



Dental Practices

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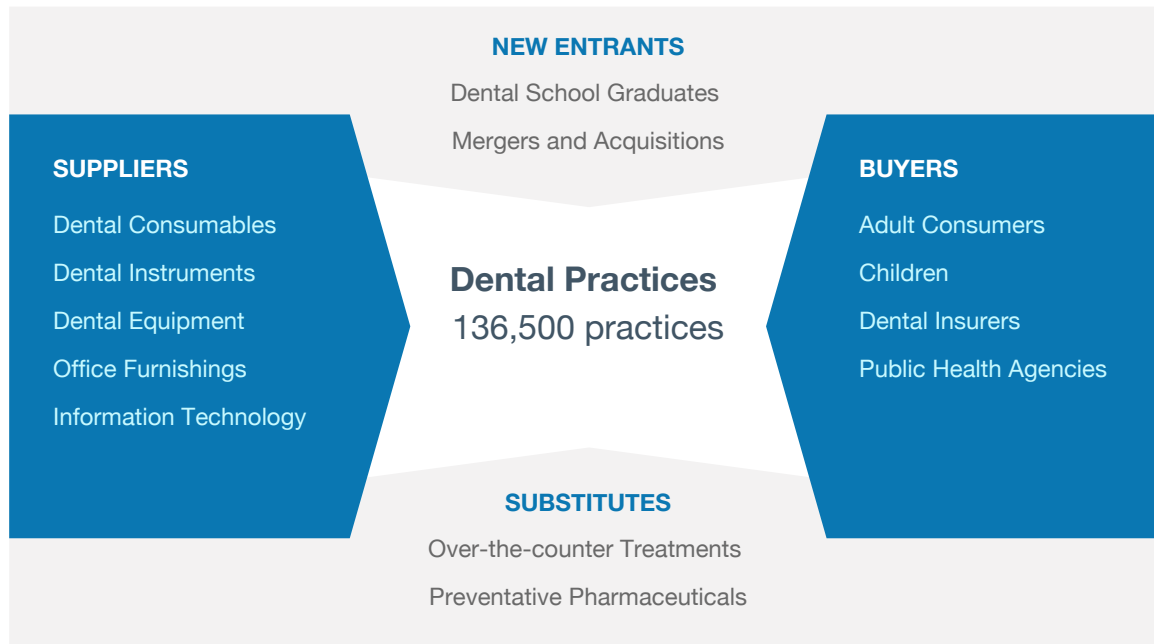
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Coronavirus Update

Feb 11, 2022 -- Concern About Pediatric Dental Hygiene Increases

- Some pediatric dentists are worried that many kids aren't keeping up with their dental hygiene during the pandemic. "There have been a lot of virtual schools and jobs and everything. With the kitchen right down the hall, there's been constant snacking and so it's not always been healthy," said Dr. Jeanie Beauchamp, President of the American Academy of Pediatric Dentistry.
- About 25% of dental practice owners who responded to a December 2021 poll by the ADA Health Policy Institute said that they raised fees within the previous month. Raising fees was the most common measure taken for financial sustainability for all months in 2021, the COVID-19 Economic Impact on Dental Practices poll showed. "Borrowing money was more common in early 2021 than it is now, likely due to the timing of the federal relief programs," said Marko Vujicic, Ph.D., Health Policy Institute chief economist and vice president.
- An Illinois dental practice is among a group of insurance policyholders not entitled to coverage for pandemic losses, a three-judge Seventh Circuit panel ruled. The Seventh Circuit is now the fifth appeals court to side with insurers in a pandemic coverage suit.
- Many dentists say that incidence of teeth grinding and jaw clenching, known as bruxism, has increased during the coronavirus pandemic. "Since the pandemic, patients have been coming to me with new complaints of jaw pain, tooth pain, broken or chipped teeth or just because their partners are telling them they're grinding -- in numbers that I've never seen before," Dr. Saul Pressner, a family dentist in New York City, said. Clenching and grinding is a common problem, but Pressner said he has even treated adults whose teeth clenching issues are brand new. "I'm really seeing both -- people who were pre-disposed to clenching and grinding, who already had appliances made for them, and some who had no evidence to show they were ever clenching or grinding before," Pressner said.
- The New York State Department of Financial Services, which regulates insurance firms, published guidelines directing medical, dental, and vision insurers to combat personal protective equipment (PPE) surcharges. Some dentists in New York State and elsewhere are adding a COVID-19 surcharge to help cover the cost of upgraded PPE that they say is essential for keeping employees safe during the pandemic. Insurance companies can't allow dentists in their network to charge members PPE fees and must get previously paid surcharges reimbursed, state regulators said. The American Dental Association has urged dental health plans to begin reimbursing a new fee to cover the expense. Some health plans have done so, but others haven't, which can leave patients paying the bills.
- Some insurance providers subsidize PPE costs, and other contracts don't allow for customers to be held liable for additional fees tacked on later. The rules vary from state to state and provider to provider, depending on whether the fee is disclosed upfront and what a client's insurance policy covers.
- Maryland Attorney General Brian Frosh has issued an advisory, warning dentists that charging PPE fees may violate the Consumer Protection Act. Insurance laws typically prohibit participating providers from charging fees to insured consumers. Fees may be acceptable when patients see an out-of-network provider or don't have insurance, according to Kimberly Cammarata, Assistant Attorney General and director of the state Health Education and Advocacy Unit. The American Dental Association has said that it's unethical to only charge uninsured patients or only seek reimbursement for these fees from insured patients.
- The World Health Organization (WHO) issued guidance advising people to delay routine dental cleanings "...until there has been a significant reduction in covid-19 transmission rates, or according to official recommendations at national, subnational, or local levels." WHO cited the role of aerosols in the "rapid contamination of surfaces and potential for the infection to spread" and called for more research into common dentistry practices that produce the tiny floating particles that might cause infection if inhaled, Reuters reported. "The likelihood of COVID-19 being transmitted through aerosol, micro-particles or airborne particles ... today I think is unknown. It's open to question at least. This means that more research is needed," Benoit Varenne, a WHO dental officer, said during a news briefing.
- The Department of Labor has concluded that dentists, dental hygienists, and dental assistants have the highest exposure to the disease, ranking alongside respiratory therapy technicians and oral surgeons. The instruments used by dental practices create aerosol clouds that can hold germs for up to three hours, increasing the odds of exposure for staff if a patient has the coronavirus.

