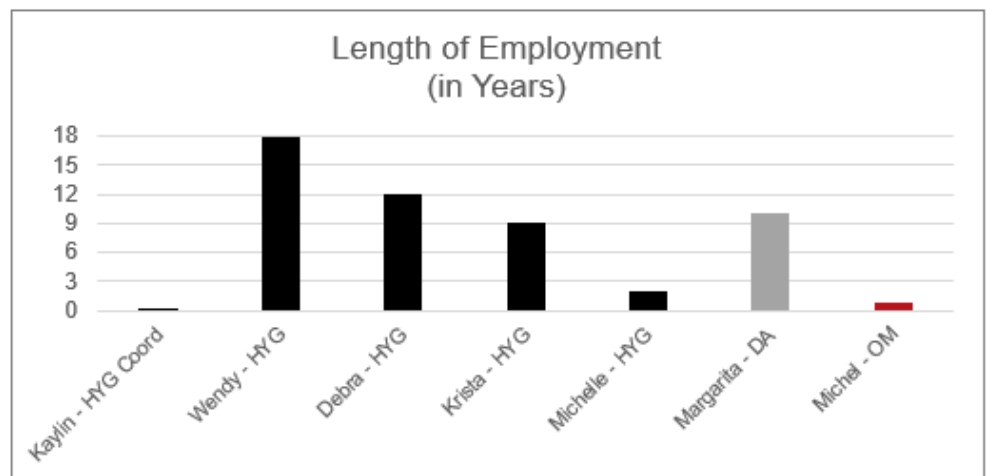
## OFFICE HOURS

	Monday	Tuesday	Wednesday	Thursday	*Friday	Saturday
Front Desk	8am-5pm	8am-5pm	8am-5pm	8am-5pm	-	Closed
HYG/DA	8am-5pm	8am-5pm	8am-5pm	8am-5pm	8am-12pm	Closed
Dr. Roberts	-	8am-5pm	8am-5pm	8am-5pm	-	Closed
Dr. Fluellen	8am-5pm	8am-5pm	-	-	-	Closed

*\*Office is open every other Friday*

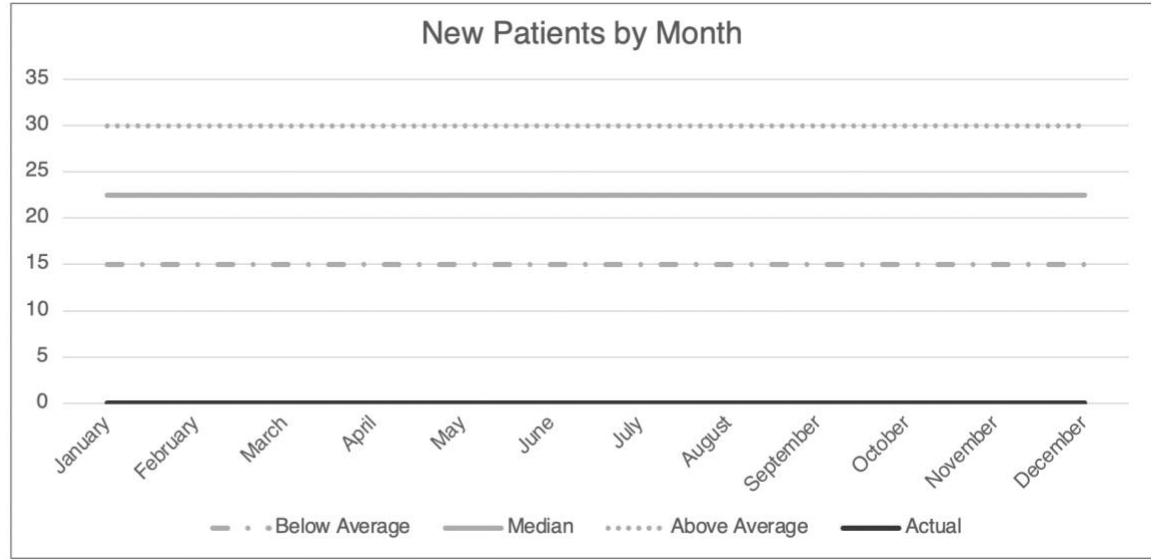
## STAFF TENURE

Position	Length of Employment (in Years)
Kaylin - HYG Coord	0.25
Wendy - HYG	18
Debra - HYG	12
Krista - HYG	9
Michelle - HYG	2
Margarita - DA	10
Michel - OM	0.75



### New Patients Per Month

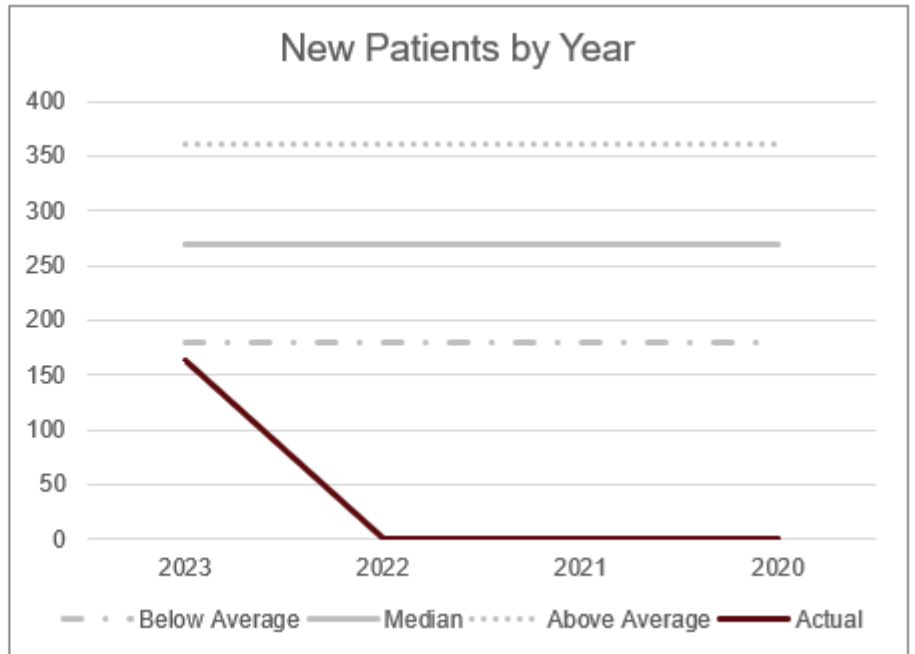
Month	New Patients
January	Not provided
February	-
March	-
April	-
May	-
June	-
July	-
August	-
September	-
October	-
November	-
December	-
Below Average	15
Median	22.5
Above Average	30



### New Patients Per Year

Year	New Patients
2023	163
2022	not provided
2021	not provided
2020	not provided
Below Average	180
Median	270
Above Average	360

Year	Monthly Average
2023	14
2022	-
2021	-
2020	-





## How Would a Patient Perceive This Practice Online?

No analysis of a practice would be complete without an assessment of the single most common way a practice is going to be looked at by patients - online. Location, accessibility, the street-side view of a practice, parking and other physical aspects of a practice are all important. But increasingly they pale in comparison to the first thing a patient does to interact with your practice – pull out their phone or type you into their computer browser.

### Overall Website Evaluation: 3.5/5



### Subcategory Website Evaluation:

1. First Impression – First impressions, done right, have the power to set the mood for the rest of the site. It draws them in rather than turns them away.
2. Ease of Use – There’s nothing more annoying about a website than not being able to find the basics. Similarly, if the difference between the desktop and mobile versions of the website is jarring, patients may just move on.
3. Human Connection – Data pulled from dentists’ websites show that the number one clicked page is the “about us” page. People buy from people. Is there anything candid or that shows the personality of the office?
4. Images of the Practice – What your practice looks like can be the driving factor behind whether or not a patient comes through your door. No one wants to be surprised. The pictures need to match reality.
5. Personal Invitation – Possibly the most overlooked element of a great site is the simple act of inviting a patient into the practice. Does this website have a warm and sincere invitation?



### Online Reviews:



Online reviews are the embodiment of the psychological principle of ‘social proof,’ or that we as humans tend to do the same thing other humans do, as it’s perceived to be the safe choice. A large number of positive online reviews is obviously a good thing. A low number (or none whatsoever) of online reviews could be either a positive or negative – negative in that patients haven’t had a lot to say about this office online and/or the staff isn’t trained to ask (or care!) what patients think about the practice. Positive in that it’s an increased amount of goodwill that’s transferring to a buyer, and it could be relatively easy to grow the practice with some focus on growing these numbers:













- *Google Reviews:* 59/62 positive reviews
- *Can I book an appointment online?* No, but an appointment request is available.
- *Can I pay a bill online?* No

