



**2021 EDITION**

# **ANNUAL ORTHODONTIC VALUATION REVIEW**

Exploring and analyzing high-level data and statistics from orthodontic practices throughout the United States.

## THE BUSINESS OF ORTHODONTICS

# LOOKING BACK AT THE PRACTICE VALUATIONS OF 2021

**S**ince 2006 with the first quarter edition of our former newsletter, the *Bentson Copple reSource*, Bentson Copple & Associates has prepared an annual review of practice valuations that we performed during the previous year. 2020 was particularly challenging for all practices as the pandemic had practices shutting down and altering the way care was delivered for most of the year.

Thankfully, most practices rebounded extremely well in 2021 after the pandemic related shut-downs were lifted thanks in part to government stimulus, low unemployment, and rising home values. Due to this remarkable recovery, most of the valuation metrics from 2021 are quite comparable to previous years.

The information presented in this report is compiled from several high-level statistics extracted from the orthodontic valuations we completed in 2021. Many practice owners have told us they find this data useful to benchmark their individual practice and the information given is often referenced in the orthodontic specialty.

Last year, Bentson Copple & Associates completed a total of 54 orthodontic practice valuations. In this report, we will review the averages of these 54 practice valuations, offering a window into the

current values of orthodontic practices as seen by our company.

The averages, information, and insights published in this article offer a statistically representative view of the orthodontic practices our team valued in the 2021 calendar year. Please note that these values are for traditional, doctor-to-doctor practice transactions rather than DSO or OSO transactions. There are additional comments on OSO transactions at the end of this article.

To provide similar examples to past years, we have selected 25 valuations to include in Table 1 (located on the next page) to provide a representative sample of the body of work completed last year.

The data in Table 1 can be used as a rough comparison tool for similarly performing practices, but this article will solely discuss the averages for the 54 practices valued. A summary of the averages for the data published over the last 15 years is provided in Table 2 (page 4).

As with prior reviews, the 2021 data represents rounded net collections, practice income, adjusted overhead rate, debt-free value, and value expressed as a percentage of collections for each respective practice. However, we caution that solely looking at



**TABLE 1: 25 SAMPLE PRACTICE VALUATIONS FROM 2021**

Practice	Net Collections	Practice Income	Overhead Rate	Value Before Debt	Value as % of Collections
1	\$3,100,000	\$1,602,700	48.3%	\$2,912,000	93.9%
2	2,125,000	1,058,250	50.2%	1,931,000	90.9%
3	1,870,000	819,060	56.2%	1,516,000	81.1%
4	3,950,000	2,322,600	41.2%	4,076,000	103.2%
5	1,085,000	426,405	60.7%	828,000	76.3%
6	4,125,000	1,959,375	52.5%	3,697,000	89.6%
7	1,380,000	436,080	68.4%	814,000	59.0%
8	1,150,000	472,650	58.9%	910,000	79.1%
9	2,950,000	1,357,000	54.0%	2,615,000	88.6%
10	1,500,000	549,000	63.4%	1,174,000	78.3%
11	1,775,000	692,250	61.0%	1,421,000	80.1%
12	3,100,000	1,199,700	61.3%	2,325,000	75.0%
13	1,000,000	429,000	57.1%	819,000	81.9%
14	1,100,000	436,700	60.3%	818,000	74.4%
15	5,000,000	2,135,000	57.3%	4,326,000	86.5%
16	1,000,000	411,000	58.9%	828,000	82.8%
17	1,000,000	453,000	54.7%	854,000	85.4%
18	1,440,000	599,040	58.4%	1,200,000	83.3%
19	2,175,000	865,650	60.2%	1,716,000	78.9%
20	1,410,000	606,300	57.0%	1,139,000	80.8%
21	3,200,000	1,190,400	62.8%	2,594,000	81.1%
22	1,775,000	729,525	58.9%	1,475,000	83.1%
23	4,080,000	2,097,120	48.6%	3,827,000	93.8%
24	2,600,000	1,248,000	52.0%	2,272,000	87.4%
25	1,688,000	646,504	61.7%	1,254,000	74.3%



the high-level data presented in this annual analysis does not provide the full complement of data used to accurately value any given practice. Many other factors should be considered in order to fully understand the individual practice. Those factors

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include, but are not limited to, current and historical financial and operational data, demographic data, condition of the practice's physical facilities, competitive environment, operating systems in place, referral

patterns, marketing program(s), treatment modalities, fixed assets in service, and the practice's team.

For a valuator to place a reliable fair market value on any individual practice, a thorough analysis of all operational and financial data must be performed, and an on-site practice visit (some done virtually in the current environment) conducted to verify assets in service and to understand the intangible aspects of the drawing area. That information should then be analyzed utilizing recognized valuation and accounting principles and methodologies to arrive at a financial conclusion of value for any given practice.