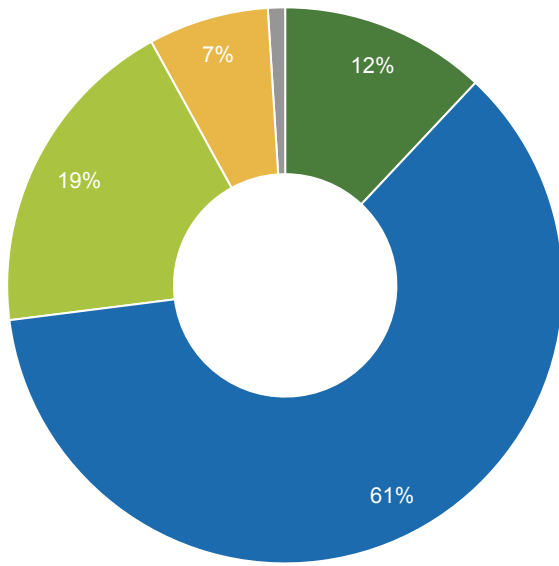
Industry Structure



The average dental practice employs about 6-7 workers and generates about \$1 million in annual revenue.

- There are about 136,500 dental practices in the US that employ 895,500 workers and generate annual revenue of \$138 billion.
- Dentists must be licensed by their State to practice. This requires a bachelor's degree, 4 years of dental school, and passing written and practical exams. Specialty licenses typically require another 2-4 years of postgraduate education and up to 2 years of a residency program. These licensing requirements create a significant barrier to entry for the industry.
- 78% of dentists are in general dentistry. Orthodontists represent 5% and oral surgeons and pediatric dentists each represent 4%, with the rest in other specialties (endodontists, periodontists, etc.).
- The average practice has 1-2 dentists and about 2 dental hygienists and 3 dental assistants for each dentist.

Industry Demographics



- Corporations (12.0%)
- S-Corporations (61.0%)
- Individual Proprietorships (19.0%)
- Partnerships (7.0%)
- Non-profit/Other (1.0%)

Source: US Census Bureau



Female Owned

25.0%



Minority Owned

25.0%



Veteran Owned

13.3%

Source: Census Bureau

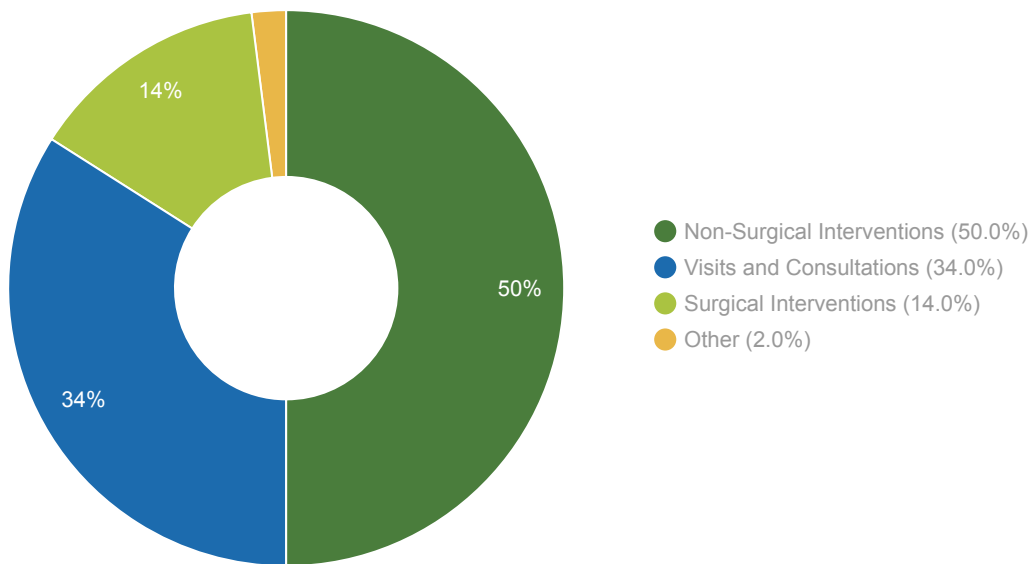
How Firms Operate

Products and Operations

Dentists are in the business of providing “oral health,” which for most patients means a preventative check-up and teeth cleaning every 6 months and an occasional cavity-filling or other procedure to address any problems uncovered.

- Regular visits and consultations account for about a third of overall dentists’ revenue. For general dentists, this “recare and hygiene” is the base for patient relationships and is usually performed by a dental hygienist.
- “Non-surgical interventions” are about half of dentists’ revenue and include cavity filling, crowns, implants, root canals and other restorative treatments performed by the dentist. Proposing a treatment plan to a patient is known as “case presentment” and is the key to higher margin services.
- “Surgical interventions” are usually performed by specialists and include surgery on the mouth, teeth, gums, neck and head.

Dental Practices Revenue



Source: US Census Bureau

A typical dentist office will have a front office area with a receptionist/office manager and patient waiting area, several “operatories” for treating patients, a sterilization area, and a supply room. Some offices may also have a conference area for patient consultations, a lab, and an X-ray room.

The typical office will have 7-8 employees – 1-2 dentists, 2 hygienists, 3 dental assistants, an office manager and a receptionist.

Dental hygienists are licensed to clean teeth, examine teeth and gums for disease, take X-rays, and teach patients how to brush and floss. They typically earn about \$77,500 annually, slightly less than half the salary of general dentists.