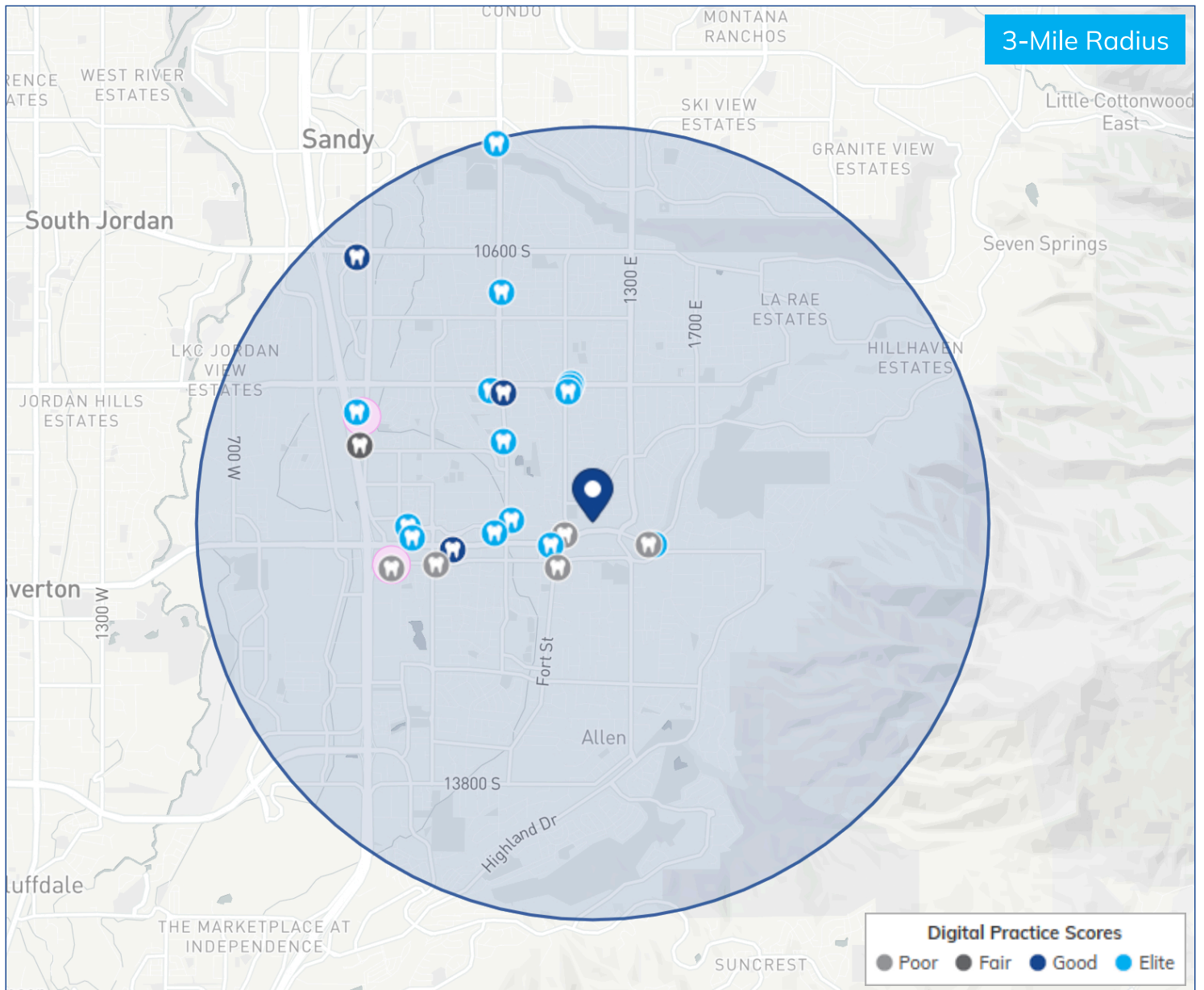
## How Can I Grow This Practice?

Practice analyses and projections directly show how the office in question has performed historically and how it will continue to perform should it continue to run in the same manner. However, each doctor is different. You each have different goals, priorities and thought processes. There is no such thing as a cookie cutter, one-size fits all practice. When you own your own practice, things will be different. Therefore, we feel it's important to acknowledge and address how the practice you are looking at could do better under your direction and how it aligns with your goals. Truth be told, many dentists are not savvy business-owners. To excel, all you need to do is be mediocre! If you implement even just one new technique, you will be far above your colleagues. You can do this!

		YES	NO	N/A	UNKNOWN	COMMENTS
<b>Increase Collections - (Existing Patients) Additional Procedures</b>						
Implant Placement		✓				
Posterior Endo		✓				
Orthodontics	Includes both traditional and clear aligners	✓				
<b>Increase Collections - (New Patients) Business Development</b>						
General Marketing	Any General Marketing Techniques: print mailers, radio, promotions, incentive program, VIVO referral cards, etc.	✓				The office is currently using 1.3% of collections for advertising with good results. The office could afford a 1.2% increase to achieve stronger results and still be considered "well-managed".
Web Development	SEO		✓			
	Social Media		✓			
	General Web Development	✓				The office would benefit greatly by updating the website to include the following features: online staff profiles, photos of the office and online scheduling and bill pay options.
	Reviews	✓				An owner should be in constant pursuit of up-to-date, positive reviews.
Physical Office	Signage, Visibility- Is it obvious & noticeable?	✓				
	Interior- Is it modern, up-to-date?	✓				
<b>Decrease Overhead - Cost Savings Opportunities</b>						
Staff Expenses	Cut Back Number of Staff		✓			For morale, it's not often recommended to reduce the number, salary and benefits of existing staff members.
	Cut Back on Staff Pay		✓			
	Cut Back Staff Benefits		✓			
	Terminate associate			✓		
Dental Supplies	Well-run Offices Spend ~6% of Collections		✓			
Lab Expenses	Well-run Offices Spend 5-6% of Collections		✓			
Accounting	Typical expenses is between 1-1.5% of collections		✓			
Credit Card Fees	The Typical Office Spends ~1.5% of Collections, Depending on PPO/FFS Payment Mix		✓			Likely included in expenses categorized as "Bank Charges".
Phone/Internet	Offices Are Consistently Around \$4-6,000/year for Phone/Internet + Doctor/Family Cell Phones	✓				

1111 DRAPER PARKWAY, DRAPER, UTAH 84020  
GENERAL DENTIST

 Population 82,112	 Employees 50,454	 Avg Household Size 3.42
 Household Income \$115,631	 Median Age 36.1	 Speaks English 80.9%
 Practices 27	 Observed Growth 0.0%	 Fee Index \$\$\$\$\$
 Saturation 3,041	 Home Ownership 77.8%	 Search Index Q Q Q Q Q



# Who Lives in this Area

## **Workday Drive (21.8%)**

Workday Drive is an affluent, family-oriented market with a country flavor. Residents are partial to new housing away from the bustle of the city but close enough to commute to professional job centers. Life in this suburban wilderness offsets the hectic pace of two working parents with growing children. They favor time-saving devices, like banking online or housekeeping services, and family-oriented pursuits.

## **Savvy Suburbanites (14.9%)**

These residents are well educated, well read, and well capitalized. Families include empty nesters and empty nester wannabes, who still have adult children at home. Located in older neighborhoods outside the urban core, their suburban lifestyle includes home remodeling and gardening plus the active pursuit of sports and exercise.

## **Professional Pride (11.7%)**

These consumers are well-educated career professionals that have prospered through the Great Recession. They are financially savvy; they invest wisely and benefit from interest and dividend income. So far, these established families have accumulated an average of 1.5 million dollars in net worth, and their annual household income runs at more than twice the US level.

## **Boomburbs (10.4%)**

This is the new growth market, with a profile similar to the original: young professionals with families that have opted to trade up to the newest housing in the suburbs. The original Boomburbs began growing in the 1990s and continued through the peak of the housing boom. Most of those neighborhoods are fully developed now. This is an affluent market, but with a higher proportion of mortgages. Rapid growth still distinguishes the Boomburbs, although the boom is more subdued now than it was 10 years ago.

## **Home Improvement (10.1%)**

Married-couple families occupy well over half of these suburban households. Most Home Improvement residences are single-family homes that are owner occupied, with only one fifth of the households occupied by renters. Education and diversity levels are similar to the US as a whole. These families spend a lot of time on the go and therefore tend to eat out regularly. When at home, weekends are consumed with home improvement and remodeling projects.

# Area Insights

## Demographics

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- Median household income is **23.77%** higher than that of the state and **16.00%** higher than that of the Salt Lake City MSA. Household income levels are a good predictor of per capita demand for dental care and can also influence in-demand procedures and common payment methods.
- Residents twenty-five years and older with a four-year degree or higher level of education account for **48.68%** of the area's population compared to **36.85%** in the Salt Lake City MSA and **37.25%** statewide.

## Competition

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- With 3,041 residents per general dentist office, the level of competition in the market is low.
- Compared to all other existing general dentist offices, the area's ratio of residents per competing practice ranks in the 74th percentile in the Salt Lake City MSA and 62nd percentile statewide.


