

Why have a practice valuation?



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Almost daily, a dentist calls our consulting firm and wants to know what his or her practice is worth. A great deal of discussion in seminars, articles, and dental meetings focuses on practice value, transition, retirement, and financial planning.

There also is a great deal of misinformation about practice value. It is important to know the real value of your practice. What follows are the most *common reasons* why clients want to know the value of their practices.

Financial and estate planning

Many advisors recommend a practice valuation so that dentists can integrate the value of the practice into their estate plan. Doing a practice valuation will help you determine if your retirement plan is on target or if it needs adjustment to generate the income level you need when retirement day arrives.

Associate buy-in or buy-out

Few dentists have properly prepared for a buy-in or a buy-out by an associate. At a time when associates are very difficult to find, it is critical to have a plan in writing. Nothing can be agreed upon

until the practice value is determined. Your associate is an asset to the practice; a healthy transition agreement is a must!

Selling parts of your practice

One of the myths in dentistry is that a large practice cannot be sold. Many dentists even limit the growth of their practice to avoid this perceived problem. I believe a large, healthy practice is an exciting opportunity for a buyer. It also allows the owner to remain with the practice. When the practice value is established, a portion can be sold. As the practice continues to grow, the value of the portion sold will increase.

Ready to sell

For those dentists who are ready to sell their practice now, the first step is to establish its value. The sooner the value can be established, the faster the practice can be sold. By determining the value of your practice, you have a better basis on which to make a decision about your continuing role in the practice. The profitability of the practice will dictate the amount of time that you can remain with it.

Partnerships

We find that more partnerships are being created because of the increase in practice size and the lifestyle and

professional collaboration benefits that result. It is critical to have an accurate valuation of the practice to ensure the current and future transition's economic stability. Unfortunately, some partnerships end, but a solid valuation can be the framework for a healthy separation.

Divorce

In the unfortunate circumstance of a divorce action, the practice valuation should be prepared by someone with dental expertise. An attorney or accountant might not have the industry knowledge to evaluate the practice correctly. If a person with dental expertise does the valuation, it will have a greater chance of being accepted by both parties to the divorce.

Disability or death

Why not plan for the unexpected? Too often, we are called much too late in the game to help a dentist who is disabled or the spouse of a deceased dentist. If a valuation is prepared early in your practice and updated on a routine basis, you can avoid many of the pitfalls of practice transition. By establishing your practice's value and selecting a qualified practice broker or consultant to sell it in the event of premature disability or death, you will provide peace of mind for yourself and your family.

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