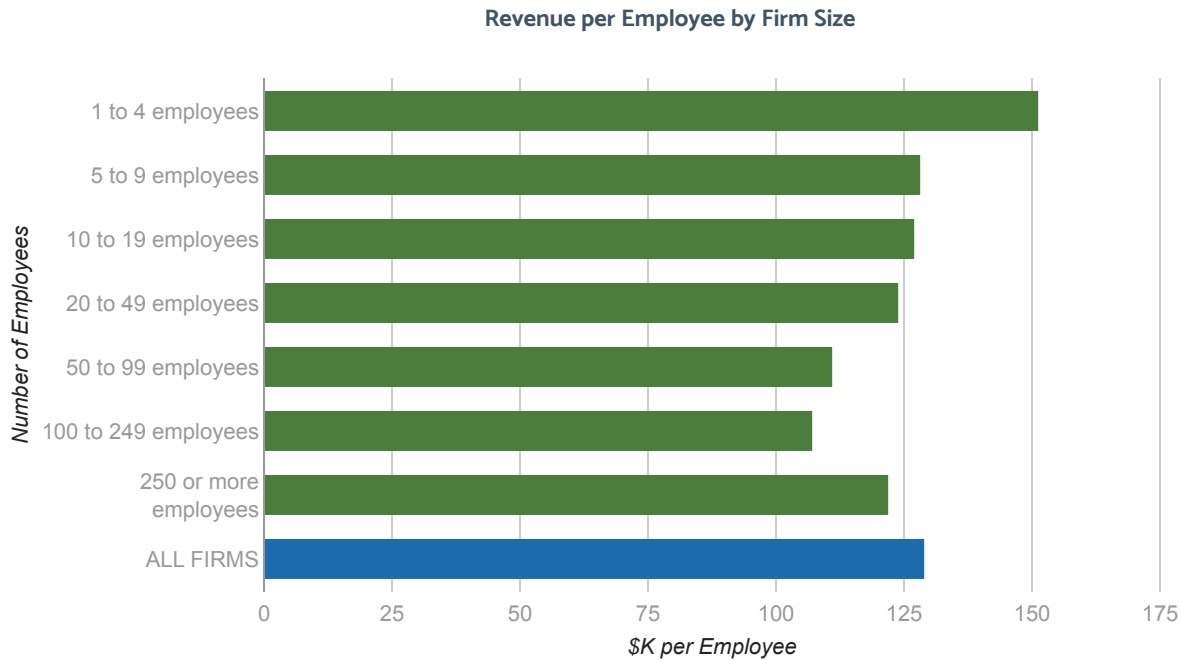
Dental assistants sterilize and disinfect instruments and equipment, update patient records, prepare instruments and supplies for treatment, and assist dentists during treatments. Many dental assistants were trained on-the-job and they earn about \$41,200 annually.

Many dental staff work part-time – the average work week is only 27 hours.

General dentistry practices need a minimum of 1,500 active patients a year – many have 2,000 or more. The number one source for new patients is referrals from existing patients. Other marketing activities to attract new patients include websites, Yellow Pages listings, direct mail, online advertising, and advertising in local newspapers, magazines, movie theaters and TV.

Specialty practices, such as periodontists, rely on referrals from general dentists and focus their marketing efforts on building and maintaining relationships with them. Orthodontists and pediatric dentists are specialists who rely on a combination of referrals from general dentists and direct marketing to consumers.

Dental practices typically monitor their profitability and efficiency by tracking their total overhead as a percentage of revenue. The industry norm for general dentistry practices is an overhead rate of 66%, though highly profitable practices achieve less than 60%. Specialty practices are typically in the 50–60% range.



Source: US Census Bureau

Profit Drivers

High Utilization Of Practice Capacity

Efficient scheduling of dentist, hygienist, and operatory capacity is key to meeting profit objectives. This requires a sufficient number of existing patients and enough new patients to offset departing patients. Successful practices minimize staff downtime due to “no shows” through appointment reminder mailings and confirmation calls. Most practices charge a fee for cancellations less than 24 hours before an appointment. Setting standard times for routine treatments and monitoring actual treatment times can identify productivity issues and opportunities for scheduling adjustments.

Successful Case Presentation For Treatments

A high case acceptance rate is required if the practice is to maximize the dentist’s treatment capacity. This is often difficult, as patients don’t want to incur the cost and potential discomfort of treatments. Dentists must be able to clearly explain the benefits of the treatment and the risks of delaying. Financing and payment plans can help to overcome cost objections. One study found that 78% of patients were more likely to go forward with treatment recommendations when given the opportunity to pay through CareCredit, a third-party financing program.

New Services To Grow Revenue Per Patient

Technical advances have created new revenue opportunities from existing patients for dentists. Oral cancer screenings using ultraviolet light have become a common preventative treatment. Cosmetic treatments, such as teeth whitening, can be performed by hygienists in the office or at home by the patient. CAD/CAM systems allow the milling of crowns in the office, capturing revenue that previously went to a dental lab.

Patient Retention

Creating an exceptional patient experience leads to both higher retention and more referrals of new patients. Without referrals, it costs practices more to acquire new patients than it does to retain existing patients. Many practices use an automated patient follow-up system to send out reminder notices for appointments and encourage periodic visits. Practices also have procedures in place for reminder calls by staff and proactively contact patients who have not scheduled routine hygiene visits.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

Steady Growth in Overall Demand

Overall demand for dental services follows US population growth, but the health of the economy can impact dental visits and treatments. The US population is projected to grow by 6.8% (22 million people) from 2020 to 2030. More importantly, the population of Americans over 65 is expected to grow by 31% and older patients tend to need more restorative treatments, such as implants, bridges, and dentures. Revenue for dentist offices rose 1-3% annually from 2010-2014 and 4-5% in 2015-2019.

Growth of Cosmetic Dentistry

Dentists have found new revenue opportunities in patients’ desire for a beautiful smile. Cosmetic dentistry, also called “aesthetic dentistry,” includes teeth whitening, removable braces to align teeth, implants to restore teeth, bridges, veneers, and other treatments that improve a patient’s appearance. By offering services like teeth whitening, dentists can attract new patients who may not have been visiting a dentist regularly.

New Treatment Technologies

Technological advances continue to increase quality, enhance patient comfort, and speed the delivery of dental treatments. Instead of putting in a temporary crown and waiting a week or more for a permanent crown to be shaped at a dental lab, dentists can now use CAD/CAM systems to create a final crown in the office while the patient waits. New pharmaceuticals quickly reverse the effects of anesthesia, providing better pain management options for patients. Digital x-rays and scanners are replacing traditional molds for making impressions of teeth.