1111 DRAPER PARKWAY, DRAPER, UTAH 84020  
GENERAL DENTIST

 Population  
154,357


 Employees  
80,858

 Avg Household Size  
3.24

 Household Income  
\$108,333


 Median Age  
36.9


 Speaks English  
81.7%

 Practices  
58

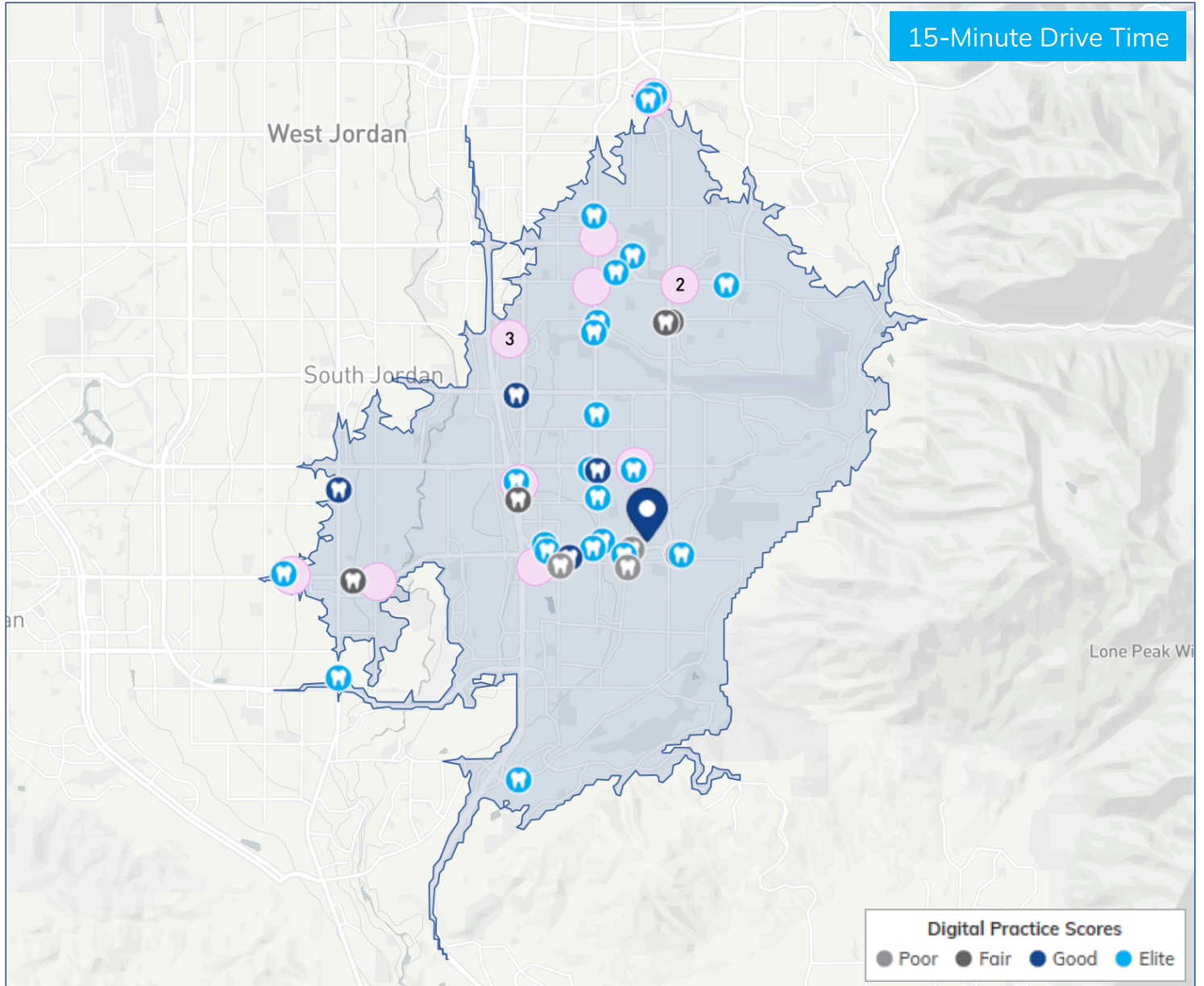
 Observed Growth  
-0.2%

 Fee Index  
\$\$\$\$\$

 Saturation  
2,661

 Home Ownership  
76.2%

 Search Index  
Q Q Q Q Q



# Who Lives in this Area

## **Savvy Suburbanites (19.8%)**

These residents are well educated, well read, and well capitalized. Families include empty nesters and empty nester wannabes, who still have adult children at home. Located in older neighborhoods outside the urban core, their suburban lifestyle includes home remodeling and gardening plus the active pursuit of sports and exercise.

## **Workday Drive (18.1%)**

Workday Drive is an affluent, family-oriented market with a country flavor. Residents are partial to new housing away from the bustle of the city but close enough to commute to professional job centers. Life in this suburban wilderness offsets the hectic pace of two working parents with growing children. They favor time-saving devices, like banking online or housekeeping services, and family-oriented pursuits.

## **Home Improvement (12.6%)**

Married-couple families occupy well over half of these suburban households. Most Home Improvement residences are single-family homes that are owner occupied, with only one fifth of the households occupied by renters. Education and diversity levels are similar to the US as a whole. These families spend a lot of time on the go and therefore tend to eat out regularly. When at home, weekends are consumed with home improvement and remodeling projects.

## **Professional Pride (7.7%)**

These consumers are well-educated career professionals that have prospered through the Great Recession. They are financially savvy; they invest wisely and benefit from interest and dividend income. So far, these established families have accumulated an average of 1.5 million dollars in net worth, and their annual household income runs at more than twice the US level.

## **Bright Young Professionals (6.7%)**

This large market is primarily located in urban outskirts of large metropolitan areas. These communities are home to young, educated, working professionals. One out of three householders is under the age of 35. Bright Young Professionals are slightly more diverse and couples dominate this market, with more renters than homeowners. Over two-fifths of households are single-family dwellings; over a third reside in 5+ unit buildings. Labor force participation is high, generally white collar work, with a mix of food service and part-time jobs (among the college students). Median household income, median home value and average rent are close to the US values.

# Area Insights

## Demographics

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- Residents twenty-five years and older with a four-year degree or higher level of education account for **45.77%** of the area's population compared to **36.85%** in the Salt Lake City MSA and **37.25%** statewide.
- The study area is home to fewer residents today than at the time of the 2020 Census.

## Competition

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- Compared to all other existing general dentist offices, the area's ratio of residents per competing practice ranks in the 66th percentile in the Salt Lake City MSA and 52nd percentile statewide.





**QUESTION 1:**  
IS THIS A GOOD  
PRACTICE TO BUY?

**QUESTION 2:**  
WHAT IS A FAIR  
PRICE TO PAY FOR  
THIS PRACTICE?

**QUESTION 3:**  
HOW MUCH MONEY  
WILL I MAKE?

SAMPLE  
REPORT

# Smith Family Dentistry, PLLC

## Valuation Report

As of: December 2024  
Report Date: January 29, 2025

*Valuation Prepared and Approved by:*  
Kingsley Ifedi, CPA  
Dental Tax Advocates, LLC



## Valuation Background

The objective of this report is to provide a valuation for John Smith, DDS and Matthew Roberts, DDS practice. The purpose and use of the valuation is in preparation for Dr. Joe Young, a dentist with respect to the fair market value of a 100% interest of Smith Family Dentistry, PLLC for potential purchase purposes. We (Dental Tax Advocates, LLC), under the direction of Dr. Young who has retained Dental Buyer Advocates as purchasing advisors, has obtained the information and background needed to complete this report. Dental Tax Advocates, LLC does not have any present or future interest in the value of the practice, any personal relationship with the parties involved or any other interest or relationship which might bias the valuation assignment in any way. Our compensation for completion of this report is not contingent upon any action or event resulting from the use of this report.

The valuation below assumes an asset sale transaction, not a stock sale. It also assumes the seller(s) is(are) living and the Practice is an ongoing concern.

## Fair Market Value

According to IRS Rev. Rule 59-60, 1959-1 C.B. 237 the fair market value is defined as the price at which a property would change between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, with both parties having reasonable knowledge of the relevant fact.

The fair market value of every professional practice is affected by various financial, economic, and geographic considerations. Ultimately, the fair market value will be determined by the marketplace and is subject to the forces of supply and demand.

### Calculation Procedures:

We have performed a calculation engagement and present our report in agreement with the “Statement of Standards for Valuation Services No. 1” (SSVS) of the American Institute of Certified Public Accountants. SSVS defines a calculation engagement as “An engagement to estimate value wherein the valuation analyst and the client agree on the specific valuation approaches and valuation methods that the valuation analyst will use and the extent of valuation procedures the valuation analyst will perform to estimate the value of a subject interest. A calculation engagement generally does not include all the valuation procedures required for a valuation engagement. If a valuation engagement had been performed, the results might have been different. The valuation analyst expresses the results of the valuation engagement as a calculated value, which may be either a single amount or a range.”

SSVS further differentiates a calculation report from a valuation report as follows: “This type of report should be used only to communicate the results of a valuation engagement (calculated value); it should not be used to communicate the results of a valuation engagement (conclusion of value) (Paragraph 73).” A calculated value is an approximate indication of value as opposed to a detailed conclusion of value. A calculation report has minimum procedures and requirements as specified in paragraphs 73 to 76 of SSVS.

This calculation report is an appraisal service under the Uniform Standards of Professional Appraisal Practice (USPAP) but does not constitute an appraisal. This calculation was performed solely to assist in the calculation of value for the potential sale of the Practice, and the resulting estimate of value should not be used for any other purpose or by any other party for any purpose, without our express written consent.

### Considerations:

To perform a proper report and opinion of the value of a professional practice, it was necessary to review, analyze, and adjust relevant practice data for its most recent and prior years. This information was supplied by Dr. Young. The following information was taken into consideration in determining a fair market value of the practice:

- Historical financial information on the practice, including but not limited to expenses, earnings, accounts receivable, fee schedule, etc.
- Assets and liabilities of the practice
- The condition, type and amount of equipment, furniture, and supplies
- Practice systems and management
- Location of the practice
- Economic factors affecting the practice
- Status of office ownership and amount of available space
- Type of practice
- Status and history of staff and/or associates

**The following indicated assets are included in the opinion of value:**

- Clinical and office equipment
- Furniture and fixtures
- Instruments
- Telephone Number
- Patient records
- Owner goodwill
- Work-in-progress, if applicable

**The following assets are not included in the appraisal:**

- Automobiles
- Real estate
- Cash on hand
- Checking or savings account
- Marketable securities
- Accounts receivable

## **Balance Sheet**

The balance sheet for a practice reflects the book value of the practice assets. Book value has little relevance for determining practice value since it does not include the anticipated remaining life and use of the assets, or the future anticipated revenue stream based on relationships, referrals or reputation. In addition, supply inventories are not usually entered on the balance sheet, since they are expenses upon purchase.

