



# Ask the Broker

## How do you determine the listing price of my practice?

The single-most important factor in determining the practice sales price is the collection total of the previous calendar year. Lenders and Buyers like to see stability without large variances from year to year. It should be obvious that steady, slight increases in revenues are always better than even the slightest of decreases. Poor performance of one of three years *should not* affect pricing, unless it is the last calendar year that shows a significant drop. Therefore, try to maintain a stable practice, make sure you finish strong and make all your December deposits for that last year you will be filing!

**Practices are priced based heavily on gross receipts.** Let's work through some scenarios and options. If you plan to practice 2-3 more years, it is not worth investing extra money in the practice. In this case, I would just advise finishing strong, especially to reflect your last tax return which will be filed. If you plan to practice approximately 5 years, spending large amounts of money for new technology may not necessarily return the investment unless it helps to increase your production. However, this being said, purchasing new equipment may increase your enjoyment of practicing dentistry and therefore be a worthwhile investment.

With 8-10 years remaining to practice, modernizing the practice with the latest and greatest is generally a great idea. Leasehold improvements typically last 5-8 years, so making the investment at this time to spruce up the office will enhance the desirability of the sale. It may also give you greater satisfaction of working in a first-rate environment for the entire duration of the leasehold improvements.

Here's an interesting demographic to consider: Ten years ago, the JADA published an article concerning the baby boomers' retirement, which may affect those in the 4-7 year timeframe. Most of us in the industry believe that the "baby boomer" phenomenon coupled with the current sellers' delayed frame-of-mind might result in a significant inventory glut. This may slightly reduce practice price multiples when and if it happens all at once.

This phenomenon will favor practices that have updated their technology to induce the younger buyers. Most graduates in the past 5 years don't know what an X-ray developer is. Therefore, those of you planning to retire in the next 4-10 years should consider making the investment now to position yourself ahead of the competition when the glut of practices comes about.

**Most importantly, since practice values are based on gross receipts, keep up the good work!**

Questions? E-mail [wps@succeed.net](mailto:wps@succeed.net)



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