

The Dental Transition

N E W S L E T T E R

In this issue

Page 1

Making the Decision to Sell Your Practice in 2025

Page 2

Debunking Common Myths About Dental Practice Transitions

Making the Decision to Sell Your Practice in 2025

Selling your dental practice is one of the most significant decisions of your career. It's a choice that requires careful thought and planning to ensure a smooth and successful transition. Whether you're seeking to retire or move on to the next phase of your professional life, understanding both the financial and emotional implications is crucial. Here's a comprehensive guide to help you prepare for this life-changing step.

Key Considerations When Selling Your Dental Practice

Financial Considerations

For most dentists, the sale of their practice represents a significant portion of their retirement funding or future investments. Maximizing the value of your practice is essential, and understanding the influencing factors will position you for a successful transition.

Factors Impacting Practice Values in 2025:

- **Revenue & Profitability Trends:** A consistent or growing revenue stream is more appealing to buyers than declining profits.

- **Patient Base & Demographics:** Practices with loyal patient bases and desirable demographics, like families or professionals, are more marketable.
- **Location & Visibility:** Urban settings or practices with high visibility and accessibility hold higher appeal.
- **Technology & Equipment:** Modernized and well-maintained equipment signals a thriving practice.
- **Overall Curb Appeal:** Clean, updated office spaces help create an attractive offering.

While the 2025 average U.S. dental practice sale price remains around 65-75% of the most recent annual revenue, these factors can significantly impact valuation.

Next Steps: Begin by contacting a reputable local practice broker for a professional valuation. This will provide a starting point for determining whether you're financially ready to sell. Remember, selling your practice doesn't necessarily mean retiring. Many dentists continue working as associates within their sold practice or explore opportunities beyond the non-compete radius to continue generating income.

Continued on Page 2

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Making the Decision to Sell Your Practice in 2025

Continued from page 1

Emotional Considerations

Beyond the financial logistics, selling a practice can be an emotional process. Over time, our work becomes tied to our identity, patient relationships, and the teams we've nurtured. Facing this transition is often harder than it seems.

Before listing your practice, ask yourself the following questions:

- *Can I separate my identity from my role as a practice owner?*
- *Do I have hobbies or interests to enjoy post-sale?*
- *Am I ready to relinquish control of daily operations?*
- *If I plan to stay as an associate, am I comfortable adapting to changes or working under another owner?*

Working through these emotions in advance will help you approach the sale with confidence. Accepting the potential for feelings of loss or anxiety and addressing these early ensures a smoother transition during and after the sale.

The Importance of Planning Ahead

Many practice owners make the mistake of waiting until the day they're ready to sell before seeking help. This reactive approach often results in limited options, and lower valuations due to rushed preparations or transitioning under unfavorable conditions. Instead, experts recommend planning your sale at least **one to three years in advance**. This preparation allows you to focus on enhancing the practice's value and strategic marketability. Start by building a relationship with an experienced broker who understands the evolving dental practice market.

Benefits of Advanced Planning:

- **Customized Transition Strategy:** Tailored plans ensure the sale aligns with your financial goals and timeline.
- **Office Updates:** Implement improvements like updated technology or aesthetic enhancements to boost practice value.
- **Avoiding Common Pitfalls:** Diminished revenue, outdated equipment, and other issues are easier to address with time.

Why 2025 Is a Pivotal Year for Sellers

The dental industry continues to evolve, and the market conditions in 2025 present both opportunities and challenges for practice transitions.

Market Shifts That Will Impact Practice Value:

1. Supply and Demand Changes

The aging baby boomer population is entering retirement, leading to an influx of practices hitting the market. While this creates more competition among sellers, practices with strong financials, high-quality equipment, and seamless operations will stand out.

2. Interest Rate Adjustments

Banks are likely to continue offering 100% financing options for buyers, but high interest rates may reduce buyers' purchasing power. This makes practices with strong profit margins and fair valuations more attractive.

3. Additional Market Pressures

- Increased student loan debt may limit the pool of potential buyers.
- PPO involvement continues to drive down service pricing while practice overhead costs continue to rise.
- The complexities of practice management are growing, meaning inefficient systems may become a liability in the eyes of buyers.

Given these changing dynamics, the earlier you start preparing, the better positioned you'll be to maximize your practice's value and attract serious, qualified buyers.

Take Control of Your Transition

Selling your dental practice represents the culmination of years of dedication and hard work. By taking the time to understand the financial and emotional factors, partnering with experienced professionals, and planning ahead, you can make this transition a rewarding and positive experience.

Consulting with a local, knowledgeable practice broker will provide you with the tools to plan effectively, maximize your returns, and ensure your practice's legacy is carried forward. Whether your goal is a seamless transition, financial security, or personal fulfillment, careful preparation today paves the way for a successful tomorrow.

Start today. Contact us to explore your options and secure the bright future you deserve.

What Is My Practice Really Worth?

What is my practice worth? Well, it depends on who you ask because value is largely a concept of perception. According to the IRS, fair market value is defined as: “the price at which a [practice] would change hands 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 facts.” Although the definition may be stuffy, the concept is sage: the fair market value will be determined by the marketplace and is subject to the economic forces of supply, demand, and transferability.

