

**Article I:**  
Dental Practice  
Valuation Issues -  
What a Seller  
Can Do

**Tim Lott of  
Dental CPAs**

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buyer representa-  
tion engagements  
I tend to see some  
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Here are the top  
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**Dental Practice Valuation Issues –  
What a Seller Can Do**

During my many buyer representation engagements I tend to see some common issues when it comes to practice valuations that sellers could have avoided to help maintain their practice values. Here are some of those areas.

**1. Clean Record Keeping:**

Remember, buyers and their advisors will be picking over your information, it's like inviting someone into your home, and you want it to be clean. Your practice books and records should be the same way, clean, easy to read, and at your finger tips. For example, your Quickbooks file should match the tax return numbers and if not to the dollar, pretty darn close and easy to match up.

**2. Complete and Accurate Practice  
Management (PM) Reporting:**

Make sure your PM software is current and accurate. You should be recording production, adjustments and collections by provider. Clean up your accounts receivables WELL before you plan on selling.

**3. Don't Coast:**

This is one of the worst things a seller can do prior to selling their practice. It decreases dentistry production and therefore, decreases practice revenue which

buyers AND bankers do NOT like.

**4. Don't Reduce Your Hygiene  
Hours:**

Let me correct myself, THIS is the worst thing you can do. Not only are you reducing your practice revenue, you're potentially losing patients as well.

**5. Update Office Appearance and  
Equipment:**

Again, just like a house, an outdated décor with old equipment will generally create less excitement with a buyer and less excitement means a reduced offer. Create excitement with your buyers with current décor, updated equipment and a fresh appearance.

**6. Overpaid Staff:**

Be aware of your staff compensation and make an effort to make sure it stays within "market" for your area. There's nothing wrong with showing appreciation to your staff with discretionary bonuses, fancy trips, paying for CE travel, etc., however, make sure they're aware that these are not customary fringes so they don't come to expect it from their new boss.

**7. Inflated Overhead:**

Well before you sell, I'm talking 2-3 years ahead of time, begin to evaluate your

practice overhead expenses and make sure you're ONLY spending on things you NEED. I'm not talking about skimping on updated equipment; I'm talking about wasting money on unnecessary supplies, small toys, unnecessary services, etc. Become a good CFO! Profits will drive value most of the time and wasted overhead eats into your profit and will usually drive down the value of the practice.

#### **8. Office Policies and Systems:**

Well before you sell, make sure you have excellent operating systems and policies. If you're not collecting a patient's portion of the fee at the time of visit, make that change now. If you don't take credit cards, start taking them. If you're not running daily, weekly and monthly management reports, start doing so.

#### **9. Track Your Referrals:**

At least one year prior to a sale, begin tracking the procedures you refer out every day and be prepared to provide your broker with some really good, accurate information for the prospective buyers.

#### **10. Don't Change or Eliminate any PPOs Prior to a Sale:**

This can backfire if you begin to see fewer patients even if the revenue stays about the same. In most cases when a practice decides to eliminate PPOs, there's a transition period where you'll have holes in the schedule. Those PPO patients that opt NOT to come back for their scheduled recare appointment or follow-up work will in turn cause revenues to be lower for a period of time.

Send your questions to Tim Lott, CPA, CVA at [tlott@dentalcpas.com](mailto:tlott@dentalcpas.com)

If you'd like to be added to our Dental CPA newsletter, email [arose@dentalcpas.com](mailto:arose@dentalcpas.com)

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### **Article 2:** Be Alert for Lease Agreement Taxes on Dental Equipment

**Lance Jacob**  
**Dental CPAs**



#### **Be Alert for Lease Agreement Taxes on Dental Equipment**

Don't get double taxed on your business's personal property. Recently, we have heard from some of our clients that they received bills from the lease finance company that included a personal property tax charge. If you have entered into a lease finance agreement and your state assesses the personal property (equipment and furniture) used in your business, you may be paying too much in personal property tax.

Many lease finance companies pass personal property tax bills on to customers that have entered into agreements with them. Although you must generally report details of leased property on your personal property tax return it should not be included in the schedule

of personal property to be assessed by the state.

Always consult with your tax preparer for specific reporting requirements in your state. If you have paid tax on leased property on prior year returns you may be able to amend those returns and request a refund up to three years after the due date of the original return.