Moreover, since all the assets included in the sale of the dental practice are assumed to be sold “free and clear” of any liens, encumbrances, and liabilities, the liabilities, and owner equity portions of the balance sheet are of little relevance or use. To accurately reflect the fair market value of the practice, the values of the assets are adjusted to reflect their fair market value based on a combination of current market values as of the report date.

## Valuation Approaches

Several valuation methods are generally accepted among professional appraisers. Each method involves a different approach and possesses at least some element of subjectivity applied by the evaluator. As a general rule, most valuation methods can be classified into one of the following three categories:

1. Asset Based
2. Market Based
3. Income Based

### Asset Based

The asset-based approach will not be used in this report.

An asset-based approach to value consists of independently appraising the various assets of the practice being sold and then adding the individual values together to reach a total value. Dental practice assets can be classified into one of the following: 1) tangible personal property; 2) intangible assets; 3) financial assets, and 4) tenant improvements.

The asset-based approach is particularly useful when applied to practices that may have an abnormally large investment in tangible property, such as dental equipment or to practices that may not be operating at a level of production commensurate with the level of dental assets it contains. Start-up practices (practices which have been in operation less than 3 to 5 years), or practices similar to a start-up, often fall into this category and may be accurately valued using an asset-based approach.

### Market Based

The market-based approach will be used in this report.

The market-based approach relies exclusively on the analysis of actual sales of comparable practices in the marketplace local to the subject practice. This method is most widely used and commonly known for real estate appraisals where the value is determined by comparing similar assets recently bought and sold in an area.

In market-based practice valuations, the subject practice is compared to other similar practices in the area which have recently sold. The appraiser determines whether, in their opinion, the subject practice is more or less desirable than recently sold comparable practices. The appraiser will consider such practice characteristics, assets, and data as are listed above when making his determination. The value of the subject practice is then assigned by adjusting the average selling prices of the comparable properties either upward or downward depending on how the subject practice compares.

The basis database to compare against is key to the accuracy of this method. Several sources of historical data can be gleaned from a few reputable sources, including: 1) The Institute of Business Appraisers; 2) Pratt's Stats; and 3) the Goodwill Registry. However, given the nuances that often exist from one market to another, the appraiser has supplemented reputable sources with his own personal knowledge of more than 1000 general and specialty dental practices listed for sale each year in this and similar markets. These sales are researched to provide the appropriate basis for comparison. Comparability in practices can be determined based upon calculations involving the gross and net incomes of practices that have sold in that area. The most popular and widely used tool for comparison is the price to revenue ratio. This ratio is derived by dividing the sales price by the practice's most recent gross annual collections figures.

## Income Based

The income-based approach will be used in this report.

Using an income-based approach to value a practice will focus primarily on the income stream of the practice, more specifically the net income stream after paying all normal and necessary operating expenses. Subjective measures are then applied to this approach to account for the forecasted earnings of the practice and the level of certainty around those forecasts.

This approach assumes that the current operations and trends of the practice are indicative of its future operations. The method tends to reflect more the value of the assembled office and equipment, the availability and existence of trained employees, the existence of systems in the practice and the patient and referral base.

The capitalized earning method is considered by many appraisers to be the most reliable method of valuing professional practices. The results of this method help demonstrate the feasibility of a potential buyer to pay the fair market value and still be able to retire the debt in a reasonable period while drawing a reasonable salary.

After a weighted average of the earnings is determined, the capitalization method involves dividing the average by a capitalization rate. The capitalization rate can be compared to the rate of return a purchaser might expect from purchasing the practice and is determined by the appraiser based on their analysis of comparable investment opportunities and relevant risk factors associated with the practice.

## Market Based Approach

Year	Multiplier	Practice Collections*	Weighted Value
2024	x3	\$ 1,629,086	\$ 4,887,259
2023	x2	\$ 1,477,044	\$ 2,954,088
2022	x1	\$ 1,442,645	\$ 1,442,645
			\$ 9,283,992
Divided by Sum of Weighted Factors			6
Total Average Weighted Value			\$ 1,547,332
Average Practice Sales Price as a Percentage of Collections			84.00%
<b>Opinion of Value Based on Average Practice Sales + Mitigations</b>			<b>\$ 1,299,759</b>

\*2022-2024 financial information is based on seller/broker provided P&L data

## Income Based Approach

Year	Gross Revenues	Adjusted Expenses	Doctor's Comp (30%)	Profit/Earnings	Weight Factor	Weighted Value
2024	\$ 1,629,086	- \$ 1,096,019	\$ 268,799	\$ 264,268	x3	= \$ 792,803
2023	\$ 1,477,044	- \$ 1,016,033	\$ 243,712	\$ 217,299	x2	= \$ 434,598
2022	\$ 1,442,645	- \$ 1,003,843	\$ 238,036	\$ 200,766	x1	= \$ 200,766
Sum of Weighted Factors					6	\$ 1,428,166

Weighted Value	\$ 238,028
Capitalization Rate	18.00%
<b>Fair Market Value</b>	<b>\$ 1,322,376</b>

Notes on income-based approach:

- 1) 2022-2024 financial information is based on broker provided info.
- 2) Doctor's compensation is 30% of doctor collections, an estimate of what an associate would be paid.
- 3) The capitalization rate of 18.0% is in line with similar valuations of general dental practices sold in the last several years in this and similar markets.

## Merging Of Approaches

Because different methodologies yield different results and are in some way affected by a subjective blending of the methodologies used, this typically leads to a result that accounts for the various strengths of each method.

In this case, each method is weighted at a 70/30 split. The market-based approach takes into consideration other practices sold and only takes top line revenue into account. The income-based approach considers the profitability of the practice, and thus the take-home pay of the owners of the business, the presumed reason to own the business. Both approaches take into consideration the size, location, regional competitors, talent availability, management skill of current owners, etc.

	Valuation	Multiplier	Weighted Value
Market-based	\$ 1,299,759	70%	\$ 909,831
Income-based	\$ 1,322,376	30%	\$ 396,713
			\$ 1,306,544

This puts the total valuation at:  
**\$1,306,544**

**So... how does this number compare to other practices sold?**



## Market-Based (Collections) Approach

The market-based approach relies exclusively on the analysis of actual sales of comparable practices in the marketplace local to the subject practice. This method looks solely at collections and divides asking price by collections for a ratio.

In plain English, this method asks: “How much are you willing to pay for a dollar of collections?”

In practical terms, what this means is that dental practices are treated more or less equally, and the underlying assumption is that looking solely at collections will tell you most of what you need to know about the practice including size, location, regional competitors, talent availability and the management skill of current owners.

A typical range for Asking Price as a % of Weighted Value is between 70%-95%  
depending on specialty and a variety of factors.

Since many sellers are accustomed to speaking about their practice in terms of collections, and many are unfamiliar with their actual adjusted overhead numbers, this method tends to be weighted more heavily by sellers.

Practice Collections	Year	Weighted Factor	Profit / Earnings	Weighted Value
	2024	x3	\$ 1,629,086	\$ 4,887,259
	2023	x2	\$ 1,477,044	\$ 2,954,088
	2022	x1	\$ 1,442,645	\$ 1,442,645
				\$ 9,283,992
Divided by Sum of Weighted Factors				6
Total Average Weighted Value				\$ 1,547,332
Asking Price				\$ 1,508,000

Asking Price as a % of Weighted Value 97.46%

## Income-Based (Profit) Approach

Using an income-based approach to value a practice will focus primarily on the income stream of the practice, more specifically the net income stream after paying all normal and necessary operating expenses. Subjective measures are then applied to this approach to account for the expenses that are allowed by the IRS, but not considered essential for business operations.

It's common for different valuations to apply different measures and logic to what should be "backed out" of a practice's listed expenses. This method is more of a commentary on the management and cost containment skill of the specific owner(s) and resulting cash flow.

In plain English, this method asks: "How much are you willing to pay for a dollar of profit?"

A typical range for Asking Price as a % of Weighted EBITDA is  
1.50 - 2.75 depending on specialty and a variety of factors.

Since, presumably, a primary reason to take on the risk and stress of practice ownership is to benefit from the profits of the business, this method tends to be weighted more heavily by buyers

EBITDA	Year	Weighted Factor	Profit / Earnings	Weighted Value
	2024	x3	\$ 533,067	\$ 1,599,201
	2023	x2	\$ 461,011	\$ 922,022
	2022	x1	\$ 438,802	\$ 438,802
				\$ 2,960,025
		Divided by Sum of Weighted Factors		6
		Total Average Weighted EBITDA		\$ 493,337
		Asking Price		\$ 1,508,000

Asking Price as a % of Weighted Value

3.06

# P&L Adjustment Worksheet

# SAMPLE REPORT

The purpose of this page is to compare financial results of the practice year over year. Additionally, the worksheet provides an opportunity to “back out” the tax- related expenses and get a true sense of profitability of the office.