There are a number of popular “rules of thumb” used by doctors to estimate a rough value for their practices. For example, many practices will sell for a value equal to between 60 to 80 percent of the most recent year’s gross collections. Similarly, a practice value will often fall into the range of 1.5 to 2 times net income, i.e., the doctor’s take home pay before taxes, plus any expenses of the practice that would be considered as a direct benefit to the doctor. There are other simple formulas one can use to estimate value; however, remember that these formulas are just that—simple tools used for estimation only. They do not consider some of the other critical practice characteristics that affect value that will be addressed later in this article.

As a general rule, up to 80 percent of the value of an average general dental practice will consist of goodwill. The term “goodwill” is primarily connected with the existing patient load and corresponding cash flow of a practice. It is an intangible consideration that usually comprises the most valuable asset of any professional practice. It relates to the assembly of necessary equipment into a productive unit; the availability and existence of trained employees; the existence of systems, controls, and methods which are part of the operations of the practice; and the existence of a loyal patient base. Naturally, a practice with a high active patient count in relation to revenues will be worth more than a practice with fewer patients. Thus, the patient-production ratio will have a significant impact on the value of a practice. Another crucial element that effects practice value is specialty or sub-specialty practices which require the buyer to have a certain skill level or philosophy to take over the practice and retain patients.

The value of any professional practice can be summarized as its capacity to generate cash flow. That capacity is

made of two essential elements: tangible and intangible assets. The tangible assets consist primarily of the clinical equipment, office equipment, furniture, fixtures, instruments, supplies on hand, and so forth.

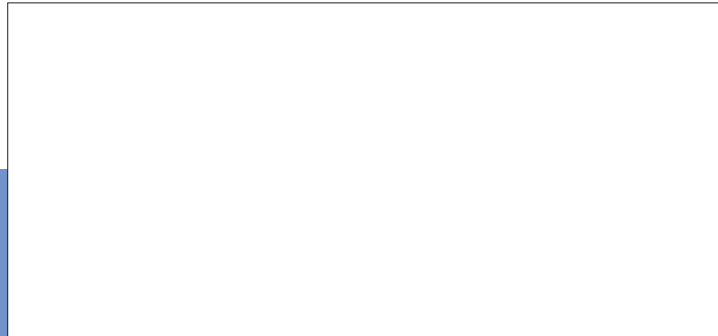
The intangible assets consist primarily of goodwill, or essentially the relationships existing with patients, and referral sources that have been cultured and nurtured over the years, as well as the relationships between the doctor(s) and staff members.

The combination of tangible and intangible assets, when efficiently utilized in tandem, generate a “going-concern” that possesses value. That “going-concern” value is best demonstrated by a track record of generating a certain level of cash flow and profit. The method and means by which the cash flow and resulting profits are generated—and in what amounts—determines, in part, the price a practice will likely command in the marketplace.

As a general rule, most appraisers use income-based valuation methods to evaluate a dental practice. This income-based approach is not limited simply to an analysis of the historical financial information of a practice, but also takes into consideration many other elements of the practice that contribute or detract from value such as: the type, age, amount, and condition of clinical and office equipment and furniture; outstanding accounts receivable balances and strength of financial policy; office fee schedules; supply inventory on hand; management systems; patient profiles and demographics; active patient count; new patient flow figures; participation in discount insurance plans; practice location (both generally and specifically); office lease arrangements; facility size and condition, including tenant finishing; practice type and philosophy; production by treatment class analyses; status and employment history of staff and/or associate doctors; market and economic factors affecting the practice, et. al.

As evidenced by this list, there are a number of elements that can and will influence the value of a professional practice; however, as a general rule-of-thumb, a general dental practice will typically sell at a price in the range of 4 to 6 times its adjusted net income. By definition, adjusted net income is the net income after operating overhead expenses, not including certain expenses such as interest, taxes, depreciation, amortization, and certain

Continued on Page 4



ARTICLES INSIDE:

Frequent Questions in a Practice Transition

What Is My Practice Really Worth?

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What Is My Practice Really Worth?

Continued from page 3

discretionary items, and inclusive of compensation to the doctor, but only at a reasonable, going-market-rate. Practice appraisers often refer to adjusted net income as "Earnings Before Interest, Taxes, Depreciation and Amortization" or "EBITDA." The EBITDA of a dental practice gives an indication of the current operational profitability of the business. It shows them how much profit the business makes given its current set of assets and operations and the services it renders to patients.

All things considered; few things influence the selling price of a practice more than prevailing buyer perception. After all, a practice is only worth what a buyer is willing to pay for it. And a buyer's perception of value will be influenced by all of the factors mentioned above, as well as general market and economic conditions. That said, it is a good idea for a dentist who is serious about selling their practice to seek an appraisal by a professional who is both qualified and unbiased, regardless of whether the dentist plans to retain the services of the professional to sell the practice. Doing so will lend substantial credibility to the asking price and make the due diligence process much easier—for both parties.

Contact us TODAY to schedule a free consultation!