Enhanced Preventative Care

Preventative care options at dental practices are also increasing . Early detection of “caries” – the bacterial infection that can lead to cavities – allows dentists to treat a tooth before a cavity is formed. Sealants and fluoride treatments for adults can stem tooth decay and prevent the need for more costly fillings and crowns. New pharmaceuticals can prevent gum disease. And dentists are expanding the use of ultraviolet fluorescent devices for early detection of oral cancer. These preventative treatments provide additional revenue opportunities for dentists, but can also reduce demand for more profitable restorative treatments.

Expansion of Dental Insurance

About 77% of the US population have access to dental benefits through employer-based dental plans and government programs. About 53% of people age 65 to 80 have dental insurance, according to research at the University of Michigan. The availability of dental insurance affects how new patients choose a dentist, how referrals between general dentists and specialists occur, frequency of preventative treatments, and reimbursement rates for treatments. While studies have shown that patients with private dental insurance have more frequent visits and higher dental expenditures than those who don’t, many dentists have a negative view of dental insurance companies due to claim denials and claims processing delays and costs.

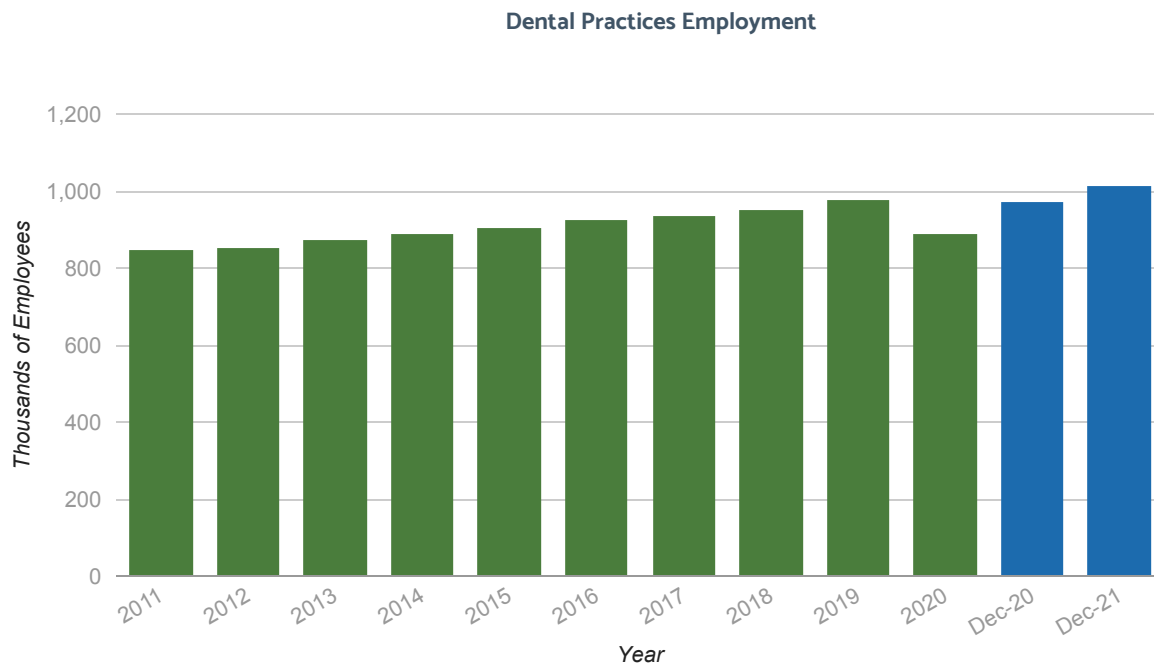
Growth of Large Practices and DSOS

While still a small percentage of the overall dental industry, very large practices with over 500 employees have been growing. Faced with high student debt, many new dental school graduates are opting to join a larger group practice as a low-cost way to get into private practice. The industry has also seen growth in Dental Support Organizations (DSOs) that handle administrative and financial duties for multiple private practices on an outsourced basis. The Association of Dental Support Organizations (ADSO) reports that its members support over 10,000 dentists who operate in the US, Canada, Australia, New Zealand, and the UK.

Employment and Wage Trends

Employment by dental practices increases

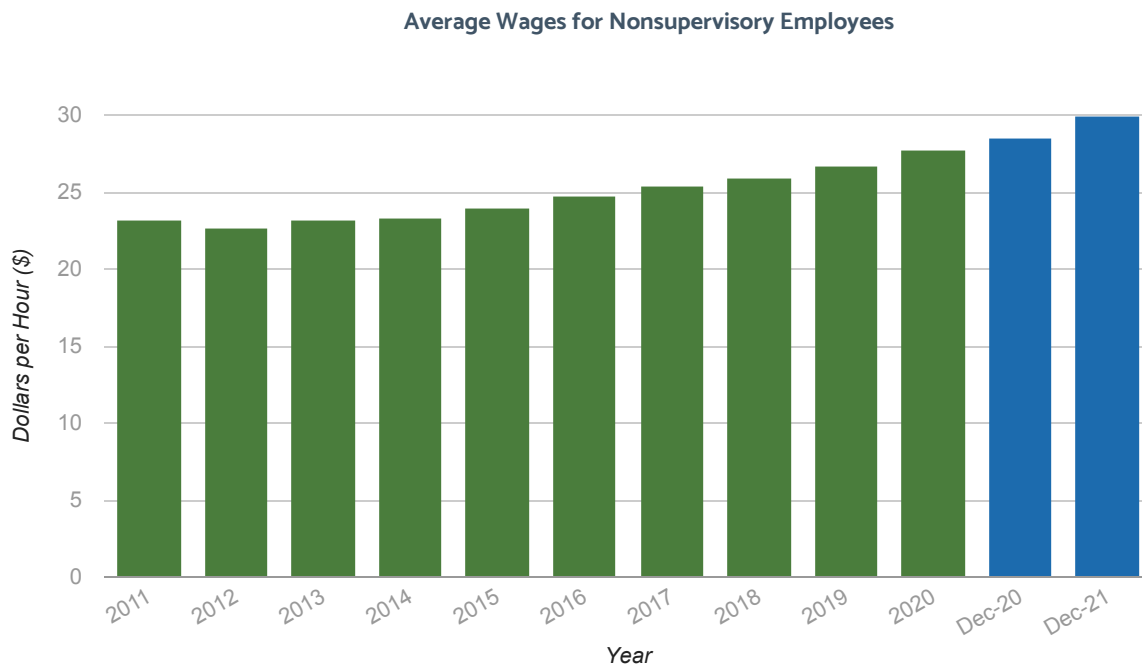
Overall employment by dental practices changed 4.3% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.