	2021		2022		2023		2024		Average	% of Collections
	Stated	Adjustment	Stated	Adjustment	Stated	Adjustment	Stated	Adjustment		
Doctor Production	-		-		874,823		929,066	929,066	901,944	
Associate Production					-		-	-	-	
Hygiene Production					648,972		703,420	703,420	676,196	
<b>TOTAL PRODUCTION</b>	not provided	-	not provided	-	1,523,795	-	1,632,486	-	1,632,486	1,578,140
<i>Collection Percentage</i>	N/A		N/A		97%		100%			
<b>PRACTICE COLLECTIONS</b>	1,436,506	-	1,442,645	-	1,477,044	-	1,629,086	-	1,629,086	1,496,320 100.0%
<b>Employee Expenses</b>										
General Wages	415,411		441,846		457,038		490,847		490,847	451,285 30.2%
Associate Employees		100,000		100,000		100,000		100,000	100,000	6.7%
Payroll Taxes	60,835		61,391		63,012		37,998		37,998	55,809 3.7%
Employee Benefit Plan	12,047		12,432		13,534		14,878		14,878	13,223 0.9%
Doctor(s)									0	0 0.0%
<b>TOTAL EMPLOYEE EXPENSES</b>	488,293	100,000	515,669	100,000	533,584	100,000	543,722	100,000	643,722	620,317 41.5%
<b>Supplies and Labs</b>										
Dental and Clinical Supplies	86,111		85,283		91,866		102,347		102,347	91,402 6.1%
Lab Services	90,250		92,811		78,190		97,320		97,320	89,643 6.0%
Office Supplies	6,643		8,943		7,917		8,479		8,479	7,995 0.5%
Printing, Postage, Delivery	940		1,246		1,516		1,068		1,068	1,192 0.1%
<b>TOTAL SUPPLIES &amp; LABS</b>	183,944	0	188,283	0	179,489	0	209,213	0	209,213	190,232 12.7%
<b>Facility Costs</b>										
Lease	65,141	30,734	65,141	30,734	65,141	30,734	72,212	23,663	95,875	95,875 6.4%
Building Repair, Maint, and Impr.	16,153		15,341		15,001		15,096		15,096	15,398 1.0%
Utilities	5,780		7,428		7,374		7,322		7,322	6,976 0.5%
Other Facility Costs									0	0 0.0%
<b>TOTAL FACILITY COSTS</b>	87,074	30,734	87,910	30,734	87,516	30,734	94,630	23,663	118,293	118,249 7.9%
<b>Other Expenses</b>										
Accounting and Legal	17,505		20,584		16,626		17,221		17,221	17,984 1.2%
Advertising and Promotion	16,882		16,971		24,707		22,210		22,210	20,193 1.3%
Bank Charges	19,737		21,824		19,569		23,680		23,680	21,203 1.4%
Credit Card Fees									0	0 0.0%
Computer Expense	10,304		9,628		11,143		23,215		23,215	13,573 0.9%
Consultant									0	0 0.0%
Continuing Education	1,060		1,518		955		1,444		1,444	1,244 0.1%
Depreciation & Amort	17,337	-17,337			10,928	-10,928			0	0 0.0%
Dr Auto									0	0 0.0%
Dr Personal Insurance									0	0 0.0%
Dr Meals & Entertainment/Other	290	-290	403	-403	322	-322	754	-754	0	0 0.0%
Dues and Subscriptions	100		50		50		50		50	63 0.0%
Equipment Lease									0	0 0.0%
Gifts									0	0 0.0%
Insurance	3,959		4,302		4,611		5,679		5,679	4,638 0.3%
Interest Expense (and/or loan payments)									0	0 0.0%
License, Registration, and Taxes	381				381		23,936		23,936	6,174 0.4%
Miscellaneous									0	0 0.0%
Payroll Processing									0	0 0.0%
Pension Administration									0	0 0.0%
Phone and Internet	6,056		6,253		6,350		6,434		6,434	6,273 0.4%
Staff Meetings									0	0 0.0%
Travel and Lodging									0	0 0.0%
Uniforms	1,210		117		318		923		923	642 0.0%
Waste Disposal Services									0	0 0.0%
<b>TOTAL OTHER EXPENSES</b>	94,821	-17,627	81,650	-403	95,960	-11,250	125,546	-754	124,792	91,986 6.1%
<b>TOTAL OVERHEAD</b>	854,132	113,107	873,512	130,331	896,549	119,484	973,111	122,908	1,096,019	1,020,784 68.2%
<b>EBTIDA (OPERATING INCOME)</b>	582,374	-113,107	569,133	-130,331	580,495	-119,484	655,975	-122,908	533,067	475,537 31.8%

## **P&L Adjustments Notes:**

1. Associate Employees (2021-2024) – Adjustment reflects the estimated annual salary to keep Dr. Roberts on, post-transition for 2 days a week.
2. Lease (2021-2024) – Adjustment reflects the estimated lease price of \$7,989.58 per month, as per the practice profile.
3. All other deductions are Seller-specific expenses a buyer may not be responsible for.

This calculated value is subject to the general assumptions common for valuations like this and noted above. We have no obligation to update this report or our calculated value for information that comes to our attention after the date of this report.

This report is not to be used with, circulated, quoted or otherwise referred to in whole or in part for any other purpose or to any other party or any purpose, without our express written consent.

Sincerely,



Kingsley Ifedi, CPA  
Dental Tax Advocates, LLC  
Charlotte, NC | Salt Lake City, UT

# Due Diligence

## Due Diligence Overview – the Five Types of Due Diligence

A typical first-time buyer will approach due diligence **incorrectly**. They think of due diligence in the same basic way they approach buying a house. They see a listing online, look at a few pictures, schedule an appointment, and start walking through a physical space. They note how the physical office appears, the age and usefulness of the equipment they see around them, and mostly focus on the material elements of the business. The things they can touch and see.

What you're *actually* buying is what you CAN'T see. What you *can't* see is MUCH more important than how new the chairs are. You can't see the true profit of the business by walking around. You can't see the reputation of the practice and habits of the patients who continue to schedule appointments at this office. What you're buying when buying a practice is essentially invisible and needs to be investigated with thorough due diligence.

What is due diligence, then? When purchasing a dental practice, we're going to use the phrase "due diligence" to simply mean that you as the buyer understand the essential details of what it is you're paying for. But who defines what 'essential' means?

There is no one agreed-upon definition that *all* dental practice deals adhere to, but there are common areas that most questions fall into. Due Diligence encompasses five areas: Financial, Seller, In Practice, Legal, and Banking. All five areas of due diligence are completed using a team approach with the buyer ultimately responsible for execution.

**Financial** - Focuses on the financial performance of the practice. Profit and Loss statements and tax returns are analyzed to understand profitability. Balance Sheet due diligence defines ownership and outstanding debts. The Buyer is ultimately responsible for assembling financial due diligence - DBA will provide guidance and oversight.

**Seller** - Assesses the clinical philosophy, management style, and strength of reputation, both online and amongst peers, of the Seller. As a subjective assessment most buyers do this type of due diligence intuitively without much guidance. They're assessing 'fit' with the seller. The buyer is solely responsible for its evaluation and completion.

**In Practice** - Is an operational assessment of the practice. Patient charts, equipment, staff, and systems are inspected. The buyer oversees practice due diligence, with guidance and tips from DBA.

**Legal** - Focuses on any pending legal liabilities impacting a potential buyer. A qualified lawyer reviews the outstanding risks of buying the business and protects the buyer from catastrophic events or fraud by the seller. Your attorney assumes responsibility for this type of due diligence.

**Banking** - Banks provide an additional review of financial numbers and profitability. Banks do NOT provide a valuation or opinion on the price - they only calculate whether you're likely to pay them back. Banks also ensure tax returns at the IRS match the information provided, perform lien searches, LexisNexis searches, UCC lien searches, and ensure legal ownership and the license status of the seller through the underwriting process of obtaining a loan.

**You should expect to still have a few lingering questions about a practice after you complete your purchase. This is normal and expected.** In the most amicable and friendly of transitions, it's simply impossible for a seller to provide detailed information and answers to every possible question that comes up. Ultimately, the main value your attorney provides is to protect you against the extremely rare, but possible cases of fraud not uncovered during the due diligence process.

## Recommended Due Diligence Checklist:

<u>Description</u>	<u>Responsible</u>	<u>When?</u>	<u>Complete?</u>
<b>Financial Due Diligence</b>			
Year over year collections comparison.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Determine both individual year & average year true pre-tax practice profitability (determine add-backs).	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Compare practice expenses to relevant benchmarks.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Review financials for large/unusual one-time expenses for an explanation.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Review financials for normal operations expenses that are missing.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Analyze production growth opportunities against most common methods.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Analyze cost-cutting strategies for this office.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Review demographics.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Calculate practice value using Market-based method.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Calculate practice value using Income-based method.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Compare DBA valuation to asking price and/or make a recommendation.	DBA	Pre-LOI	<input checked="" type="checkbox"/>
Review collections percentage compared to production.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>
Review production/collections sources – FFS, PPO, in office membership plans, Medicaid, etc.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>
Review active patient count.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>
Review patient age (by decade) and zip code distribution.	DBA	Either Pre- or Post-LOI	<input type="checkbox"/>
Review accounts receivable vintages and compare them to averages.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>



Analyze production sources – providers, hygiene, locum labor, etc.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>
Review top 10 production codes as ranked by \$ volume.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>
Compare office days/hours to norms and production totals.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>
Review overall online presence for target practice – website, google listings, reviews, social media, etc.	DBA	Either Pre- or Post-LOI	<input checked="" type="checkbox"/>
*Review percentage of current patients that are in-network with Delta Premier.	Buyer	Either Pre- or Post-LOI	<input type="checkbox"/>
*Review any current associates on payroll that won't be continuing with the practice post-sale.	Buyer	Either Pre- or Post-LOI	<input type="checkbox"/>
Review staff census detailing staff members' position, length of employment, wages, date of last raise, and benefits.	Buyer	Either Pre- or Post-LOI	<input type="checkbox"/>