Send your questions to Lance Jacob, Principal at [ljacob@nlgroup.com](mailto:ljacob@nlgroup.com)

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**Article 3:**  
**2010 Dental Overhead Benchmark - Our Observations - What has Changed?**

**Tim Lott of Dental CPAs**



**2010 Dental Overhead Benchmark - Our Observations - What has Changed?**

We've started the process of compiling our dental practice benchmark statistics based upon 2010 data and the initial results compared to five years ago are a little surprising to us. Since 2005 the US economy has gone through a downturn, a recession by most standards, and we were curious to see how that may have impacted the benchmark statistics for dental practices. We know that over the past five years there's even more technology that practitioners are buying and using (i.e. new dental equipment and computers.) We've summarized some of our preliminary findings and provided commentary as to why we believe these changes have occurred. You can take the dental overhead benchmark survey here.

**1. Revenue:**

So far the mix of dentistry to hygiene production has increased in favor of the doctor, which means 76% of production is dentistry while 24% is hygiene. Five years ago it was 75%-25%. The surprising statistic though is the adjustments or write-offs. Five years ago the "average" practice was writing off 13% of their gross production and it's increased to 17%. The main reason for our surprise is that during these last five years we've seen an increase in practices attempting to reduce or eliminate their PPO participation. That said, certainly the recession may have "forced" some of those practices back into PPO participation and we're also seeing practices providing more incentives or discounts for cash paying patients.

**2. Labor:**

This area provided another eye opener. As a percentage of gross production (same denominator we've always used in our surveys), total labor expense (wages, payroll taxes, benefits including their education and training) dropped

from 26.7% down to 22.7%. Assistants, hygienists and front desk combined showed a decrease while administrative showed an increase, possibly due to the treatment plan coordinator position and other types of positions. Both payroll taxes and benefits have also shown decreases. Another reason is that with the additional "higher end" procedures like Invisalign, implants and full mouth cases, the dentistry production per hour may be higher with the same or lower labor rates. We also know many practices stopped raises at some point over the past three years if not for all three years because of the recessionary trend.

**3. Facility Expenses:**

Total facility expense actually increased from 4.8% to 6.4%. Rent jumped by nearly 1% and the other costs like repairs, security and utilities all increased as well. We can only surmise that many had their rent agreements already in place as of 2008 and 2009 when the recession hit and we know landlords had no obligation to re-negotiate leases therefore, rent increases continued while procedure fees and revenues either revenues either flattened or declined (revenues). Generally utility costs have been going up following a trend by utility providers to raise their rates.

**4. Lab and Dental Supply expenses:**

Both lab and dental supplies have dropped by nearly 1% to 5.4%. Five years ago lab was 6.3% and supplies were 6.1%. we suspect lab has decreased in part due to the use of Cerec type machines since we've heard time and time again that labs had been increasing their prices. Dental supplies are harder to explain so we won't even try.

**5. Other Costs:**

In total they went from 12.7% five years ago to 8.8% for 2010, nearly a 4% point drop. While a few categories increased like collections expenses (CareCredit)

and advertising and promotion (practices simply doing more advertising) most of the other categories have dropped. Some of the categories that dropped are insurance, office supplies and postage (more electronic mail), professional services (more owners doing their own bookkeeping and payroll processing), telephone (more cell phones, less answering services, better technology and more competition).

Overall, total overhead went from 55.6% five years ago to 48.8% in 2010 based on gross production. That's a rather significant decrease that was unexpected.

As we mentioned above, the dentistry to hygiene production ratio increased from 3.2:1 to 3.3:1 and even the hygiene production to their wages increased from 2.6:1 to 3.2:1. Hygiene wages have either held flat or come down in most areas of the country due to the economy and the

cost of their procedures have gone up over the last five years. Many practices have used consultants to increase their hygiene department production and to boost assisted hygiene.

While many practices have been hurting over the past couple of years, they have done an excellent job on controlling their overhead. These practices have added higher end procedures and increased profitability within their practices. That's a great sign for the industry and one of the main reasons we're seeing more activity from the larger dental corporations buying up practices.

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#### Article 4:

2010 Overhead  
Dental Benchmarking Survey



Would you like to see how your practice compares to your peers? Dental CPAs has developed this survey that you can conveniently enter your dental practice benchmark information into and see how you measure up to the norm. Please follow this link, <http://bit.ly/2010DentalBenchmarks>, or scan the QR code to access the survey. If you have any questions about filling it out, email us at [arose@dentalcpas.com](mailto:arose@dentalcpas.com).

Your entry will be kept confidential, however, we will share your results with you as they compare to other dental offices similar to yours. We have already begun to notice some interesting trends which we will compile into a comprehensive report. We will also share this report with you.

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