Source: Bureau of Labor Statistics

Wages at dental practices rise

Average wages for nonsupervisory employees at dental practices were \$29.88 per hour in December, a 5.2% change compared to a year ago.

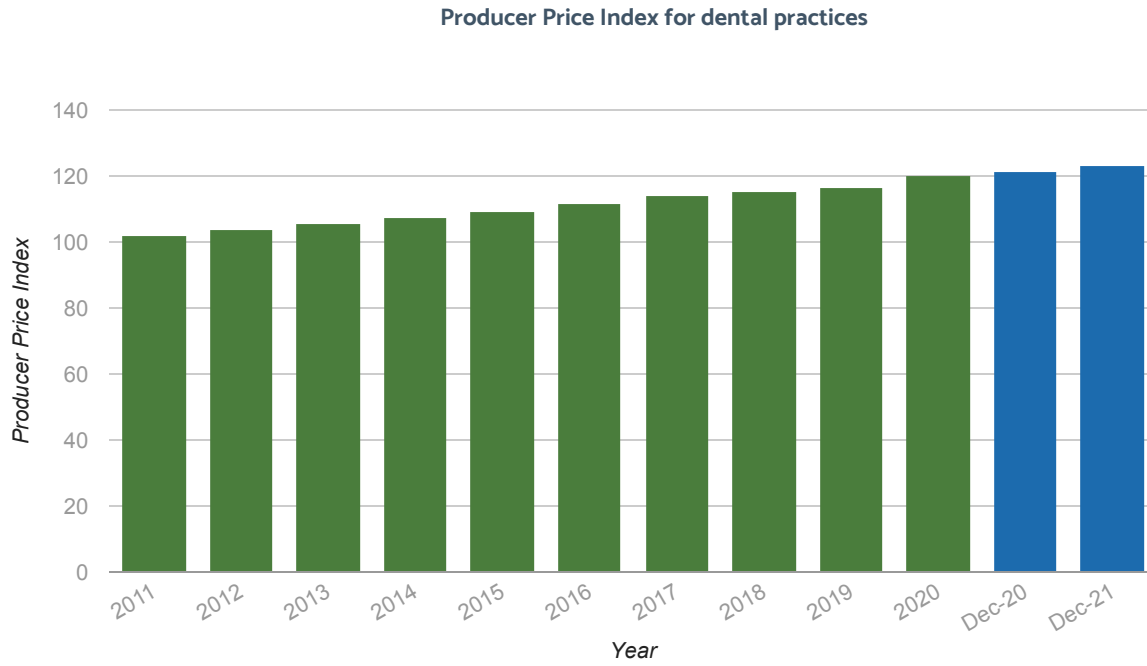


Source: Bureau of Labor Statistics

Price Trends

Producer Prices for dental practices rise

The Producer Price Index for dental practices changed 1.55% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Business Exit Rates:	3.0	Lower than US average for all businesses
Cyclical Sensitivity:	4.5	Moderate Sensitivity
Barriers to Entry:	3.4	Moderate initial capital; high regulatory/technical barriers; very low concentration
External Risk:	3.5	Low external risk
Industry Outlook:	2.7	Higher than GDP; some cyclical risk
Financial Summary:	5.0	High margins; low liquidity; high leverage

Key Metrics

METRIC	VALUE	COMPARISON
Performance During 2007–2009 Recession	5.5%	0.0% GDP
Business Exit Rate 2019–2020	6.52%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	9.39%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010–2019)	1.34%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)	0.59%	1.21% All Industries

Underwriting Considerations

- Dentists with a net worth over \$1 million and income over \$200,000 can typically get 100% financing on equipment from specialized lenders.
- If financing equipment, understand the resale value in a liquidation scenario as dental equipment can be specialized creating a situation of significantly reduced value compared to purchase price.
- Dental Practices are typically highly sought after by Commercial Lenders. Make sure of the following: Analyze Cash Flow to make sure the Dental Practice can Service the Debt and have ample Leverage and Liquidity in case of an economic turn.

Industry Risks

Weak Economy Lowers Demand

Demand for dental services had been thought to be “recession-proof,” but the past recession and recent pandemic saw a drop in dental appointments and billings. Laid-off workers lose dental benefits and cut back on discretionary expenses, including regular hygiene visits. Even with dental insurance, many patients are unable to afford co-payments for dental services. Demand for cosmetic services falls sharply when the economy is weak. Extended periods of weak demand can create cash flow shortfalls for dentist offices and affect their ability to make loan payments.

Local Competition

While educational and licensing requirements, along with retirements, tend to restrict the supply of dentists, local competition for patients is intense in some geographical areas. The US averages 61 dentists per 100,000 people, but this varies by state from 41 in Alabama and Arkansas to 75 or higher in California, Hawaii, New Jersey, New York, Alaska and Massachusetts. Within states, urban areas have higher concentrations of dentists than rural areas. Since it is relatively easy for patients to switch dentists, dentists in high concentration areas risk falling short of the 1,500 - 2,000 active patients typically needed for a profitable practice.

Competing Preventative Treatments

Advances in preventative treatments can be a double-edged sword for dentists. On the one hand, they can create new in-office revenue opportunities, such as regular oral cancer screenings. On the other hand, new sealants, rinses, and pharmaceuticals to prevent cavities and gum disease can lower demand for more profitable restorative procedures, such as implants, root canals, and crowns. Over-the-counter treatments, such as teeth whitening, also cut into revenues for dentists.