### Seller Due Diligence

How far out is the doctor booked out on the schedule? How far out is hygiene booked on the schedule?	Buyer	Any Time Before Closing	<input type="checkbox"/>
How many columns are running at a time on a typical day in this office?	Buyer	Any Time Before Closing	<input type="checkbox"/>
Is the staff aware of a pending ownership change? When will the Buyer be introduced to the staff?	Buyer	Any Time Before Closing	<input type="checkbox"/>
What are the seller's post-transition plans? Will they be moving? Staying in the area?	Buyer	Any Time Before Closing	<input type="checkbox"/>
Review clinical philosophy & approach to determine fit with the Buyer.	Buyer	Any Time Before Closing	<input type="checkbox"/>
Ask equipment reps, nearby dentists and former employees of the office about the reputation and brand of this office/seller.	Buyer	Any Time Before Closing	<input type="checkbox"/>

### In-Practice Due Diligence

Equipment audit by outside rep to determine 1) a full catalog of all equipment, and 2) any non-working equipment and likely next purchases.	Buyer	Post-LOI, Before Closing	<input type="checkbox"/>
Randomized chart audit of at least 50 active patient charts to determine, 1) clinical fit, and 2) there is dentistry still left to do for active patients.	Buyer	Post-LOI, Before Closing	<input type="checkbox"/>
Review current office layout and floor plan.	Buyer	Post-LOI, Before Closing	<input type="checkbox"/>

Determine if any day-one style, décor, equipment or safety related changes to the office need to occur to ensure a basic standard of care.	Buyer	Post-LOI, Before Closing	<input type="checkbox"/>
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### Legal Due Diligence

Legal documents drafted or reviewed with the seller's attorney.	Attorney	Post-LOI	<input type="checkbox"/>
APA terms match agreed upon terms in LOI.	Attorney	Post-LOI	<input type="checkbox"/>
Bill of Sale, APA and any relevant real estate legal documents reviewed and explained to the Buyer.	Attorney	Post-LOI	<input type="checkbox"/>

### Banking Due Diligence

Pay stubs matched to tax returns.	Bank	Underwriting	<input type="checkbox"/>
Tax return transcripts received from the IRS	Bank	Underwriting	<input type="checkbox"/>
Background checks performed on Buyer and Seller	Bank	Underwriting	<input type="checkbox"/>
Public records (LexisNexis) search performed	Bank	Underwriting	<input type="checkbox"/>
UCC lien search performed	Bank	Underwriting	<input type="checkbox"/>
Professional license verification	Bank	Underwriting	<input type="checkbox"/>
Business entity searches performed	Bank	Underwriting	<input type="checkbox"/>
Fictitious business names searches performed	Bank	Underwriting	<input type="checkbox"/>
Basic web search of the seller and practice	Bank	Underwriting	<input type="checkbox"/>

\*Answers to this question might, in some cases, affect the valuation or offer price recommended presented in this document. It's recommended the Buyer obtain this information as soon as possible, though it's not always possible to find these answers before submitting an offer on a practice. In cases where the buyer submits an offer *before* finding answers to these types of questions and then later learns information that would materially move a valuation or offer price, the buyer *can* revise their submitted offer with the Seller.

## Financial Due Diligence – Documents/Info Still Needed:

### Documents and Information for Buyer to Request:

1. Can we see a breakdown of the tax expense of \$23,935.95 as reported on the 2024 P&L?
2. Are HOA fees included with repair & maintenance expenses on the provided financials 2021-2024?
3. Can we see an Open Dental report of Production by ADA code for 2024?
4. Are there more than \$100,000 needed in updates or equipment in the practice?
5. Are there existing debts of the practice? If so, will these debts be paid off prior to the practice transition, or will these debts be assumed by the buyer? If applicable, please provide a list of debts with current balances that pertain to any applicable items.
6. Recommend requesting A/R reports prior to closing along with any applicable A/R credits (negative patient balances) and confirming 0-30, 31-60, 61-90, and 90+ days of true collectible amounts after any applicable insurance write-offs, adjustments, uncollectible accounts, patients who have a history of not paying, etc., to confirm outstanding A/R, if purchased at a discounted rate.
7. Is there a current lease invoice that shows base rent and any applicable triple net costs (interior wall maintenance, common area maintenance, property taxes, etc.)?
8. We recommend a buyer request 2024 employee W2s, 1099s, etc. along with year-to-date payroll reports. Is anyone due for a raise? What applicable benefits do the employees receive? This information is important prior to closing to mirror what the employees are currently being paid to set up payroll and most lenders will also request this information for their review.
9. Can we get a patient report detailing new patients per month for twelve (12) consecutive months, new patients per year for 2-3 full years and patient age distribution per decade?
10. How many columns are running at a time on a typical day in this office?
11. What is the FFS/PPO/Medicaid/in office membership plans mixture of patients in this office? Is it truly Fee For Service (collect full fee up front and insurance benefits are not used thus not filed) or Out of Network (File claim for patient and some portion from insurance but can bill full fee)?
12. Has an equipment rep cataloged and valued the current office equipment recently? Can we see the report?
13. What is your comfort level with the current office layout and floor plan?

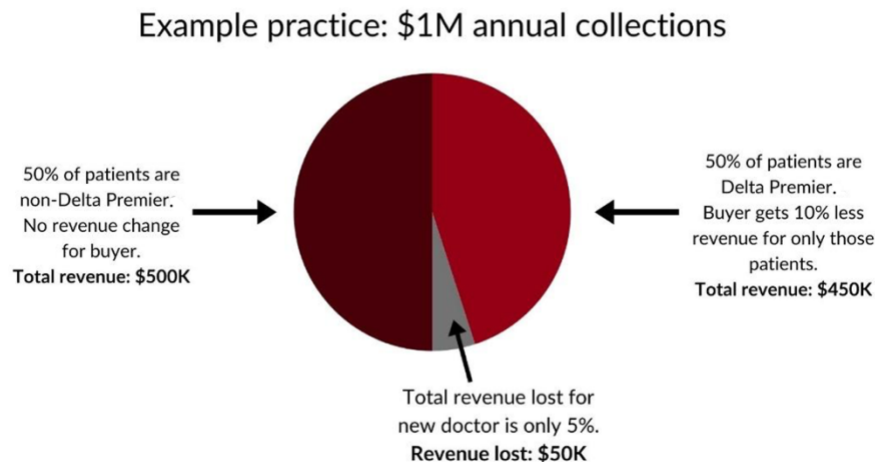
## Delta Premier: How Delta Dental Premier Status May Affect a Buyer

The impact of Delta Dental Premier *does not* affect the valuation of the practice. Valuations reflect *historical* data from financial statements and a buyer’s future reimbursement schedule would only affect *future* cash flows. While the valuation may not be affected, a buyer may choose to offer a lower price regardless. It is helpful to note the percentage of Delta Dental Premier patients for *three reasons*:

1. Projected cash flow may be affected since several states have “grandfathered” providers, thus not allowing new owners to have the same higher-paying fee schedules. Some areas are saturated with Premier providers and therefore will not credential new ones. An associate with existing Premier status may not have their previous contract honored with Delta upon the formation of a new entity and new Tax ID. The credentialing parameters of Delta Dental Premier are a moving target that changes month to month, even in the same state.
2. Once the LOI (Letter of Intent) is signed, the Buyer moves forward in the process of bank financing, typically weighing loan options between 2-3 banks. Some financial institutions may be more conservative in considering Delta Dental Premier’s potential impact on projected cash flow. Therefore, one institution may deny lending based on Delta Dental Premier demographics, while another institution may not consider Premier status at all. It is important to remember that one bank’s underwriting criteria does NOT reflect upon the overall health of the practice.
3. It is important to note the gap in fees between Premier and Dental Dental PPO plans. The new Delta Dental PPO fee schedule may be only a slight percentage difference than the Premier fee schedule, or it could be a significant difference. *Offices in California potentially experience a 20-25% reduction in revenue. Offices in AZ, CO, UT, NV, MASS, SD, TN may experience around 7% in revenue reduction, and offices in CT, IL, IN, MI, MS, NJ, WI may experience anywhere from 3-10% reduction.* This issue may be offset by adding additional procedures that are typically otherwise referred outside the practice or limiting the amount of new Delta Dental patients. Information in this paragraph is changing monthly, as of this writing.

### Hypothetical Potential Impact Example:

The following practice has 1,000 patients. 50% of them are Delta Dental Premier, (500 total patients have Premier status). To calculate the potential reduction of revenue, examine the updated fee schedule difference between Delta Dental Premier and Delta Dental PPO. We’ll assume a slightly higher than average fee reduction of 10%.



A 10% fee reduction sounds like a lot, but that 10% reduction is only for half of those patients, making it a 5% reduction in total collections for the new dentist. The impact is usually less than the buyer fears. It may be prudent to seek the advice of an insurance credentialing expert as to the best course of action to navigate these uncertainties.



**QUESTION 1:**  
IS THIS A GOOD  
PRACTICE TO BUY?

**QUESTION 2:**  
WHAT IS A FAIR  
PRICE TO PAY FOR  
THIS PRACTICE?

**QUESTION 3:**  
**HOW MUCH MONEY  
WILL I MAKE?**

## Estimate of Income as Full Owner

Below are TWO methods to estimate take-home income as a full owner of this dental practice.