Valuation studies performed by Bentson Copple & Associates, LLC follow a strict valuation methodology and are completed in accordance with the National Association of Certified Valuators and Analysts' Professional Standards, and results are presented in a detailed summary report.

Of the many methods available to value a closely-held entity lie an orthodontic practice, an earnings approach, such as a Capitalization of Income method, is generally preferred by both the accounting and legal communities. All Benson Copple & Associates' published valuations are signed by a Certified

Valuation Analyst (Doug Copple, CVA) and a company representative visits (physically or virtually) each practice.

The value as a percent of collections for the 54 practices valued in 2021 ranges from a low of 56.4% to a high of 104.9%, a variance of 48.5 percentage points. The significant variance this year and in years past in this common metric illustrates that simply using a “rule of thumb” (e.g., value as a percent of collections) does not provide any meaningful and reliable guidance as to the value of the individual practice being examined. Both buyers and sellers should view this metric as simply an expression influenced by many other factors.

Each practice being valued has unique characteristics that cannot be fully captured with just a few high-level numbers like the ones given in the sample practices. However, in our last five surveys, the

## AVERAGES AT A GLANCE



**\$2,137,408**  
**Net Collections**



**\$952,784**  
**Practice Income**



**56.5%**  
**Overhead Rate**



**\$1,808,163**  
**Value Before Debt**



**82.4%**  
**Value as % of Collections**

**TABLE 2: ANNUAL VALUATION SUMMARY BY YEAR**

Year	Net Collections	Practice Income	Overhead Rate	Value Before Debt	Value as % of Collections
2007 Average	\$1,366,000	\$690,370	50.6%	\$1,056,440	75.3%
2008 Average	1,375,500	646,342	55.0%	1,023,240	71.5%
2009 Average	1,383,680	623,568	53.9%	1,049,280	75.1%
2010 Average	1,326,320	580,038	55.4%	1,020,280	76.1%
2011 Average	1,569,480	697,965	55.1%	1,206,200	75.8%
2012 Average	1,805,360	794,756	54.9%	1,428,640	79.6%
2013 Average	1,549,520	702,622	55.6%	1,260,960	79.0%
2014 Average	1,502,273	674,561	55.8%	1,190,491	76.9%
2015 Average	1,686,724	762,322	56.4%	1,374,291	77.9%
2016 Average	1,672,166	740,724	57.0%	1,332,227	77.0%
2017 Average	2,100,447	940,005	56.0%	1,701,809	79.4%
2018 Average	1,997,907	927,193	55.1%	1,670,907	80.5%
2019 Average	2,341,479	1,069,033	56.0%	2,082,021	82.4%
2020 Average	2,184,425	948,294	57.7%	1,830,425	80.2%
<b>2021 Average</b>	<b>\$2,137,408</b>	<b>\$952,784</b>	<b>56.5%</b>	<b>\$1,808,163</b>	<b>82.4%</b>

average practice value as a percent of collections has been 79.4% (2017), 80.5% (2018), 82.4% (2019), and 80.2% (2020), compared to the 82.4% in this year's study (2021).

As in previous years, we tracked the number of office locations for each practice valued. Of the total valuations completed in 2021, 28 had one location, 15 had two locations, and the rest had three or more locations. Generally, we are seeing an increase over time in the number of locations doctors/owners operate and this year again helps confirm this trend.

While examining the average practice value in dollars (Table 3, next page), the 28 single location practices average value was \$1,446,148, whereas the 15 two-location practices had an average value of \$1,932,214.

The three or more location practices were significantly more valuable and larger than the two location practices as well. The general trend of more offices translating to more revenue and therefore more value to the doctor owner still holds true. The same trend was seen when looking at average net collections.

**TABLE 3: VALUATION DATA BY NUMBER OF PRACTICE LOCATIONS**

	Net Collections	Practice Income	Overhead Rate	Value Before Debt	Value as % of Collections
Single Location	\$1,764,815	\$758,267	57.1%	\$1,446,148	81.2%
Two Locations	2,213,071	1,024,546	55.5%	1,932,214	83.7%
Three or More Locations	3,262,500	1,483,694	55.9%	2,812,875	83.9%
All Multi-Locations	2,594,682	1,191,509	55.7%	2,252,455	83.8%
<b>Overall Average</b>	<b>\$2,137,408</b>	<b>\$952,784</b>	<b>56.5%</b>	<b>\$1,808,163</b>	<b>82.4%</b>

Average overheads were 1.6 percentage points higher in the single location practices compared to two location practices and 1.2 percentage points higher than the average practice with three or more

***“The value of a professional practice is largely dependent on the amount of income available to the owner.”***

locations. As in all previous reviews over the last fifteen plus years, we continue to observe that multi-location practices do not add materially to the overall overhead of a practice (as a percentage of collections), and in many cases actually provide the practice owner with lower overhead due to the potential to increase revenue by expanding the practice footprint or produce from multiple locations on the same day.