Potential Staffing Shortages

Steady growth in demand for dental services, combined with a large number of “baby boom” dentists retiring over the next 10 years, will likely lead to an increase in the ratio of dental staff to dentists. Employment of dental hygienists and dental assistants is projected to grow by 6.3% from 2019 to 2029. Licensing requirements may restrict the availability of hygienists and assistants, leading to more competition for skilled staff and higher salaries.

Affordable Care Act

The Affordable Care Act (ACA) expanded access to oral health services, particularly for low-income children, but there is uncertainty over whether the healthcare law will be revised or replaced. ACA was intended to supply dental benefits to 3 million children by 2018, but many plans still make dental coverage optional. Changes to ACA or adoption of new healthcare legislation could impact insurance requirements and coverage for low income patients.

Company Risks

Low Patient Retention

The barriers to switching dentists are low and patients often vote with their feet if they are dissatisfied. General dentistry practices need 1,500 - 2,000 active patients to operate efficiently, so tracking the trends in active patients is critical to evaluating the practice. Practices may have patients in their database who are no longer active and the inflow of new patients may only serve to replace patients who are departing. Failure to retain patients will eventually lead to revenue problems and idle capacity in the practice.

High Staff Turnover

The dental industry has a high employee turnover rate with the average employee leaving in 2-3 years. Since dental hygienists and assistants are the primary contacts for most patients with a dental office, hiring and retaining skilled staff is critical to a practice's success. One dentist estimated that having to replace one of his current staff members would cost him \$30,000-\$50,000 in lost production. A high turnover rate among hygienists and assistants is a warning sign of management issues and potential patient retention problems.

Low Case Acceptance Rate

Dental practices with a low case acceptance rate will have lower revenue per patient and be less profitable. While recare and hygiene drive the patient relationship, restorative treatments are more profitable and critical to realizing the revenue capacity of the dentist. Due to the cost involved, patients need to be “sold” on the benefits of restorative treatments and the risks of postponing treatment.

Collateral Risk for Dental Equipment

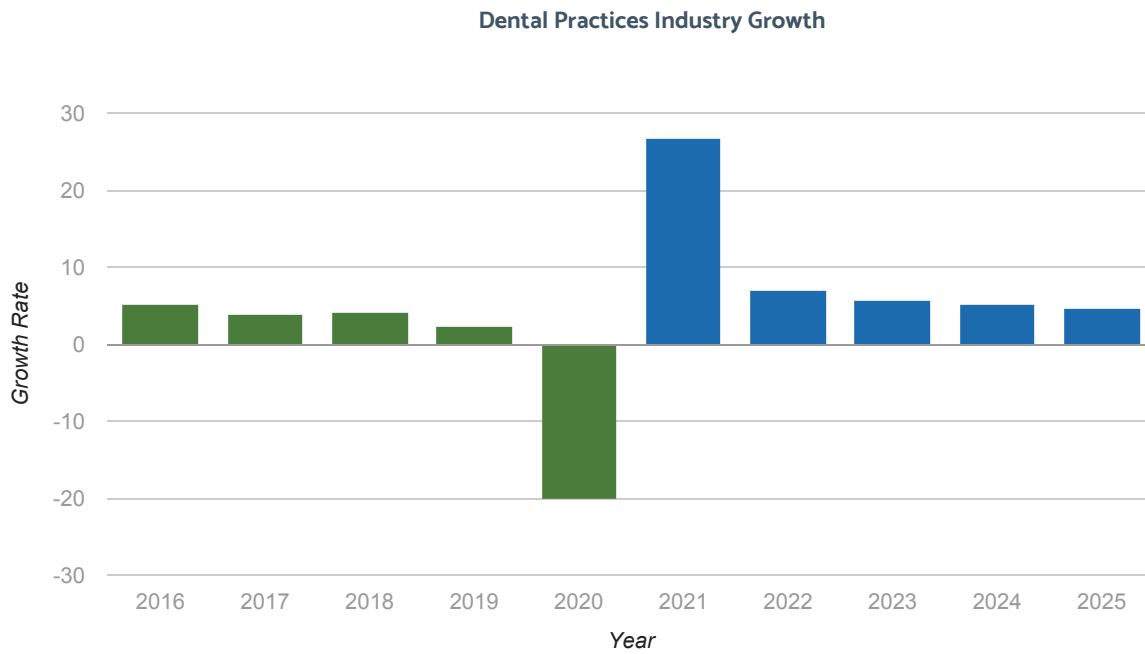
Due to the specialized nature of most dental equipment, the resale value for used equipment is often much lower than its book value. This creates risk for loans using equipment as collateral.

Industry Forecast

Sales for the US dental practices industry are forecast to grow at a 9.39% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

Selling a treatment plan beyond routine cleaning to patients is known as "case presentment." Patients may balk at accepting proposed treatments due to the cost and fear of discomfort, so dentists must be skilled in explaining the benefits and handling objections. To overcome cost objections, most practices offer financing plans or the ability to make multiple partial payments.

Dentists typically require payment at the time of service. If they are a member of the patient's dental insurance network, then the patient is responsible for any co-payment and the dentist invoices the insurance company for the remainder. If they are not a member of the patient's dental insurance network, some practices will require full payment from the patient, but will file an insurance claim on behalf of the patient for reimbursement. Other practices will collect from the insurance company to ease the financial burden on the patient.

75% of dental practices report that their typical sales transaction is between \$100 and \$500, according to a survey by Barlow Research Associates.

55% of dentists said they go to their accountant or bookkeeper for cash flow advice, while 16% turn to their banker and 45% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

Source: Barlow Research Associates.

Collect

Since dentists typically get paid at time of service, collection periods average only about 2 to 9 days. Payments are primarily via check or credit card. To encourage full payment up-front for treatments requiring multiple visits, most dentists offer a discount of 3-5%. For large bills, dentists will usually allow patients to make 2-3 monthly payments. Despite asking for payment at time of service, a recent survey of dentists reported that 10% of their accounts were over 30 days past due. A finance charge of 18% is typically charged for balances that are over 60 or 90 days past due. Many dentists offer financing plans through their bank or through CareCredit, which specializes in healthcare financing.