The first looks at the most recent years' data to estimate income. This view is useful because a practice's most recent expenses are the most likely to be accurate. This is especially true for some of the larger expenses like staff and rent.

The second looks at an average of all years' data that we have access to. This view is useful because it smooths out one-time expenses (or skipped expenses, like repairs) that might skew one year's data up or down.

Use both numbers to orient yourself around a projection and get a feel for how the numbers might shake out when you take over and are running the practice yourself.

Please note that the numbers below are not in any way a guarantee of income. These numbers are assumptions piled on top of other assumptions. They will almost certainly be NOT correct. However, as they are the best information we have, we use them for illustration purposes. These numbers, although representing your take-home pay, are not a salary. Your compensation as the owner is the "income," whatever is left over after paying the overhead expenses and debt service of the practice.

### Assumes the Following:

- Offer price of \$1,508,000
- Interest rate of 5.25% fixed
- 15-year fixed payment
- Add \$175k for working capital
- Life and Disability insurance rates an estimate only

## Projection Using Last Year's Data

### New Owner Estimated Income - Summary

	Annual	Monthly	5% Patient Attrition	10% Patient Attrition	10% Patient Growth
<b>Projected Collections</b>	\$ 1,629,086	\$ 135,757	\$ 1,547,632	\$ 1,466,178	\$ 1,791,995
<b>Less Expenses:</b>					
Employee Costs	\$ (643,722)	\$ (53,644)	\$ (643,722)	\$ (643,722)	\$ (643,722)
Supplies & Labs	\$ (209,213)	\$ (17,434)	\$ (198,752)	\$ (188,292)	\$ (230,134)
Facility Costs	\$ (118,293)	\$ (9,858)	\$ (118,293)	\$ (118,293)	\$ (118,293)
Other Expenses	\$ (124,792)	\$ (10,399)	\$ (124,792)	\$ (124,792)	\$ (124,792)
<b>Gross Profit from Practice</b>	<b>\$ 533,067</b>	<b>\$ 44,422</b>	<b>\$ 462,073</b>	<b>\$ 391,080</b>	<b>\$ 675,054</b>
<b>New Expenses:</b>					
Practice Purchase Loan	\$ (162,351)	\$ (13,529)	\$ (162,351)	\$ (162,351)	\$ (162,351)
Disability Insurance	\$ (3,200)	\$ (267)	\$ (3,200)	\$ (3,200)	\$ (3,200)
Life Insurance	\$ (1,100)	\$ (92)	\$ (1,100)	\$ (1,100)	\$ (1,100)
<b>Cash Flow Before Taxes</b>	<b>\$ 366,416</b>	<b>\$ 30,535</b>	<b>\$ 295,422</b>	<b>\$ 224,428</b>	<b>\$ 508,403</b>

The **RED** line is the amount of income an owner will take home from this business. The best comparison to this number is how much a dentist would make as an associate.

The **GRAY** line is the amount of income an owner will take home from this business after the loan payment and a few (relatively small, but usually required) additional expenses related to buying a business. A new owner would want to know this number because this is how much they'll have to live on for the period of time the loan is in place.

### Projected Cash Flow - Details

Last Year (Monthly)

	Last Year	(Monthly)
<b>PRACTICE COLLECTIONS</b>	<b>1,629,086</b>	<b>135,757</b>
<b>Employee Expenses</b>		
General Wages	490,847	40,904
Associate Employees	100,000	8,333
Payroll Taxes	37,998	3,166
Employee Benefit Plan	14,878	1,240
<b>Total Employee Expenses</b>	<b>643,722</b>	<b>53,644</b>
<b>Supplies and Labs</b>		
Dental and Clinical Supplies	102,347	8,529
Lab Services	97,320	8,110
Office Supplies	8,479	707
Printing, Postage, Delivery	1,068	89
<b>Total Supplies and Labs</b>	<b>209,213</b>	<b>17,434</b>
<b>Facility Costs</b>		
Lease	95,875	7,990
Building Repair, Maint, and Impr.	15,096	1,258
Utilities	7,322	610
Other Facility Costs	0	0
<b>Total Facility Costs</b>	<b>118,293</b>	<b>9,858</b>
<b>Other Expenses</b>		
Accounting and Legal	17,221	1,435
Advertising and Promotion	22,210	1,851
Bank Charges	23,680	1,973
Collection Costs	0	0
Computer Expense	23,215	1,935
Consultant	0	0
Continuing Education	1,444	120
Depreciation & Amort	0	0
Dr Auto	0	0
Dr Personal Insurance	0	0
Dr Meals & Entertainment/Other	0	0
Dues and Subscriptions	50	4
Equipment Lease	0	0
Gifts	0	0
Insurance	5,679	473
Interest Expense	0	0
License, Registration, and Taxes	23,936	1,995
Miscellaneous	0	0
Pension Administration	0	0
Payroll Processing	0	0
Phone and Internet	6,434	536
Staff Meetings	0	0
Travel and Lodging	0	0
Uniforms	923	77
Waste Disposal Services	0	0
<b>Total Other Expenses</b>	<b>124,792</b>	<b>10,399</b>
<b>TOTAL OVERHEAD</b>	<b>1,096,019</b>	<b>91,335</b>
<b>Gross Profit from Practice (EBTIDA)</b>	<b>533,067</b>	<b>44,422</b>

### Projection Using Average Year's Data

#### New Owner Estimated Income - Summary

	<u>Annual</u>	<u>Monthly</u>	<u>5% Patient Attrition</u>	<u>10% Patient Attrition</u>	<u>10% Patient Growth</u>
<b>Projected Collections</b>	\$ 1,496,320	\$ 124,693	\$ 1,421,504	\$ 1,346,688	\$ 1,645,952
<b>Less Expenses:</b>					
Employee Costs	\$ (620,317)	\$ (51,693)	\$ (620,317)	\$ (620,317)	\$ (620,317)
Supplies & Labs	\$ (190,232)	\$ (15,853)	\$ (180,721)	\$ (171,209)	\$ (209,255)
Facility Costs	\$ (118,249)	\$ (9,854)	\$ (118,249)	\$ (118,249)	\$ (118,249)
Other Expenses	\$ (91,986)	\$ (7,665)	\$ (91,986)	\$ (91,986)	\$ (91,986)
<b>Gross Profit from Practice</b>	<b>\$ 475,537</b>	<b>\$ 39,628</b>	<b>\$ 410,232</b>	<b>\$ 344,928</b>	<b>\$ 606,146</b>
<b>New Expenses:</b>					
Practice Purchase Loan	\$ (162,351)	\$ (13,529)	\$ (162,351)	\$ (162,351)	\$ (162,351)
Disability Insurance	\$ (3,200)	\$ (267)	\$ (3,200)	\$ (3,200)	\$ (3,200)
Life Insurance	\$ (1,100)	\$ (92)	\$ (1,100)	\$ (1,100)	\$ (1,100)
<b>Cash Flow Before Taxes</b>	<b>\$ 308,886</b>	<b>\$ 25,740</b>	<b>\$ 243,581</b>	<b>\$ 178,277</b>	<b>\$ 439,494</b>

The **RED** line is the amount of income an owner will take home from this business. The best comparison to this number is how much a dentist would make as an associate.

The **GRAY** line is the amount of income an owner will take home from this business after the loan payment and a few (relatively small, but usually required) additional expenses related to buying a business. A new owner would want to know this number because this is how much they'll have to live on for the period of time the loan is in place.

#### Projected Cash Flow - Details

Ave. Year (Monthly)

#### **PRACTICE COLLECTIONS**

1,496,320	124,693
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#### Employee Expenses

General Wages	451,285	37,607
Associate Employees	100,000	8,333
Payroll Taxes	55,809	4,651
Employee Benefit Plan	13,223	1,102

<b>Total Employee Expenses</b>	<b>620,317</b>	<b>51,693</b>
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#### Supplies and Labs

Dental and Clinical Supplies	91,402	7,617
Lab Services	89,643	7,470
Office Supplies	7,995	666
Printing, Postage, Delivery	1,192	99

<b>Total Supplies and Labs</b>	<b>190,232</b>	<b>15,853</b>
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#### Facility Costs

Lease	95,875	7,990
Building Repair, Maint, and Impr.	15,398	1,283
Utilities	6,976	581
Other Facility Costs	0	0

<b>Total Facility Costs</b>	<b>118,249</b>	<b>9,854</b>
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#### Other Expenses

Accounting and Legal	17,984	1,499
Advertising and Promotion	20,193	1,683
Bank Charges	21,203	1,767
Collection Costs	0	0
Computer Expense	13,573	1,131
Consultant	0	0
Continuing Education	1,244	104
Depreciation & Amort	0	0
Dr Auto	0	0
Dr Personal Insurance	0	0
Dr Meals & Entertainment/Other	0	0
Dues and Subscriptions	63	5
Equipment Lease	0	0
Gifts	0	0
Insurance	4,638	386
Interest Expense	0	0
License, Registration, and Taxes	6,174	515
Miscellaneous	0	0
Pension Administration	0	0
Payroll Processing	0	0
Phone and Internet	6,273	523
Staff Meetings	0	0
Travel and Lodging	0	0
Uniforms	642	53
Waste Disposal Services	0	0

<b>Total Other Expenses</b>	<b>91,986</b>	<b>7,665</b>
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#### **TOTAL OVERHEAD**

1,020,784	85,065
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#### **Gross Profit from Practice (EBTIDA)**

<b>475,537</b>	<b>39,628</b>
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## Estimate of Income as Full Owner AFTER Loan Repayment

It's hard to imagine life after paying off a practice loan. The typical 10 and 15-year loan terms feel like they'll last forever before you buy a practice.