The value of a professional practice is largely dependent on the amount of income available to the owner. Therefore, a practice's level of operating expenses (i.e. overhead rate) has a significant impact on the overall practice value. As you can see in

Table 1, the overhead rates of the sample practices range from 41.2% to 68.4%, yielding a variance of 27.2 percentage points. It is clear that more profitable practices value higher than less profitable ones, in general.

These overhead rates have been adjusted to remove non-operating expenses, personal and discretionary expenses of the owner/doctor (e.g. automobile, payroll taxes, cell phone, discretionary travel and entertainment, family member salaries, and any

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other discretionary expenses), and the owner/doctor's compensation and retirement contributions. Any associate doctor compensation has also been removed. Therefore, the

overhead percentages represent the true costs to operate the practice, while the practice income represents the owner/doctor's total economic benefit received from the practice.

The average net collections for the practices valued during 2021 were \$2,137,408. These practices had an average overhead rate of 56.5% and an average value as a percent of collections of 82.4%. The reasons we were asked to conduct valuations in 2021 included sale of 100% of the practice, selling a fractional portion of the practice, adding a family member, merging with another practice, buy-out of a partner, spinning out a satellite office, and general estate/retirement planning. No matter the reason, the orthodontic practice valuations were an early step in the process of a future planned transition.

An understanding of the market's supply and demand, as well as an extensive review of the current and historical financial and operational data of a

practice, is necessary to determine the value of any orthodontic practice. Valuation principles and methodologies must be utilized and applied properly to provide the most accurate practice value. The 2021 valuation data presented in this annual review should allow a doctor/owner to benchmark his/her practice to the current market.

Regardless of the location of your practice or its size, increased focus on the metrics and factors that drive revenue growth and profitability will be financially rewarding, not only in 2022, but also for years to come. Increasing your scrutiny of practice expenses, while working to grow your collections, will create a positive and compounding result not only in your practice, but in your overall financial health as well.





## CURRENT DSO AND OSO ACTIVITY IN THE ORTHODONTIC MARKET

One of the hottest topics in the orthodontic industry right now is the growth of Dental Service Organizations (DSOs) and Orthodontic Service Organizations (OSOs). The practice values herein are representative of traditional doctor-to-doctor practice transactions versus DSO and OSO values/purchase prices which rely on Earnings Before Interest Taxes Depreciation and Amortization (EBITDA) calculations.

It's safe to say that OSOs generally pay a higher purchase price (often significantly higher prices) compared to traditional doctor-to-doctor transactions. However, OSOs are also looking for specific types of practices and doctors, and not all practices are a good fit for this model.

Bentson Copple & Associates is well versed in such EBITDA valuation calculations and understands the organizations with an orthodontic-centric value proposition. If you would like to discuss your practice

and how a particular OSO might view you from an economic opportunity point of view, please give us a call to schedule a confidential phone consultation.

Orthodontic practice owners who would like to discuss the OSO market and whether their practice is a good fit for an OSO are encouraged to contact us for analysis and information.

### CONTACT US

**Bentson Copple & Associates**  
Valuation, Transition & Recruiting Services



[www.bentsoncopple.com](http://www.bentsoncopple.com)

800-621-4664

[info@bentsoncopple.com](mailto:info@bentsoncopple.com)





## ABOUT THE AUTHORS



### CHRIS BENTSON PARTNER

Chris Bentson is a partner of Bentson Copple & Associates, LLC, based in Greensboro, North Carolina. The company serves the orthodontic community by performing practice valuations, providing doctor placement services, and negotiating transactions with both buyers and sellers. He spends much of his time working within the orthodontic industry; he currently serves as President of the AAOF (American Association of Orthodontists Foundation) and an advisory committee member for The AAO Bulletin. In addition, he is a frequent guest lecturer at AAO meetings, regional orthodontic society meetings, orthodontic resident programs, study clubs, and orthodontic user meetings. Chris has authored dozens of articles published on the business of orthodontics in numerous orthodontic trade publications. Chris has personally visited over 1,000 orthodontic practices in the United States, Canada, and Australia during his career.



### DOUG COPPLE, CVA PARTNER

Doug Copple is a partner at Bentson Copple & Associates, LLC. He graduated from Appalachian State University where he earned his Bachelor of Science in Business Administration (BSBA) and Master of Science (MS) degree in Accounting. Prior to working with Bentson Copple & Associates, he worked with the national accounting firms Ernst & Young, LLP and KPMG, LLP. Doug is a Certified Valuation Analyst (CVA) and a member of the National Association of Certified Valuation Analysts (NACVA). Doug ensures that the firm's clients are provided with valuation reports of the highest quality that adhere to industry standards. He and his team also represent doctors in buy-outs and partnership transactions to create a transition plan that meets the doctors' financial goals through the most tax-efficient operating structures. His goal at Bentson Copple & Associates is to provide shorter negotiation cycles and stronger assurance of deals reaching completion.