Manage Cash

Dental practices typically generate \$3,000 or more in cash for daily deposit. Established practices generally have sufficient cash flow to cover expenses and only use a line of credit for extraordinary purchases, such as new computer systems. Start-up practices do not have sufficient revenue to cover expenses and rely on lines of credit or other financing to meet short-term cash shortfalls.

Pay

Dentists typically spend about 20-23% of revenue on supplies and laboratory fees, and 3-4% in rent. Salaries are their biggest monthly expense, averaging 19-20% of revenue. Many practices also pay staff a bonus tied to achievement of monthly production goals.

Report

Most practices have some form of practice management software system installed that provides them with reports on operational metrics. They also rely on their CPA firm for analysis and reporting of results on a monthly or quarterly basis. Many use CPA firms that specialize in healthcare or dental practices. A key metric is total overhead as a percentage of revenue, which averages 65%. Other common metrics are daily production versus goal, case acceptance rate and number of new patients.

Cash Management Challenges

Insurance Claim Delays

Whether or not they are a member of an insurance network, dentist offices usually file claims for reimbursement for patient services. Some require the patient to pay up front for routine treatment and simply file reimbursement claims on behalf of the patient. Others only require a co-pay from the patient and file claims for the remaining balance. A survey of dentists found that 90% of them viewed insurance companies as enemies rather than allies. Claims denials, claims processing delays and requests for additional information extend the time it takes for dentists to get paid by insurance plans.

Low Case Acceptance For Treatments

Patients are often reluctant to accept recommendations for restorative treatments due to fears of the expense and pain involved. Case acceptance rates typically go down when the economy is weak, as patients postpone any "non-essential" expenses. Laid-off workers may lose access to dental benefits, raising their out-of-pocket expense for treatment. Dentists must be skilled in communicating the benefits of the treatment and the potential costs and risks of delaying it.

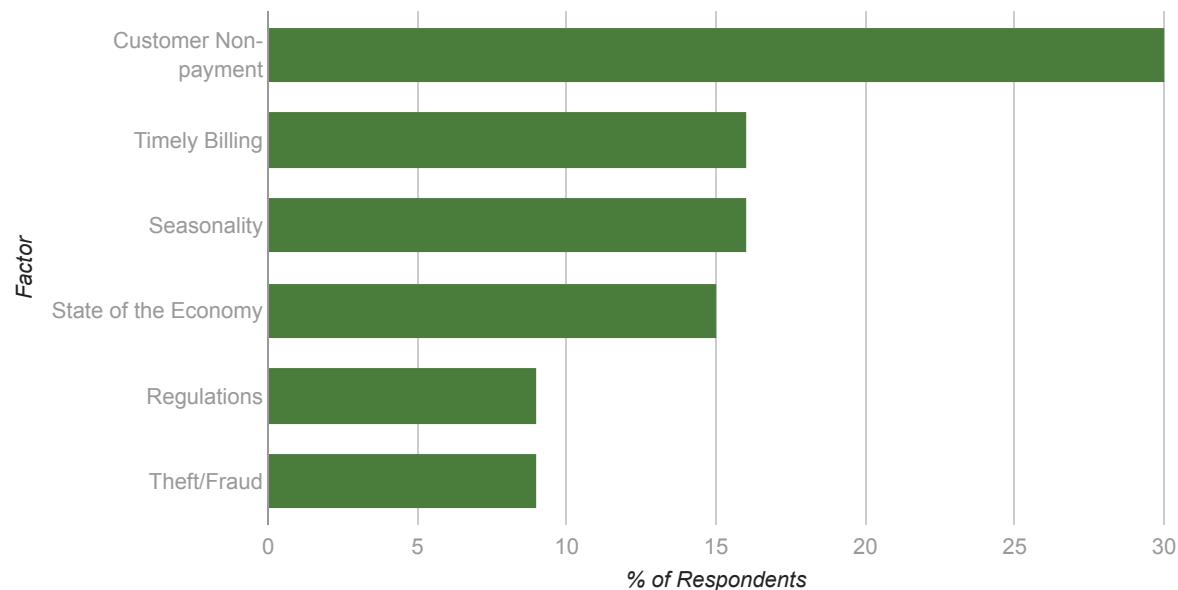
High Start-Up Costs

Starting a dental practice is expensive, due to the outlay for equipment, supplies, and support staff. New practices also have to spend more on marketing to build their patient base. Initial outlays for equipment, supplies, and furniture can total \$300,000 or more. New practices require some form of financing for these start-up costs, as their income will be low until they attract more patients.

Delinquent Account Follow-Up

A recent survey of dentists found that over two-thirds of them felt there was "room for improvement" in their collection processes. The biggest reason for this response was the desire to contact delinquent accounts earlier in the cycle. Lack of time and staff resources were cited as barriers to more timely follow-up with delinquent accounts. While dentists typically collect 94% of receivables, delinquent accounts tend to increase during recessions.

Factors Causing Cash Flow Stress: Dental Practices



Source: Barlow Research Associates

Capital Financing

Dental practices are expensive to start, due to the amount of equipment and supplies required to provide a variety of patient treatments. Dental technology continues to evolve, making it practical for general dentists to offer treatments such as implants and cosmetic dentistry. However, specialized dental equipment is not cheap, so practices will typically need to finance equipment purchases to keep pace with patient expectations.

A typical dental practice will have about \$200,000 to \$500,000 invested in equipment and fixtures. Larger practices can have \$1 million or more. Outfitting an operatory (patient care station) costs \$20,000 - \$50,000 and includes a dental chair, lighting system, vacuum and water systems, instrument trays, hygienist chair, computer, cabinetry, etc. Other equipment investments include instrument sterilizers, x-ray machines, CAD/CAM milling systems for crowns, and practice management software systems.

Digital technology is changing how dentists operate. Digital cameras are used to take pictures of teeth that can be shown immediately to patients. Digital x-ray systems are replacing traditional film-based x-rays because they are easier to use and reduce patients' exposure to radiation. Most practices have computers in each operatory where patient records can be updated and their next appointment scheduled.

New 3-D imaging systems are being used by some practices, driven by their use in preparing implants. These systems cost \$100,000 - \$150,000, so their adoption is not widespread yet.

