

What is a Practice Valuation?

Laura Bennett, Director of Marketing at Bentson Clark

As you are aware, Bentson Clark specializes in orthodontic valuations and transitions, but what does this really mean and involve? We are in the business of helping orthodontists at a pivotal point in their careers. We perform practice valuations, provide partner location services, offer practice sales and marketing services, help negotiate transactions and offer comprehensive legal document preparation and review, all under one roof.

Let's focus on practice valuation. You are more than likely aware of the concept of business valuation, but may question how orthodontic practice valuations work. Obtaining a properly performed valuation is the key to maximizing a doctor's return on their investment of time, effort and investments in the practice.

There comes a point in each orthodontist's career when they must determine the value of their practice. The best

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way to obtain a value is through a properly performed valuation. When we initially speak with a doctor, we gather background information on the doctor, the practice and its overall financial situation. This information helps us to suggest what type of practice valuation would be most appropriate.

The on-site practice valuation is most popular and most often recommended. This type of valuation helps to obtain a clearer understanding of the overall practice. A company representative will travel to the practice and observe the facility, location, condition of equipment, signage, staff, patient traffic, office atmosphere and layout, etc. The physical visitation helps identify important items that cannot be documented in financial documents. Interior and exterior photographs are taken of the office during the visit and will appear in the final practice valuation.

The second type of valuation is off-site. This style of valuation is generally recommended in the event that a buyer has been identified and has seen the practice facility. Once facility photographs are obtained, the condition of the office is easily discussed with both the buyer and the seller. We then provide the selling doctor with an information request. This document addresses many items that allow us to appropriately value a practice. We inquire about the doctor's personal information and general information about the practice, including, the staff, hours of operation, leasing arrangements, number of locations and referral sources, among other items. After this information is collected, we then accumulate statistical and operational information. We inquire about the practice's fees, the number of start cases and


case completions, contracts receivable balance, number of active patients and recalls.

The most important part of any valuation is collecting the practice's financial information. We ask doctors to provide the past three years' profit and loss statements and the most current interim profit and loss statement. We obtain the most recent tax year-end and month-end balance sheets. A list of active patients with paid in full balances and a list of fixed assets are also requested. Lastly, the practice's tax returns for the past three years, including any other supporting statements, are obtained. All of this information helps determine a fair market value of a practice through a comprehensive valuation report.

Once all of the information has been received and the practice has been visited (if an on-site valuation), a draft valuation can be produced for review in approximately two to three weeks. The report briefly explains the various general valuation approaches and the valuation approach used by Bentson Clark. Through a variety of charts, graphs and statements, we explain how the value is calculated. The report includes a practitioner biography, the practice history, state and local demographics and an industry profile.

After the draft valuation is reviewed and any necessary changes are made, the final draft is prepared. When the valuation is complete Bentson Clark generally sends the doctor two copies of the valuation report (or more if necessary). One copy is bound in a three-ring leather binder and the second copy is spiral bound. It is strongly suggested that the leather bound copy be put in a safe place and used for his records. The spiral bound copy can be distributed to a possible buyer or associate. Additional copies can be provided at a minimal charge if necessary.

Most practice valuations are conducted because a doctor is nearing retirement, an associate is joining the practice or the practice is for sale. A valuation can help the communication process flow more smoothly because all of the practice information is available in a printed document by a non-partisan third party, including all significant financial and operational data.

The practice valuation is one of the most important documents of a purchase and sell agreement or partnership arrangement. Be sure the valuation is prepared by a reputable and credentialed valuation expert experienced in the orthodontic field. The practice valuation is the first step to a practice transition. If the practice valuation is done correctly and professionally, then your transition should be smooth and successful. 

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