We've found it helpful to show clients the year after they pay off the loan. To show the actual financial math of what your first 11 years of practice ownership are estimated to look like. When we do this, the feelings of nervousness and fear around the practice loan are often replaced with an increase in confidence and resolve.

The tables below show the year-by-year cash flow of this practice from a high-level perspective, including the loan payment. The bottom line of the table shows your estimated take-home pay before your tax bill. This is the amount of profit you'll have year-in and year-out to pay for your lifestyle, invest for the future and -yes- pay down both your practice loan and any other debts you have, including student loans.

One key piece of the math that future buyers sometimes forget is that your collections are likely to rise over time while some of your expenses will remain fixed. For example, only considering inflation, most practices will see collections increase of 3% every year, while a few key expenses of your practice will stay the same – e.g. mortgage and your practice loan payment. The net effect of these offsetting forces can be powerful and lead to some big take-home pay numbers for owners.

We lay out 2 cases below. In the first, patient fees and most expenses rise with the average inflation rate of 3%. In the second, however, we'll show you the more likely scenario that you raise collections 5% in years 1, 2 and 3 and then drop back down to 3% in years four and beyond while expenses only rise 3%/year during that time.

Same caveat: Please note that the numbers below are not in any way a guarantee of income. These numbers are assumptions piled on top of other assumptions. They will almost certainly NOT be correct. However, as they are the best information we have, we use them for illustration purposes.

### Tables Below Assume the Following:

- The AVERAGE year's collections and expenses for this practice – not the most recent year's data. This tends to be a little more conservative, as many sellers' final year of collections can be different (higher or lower) from the norm for a variety of reasons.
- A 10-year loan payment. The general principles still hold here for a 15-year loan repayment schedule, if you go that route. On a 15-year loan schedule, you'll simply have more take-home pay in the near term with payments lasting longer compared to the 10-year loan.
- Collections increase by either 3%/year OR 5% for three years followed by 3%, effectively the rate of inflation you'd see on a typical annual fee increase. This is another way to say that the practice adds zero net patients – something extremely unlikely to occur, as most buyers grow their practice significantly in their first few years of ownership.
- Expenses that typically go up (employees, labs & supplies, etc.) go up the same rate as collections – 3%.
- Building costs stay the same over time and do NOT increase. Renters may find an annual fee increase compared to those who purchase the building, slightly decreasing the net take-home pay for renters in this scenario.
- Loan payments do NOT increase over time.

**Income as Full Owner AFTER Loan Repayment - 3% Conservative Case**

In this scenario collections increase by 3%/year, effectively the rate of inflation you'd see on a typical annual fee increase. This is another way to say that the practice adds zero net patients – something extremely unlikely to occur, as most buyers grow their practice significantly in their first few years of ownership.

# of Years Calendar Year	Fee/Inflation Increase?	Historical Data	Projections									Loan Paid Off!
		1 2024	2 2025	3 2026	4 2027	5 2028	6 2029	7 2030	8 2031	9 2032	10 2033	11 2034
<b>Income</b>												
Collections	Y	\$ 1,496,320	\$ 1,541,210	\$ 1,587,446	\$ 1,635,070	\$ 1,684,122	\$ 1,734,645	\$ 1,786,685	\$ 1,840,285	\$ 1,895,494	\$ 1,952,359	\$ 2,010,929
	Increase Amount %		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
<b>Expenses</b>												
Employee Costs	Y	\$ 620,317	\$ 638,927	\$ 658,094	\$ 677,837	\$ 698,172	\$ 719,117	\$ 740,691	\$ 762,912	\$ 785,799	\$ 809,373	\$ 833,654
	Increase Amount %		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Supplies & Labs	Y	\$ 190,232	\$ 195,939	\$ 201,817	\$ 207,872	\$ 214,108	\$ 220,531	\$ 227,147	\$ 233,962	\$ 240,980	\$ 248,210	\$ 255,656
	Increase Amount %		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Facility Costs	N	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249
	Increase Amount %		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Expenses	Y	\$ 91,986	\$ 94,745	\$ 97,588	\$ 100,515	\$ 103,531	\$ 106,637	\$ 109,836	\$ 113,131	\$ 116,525	\$ 120,020	\$ 123,621
	Increase Amount %		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
<b>Total Expenses</b>		<b>\$ 1,020,784</b>	<b>\$ 1,047,860</b>	<b>\$ 1,075,748</b>	<b>\$ 1,104,473</b>	<b>\$ 1,134,060</b>	<b>\$ 1,164,534</b>	<b>\$ 1,195,923</b>	<b>\$ 1,228,253</b>	<b>\$ 1,261,553</b>	<b>\$ 1,295,852</b>	<b>\$ 1,331,180</b>
<b>Owner Profit</b>		<b>\$ 475,537</b>	<b>\$ 493,350</b>	<b>\$ 511,698</b>	<b>\$ 530,597</b>	<b>\$ 550,062</b>	<b>\$ 570,111</b>	<b>\$ 590,762</b>	<b>\$ 612,033</b>	<b>\$ 633,941</b>	<b>\$ 656,507</b>	<b>\$ 679,749</b>
Practice Loan (Annual)	N	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ -
	Increase Amount %		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Pre-Tax Take Home Pay</b>		<b>\$ 313,186</b>	<b>\$ 330,999</b>	<b>\$ 349,347</b>	<b>\$ 368,246</b>	<b>\$ 387,711</b>	<b>\$ 407,760</b>	<b>\$ 428,411</b>	<b>\$ 449,681</b>	<b>\$ 471,590</b>	<b>\$ 494,155</b>	<b>\$ 679,749</b>

Instant raise the day your practice loan is paid off!

Loan payments in the future are MUCH easier to make as they're paid with inflated dollars from fee increases.

Most dentists vastly underestimate what a very modest practice growth of 3% can turn into over time.

Once the practice loan is paid off, take-home pay increases AND you have a valuable asset you can sell in the future.

**Income as Full Owner AFTER Loan Repayment – 5% / 3% Typical Case**

In this scenario collections increase by 5% each of the first three years of ownership – a more typical case of the average buyer we work with – after which collections increase at the 3% rate of inflation you’d see on a typical annual fee increase. Most buyers find their energy and enthusiasm for ownership attract new patients to the practice.

# of Years Calendar Year	Fee/Inflation Increase?	Historical Data				Projections						Loan Paid Off!
		1 2024	2 2025	3 2026	4 2027	5 2028	6 2029	7 2030	8 2031	9 2032	10 2033	11 2034
<b>Income</b>												
Collections	Y	\$ 1,496,320	\$ 1,571,136	\$ 1,649,693	\$ 1,732,178	\$ 1,784,143	\$ 1,837,667	\$ 1,892,797	\$ 1,949,581	\$ 2,008,069	\$ 2,068,311	\$ 2,130,360
	Increase Amount %		5%	5%	5%	3%	3%	3%	3%	3%	3%	3%
<b>Expenses</b>												
Employee Costs	Y	\$ 620,317	\$ 638,927	\$ 658,094	\$ 677,837	\$ 698,172	\$ 719,117	\$ 740,691	\$ 762,912	\$ 785,799	\$ 809,373	\$ 833,654
	Increase Amount %		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Supplies & Labs	Y	\$ 190,232	\$ 195,939	\$ 201,817	\$ 207,872	\$ 214,108	\$ 220,531	\$ 227,147	\$ 233,962	\$ 240,980	\$ 248,210	\$ 255,656
	Increase Amount %		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Facility Costs	N	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249	\$ 118,249
	Increase Amount %		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Expenses	Y	\$ 91,986	\$ 94,745	\$ 97,588	\$ 100,515	\$ 103,531	\$ 106,637	\$ 109,836	\$ 113,131	\$ 116,525	\$ 120,020	\$ 123,621
	Increase Amount %		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
<b>Total Expenses</b>		<b>\$ 1,020,784</b>	<b>\$ 1,047,860</b>	<b>\$ 1,075,748</b>	<b>\$ 1,104,473</b>	<b>\$ 1,134,060</b>	<b>\$ 1,164,534</b>	<b>\$ 1,195,923</b>	<b>\$ 1,228,253</b>	<b>\$ 1,261,553</b>	<b>\$ 1,295,852</b>	<b>\$ 1,331,180</b>
<b>Owner Profit</b>		<b>\$ 475,537</b>	<b>\$ 523,277</b>	<b>\$ 573,945</b>	<b>\$ 627,705</b>	<b>\$ 650,083</b>	<b>\$ 673,133</b>	<b>\$ 696,875</b>	<b>\$ 721,329</b>	<b>\$ 746,516</b>	<b>\$ 772,459</b>	<b>\$ 799,180</b>
Practice Loan (Annual)	N	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ 162,351	\$ -
	Increase Amount %		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
<b>Pre-Tax Take Home Pay</b>		<b>\$ 313,186</b>	<b>\$ 360,926</b>	<b>\$ 411,594</b>	<b>\$ 465,354</b>	<b>\$ 487,732</b>	<b>\$ 510,782</b>	<b>\$ 534,524</b>	<b>\$ 558,977</b>	<b>\$ 584,165</b>	<b>\$ 610,108</b>	<b>\$ 799,180</b>

Instant raise the day your practice loan is paid off!

More focus on patient growth in early years pays big dividends for profits in the future.

Loan payments in the future are MUCH easier to make as they're paid with inflated dollars from fee increases.

Once the practice loan is paid off, take-home pay increases AND you have a valuable asset you can sell in the future.