Dentists prefer to own, rather than lease, most dental equipment, since the equipment typically has a useful life of 10 years or longer. Loans of 5-7 years from banks or third-party lenders are typically used to finance equipment purchases. Since computer hardware and software has a shorter useful life, it is more likely to be leased. New dental practices may also use leasing of dental equipment to reduce costs until they build up their patient base and revenues.

Examples of Equipment Purchases



Dental Chairs

\$3,000 - \$10,000

Adjustable chair with multiple pre-set positions and manual adjustment controls.



CAD/CAM Milling System

\$60,000 - \$110,000

System for milling crowns in dental office during patient visit. Eliminates laboratory fees and need for patient return visits.



Sterilizer

\$1,000 - \$7,000

Uses steam, or dry heat and chemicals to sterilize dental instruments.



Mobile X-Ray System

\$3,000 - \$7,000

Uses film to take spot X-rays of selected teeth.



Panoramic Digital X-ray System

\$50,000 - \$75,000

Creates a 2-D view of the upper and lower jaw from ear to ear. Digital X-ray uses electronic sensors instead of film to reduce repeated scans and patient exposure to radiation.



Operatory Packages

\$10,000 - \$20,000

Combines dental chair with lighting system and vacuum/water instruments.

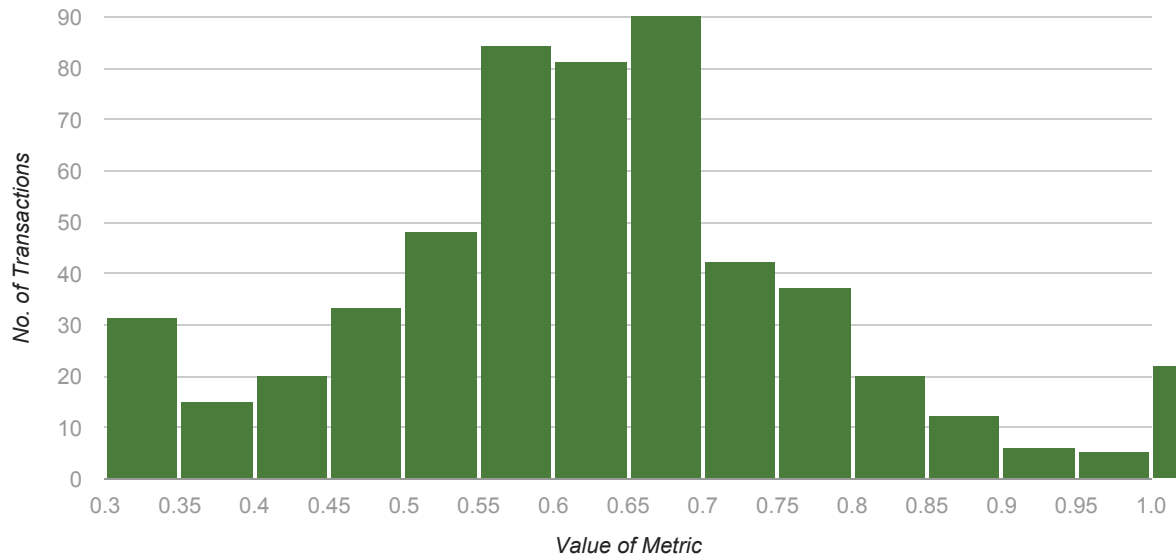
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for Dental Practices

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	0.63	0.7	546	12/23/1994–08/02/2021
Price to Gross Profits	0.63	0.66	529	12/23/1994–08/02/2021
Price to EBITDA	17.63	276.65	402	12/23/1994–08/02/2021
Price to EBIT	10.68	1493.98	324	12/23/1994 –08/02/2021

Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 546

Min: 0.05

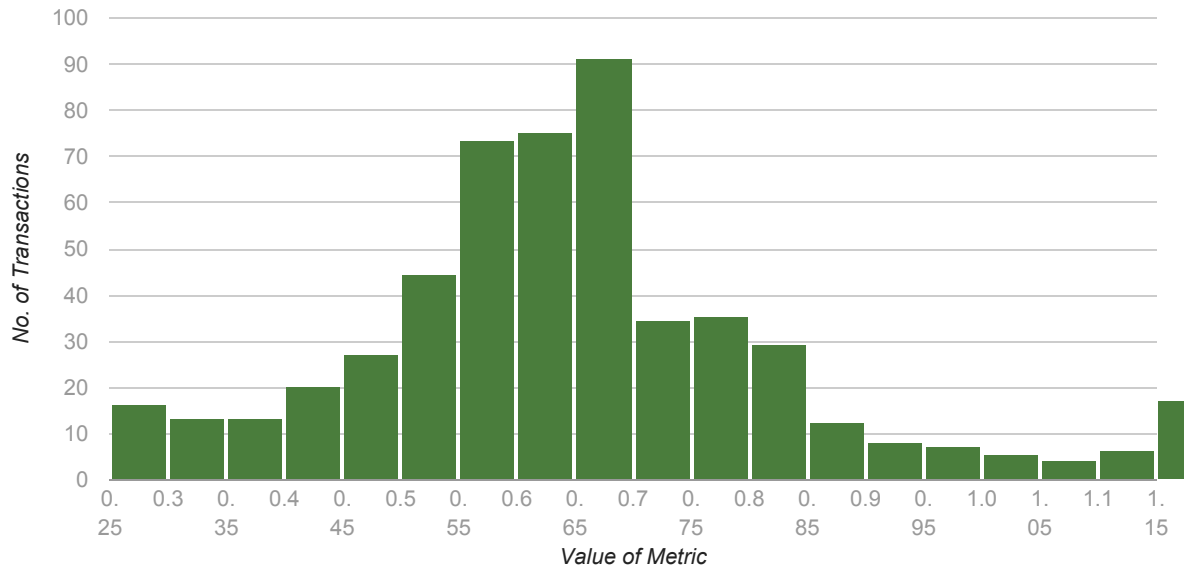
Max: 34.19

Mean: 0.7

Median: 0.63

Price to Sales = Selling Price/Net Sales

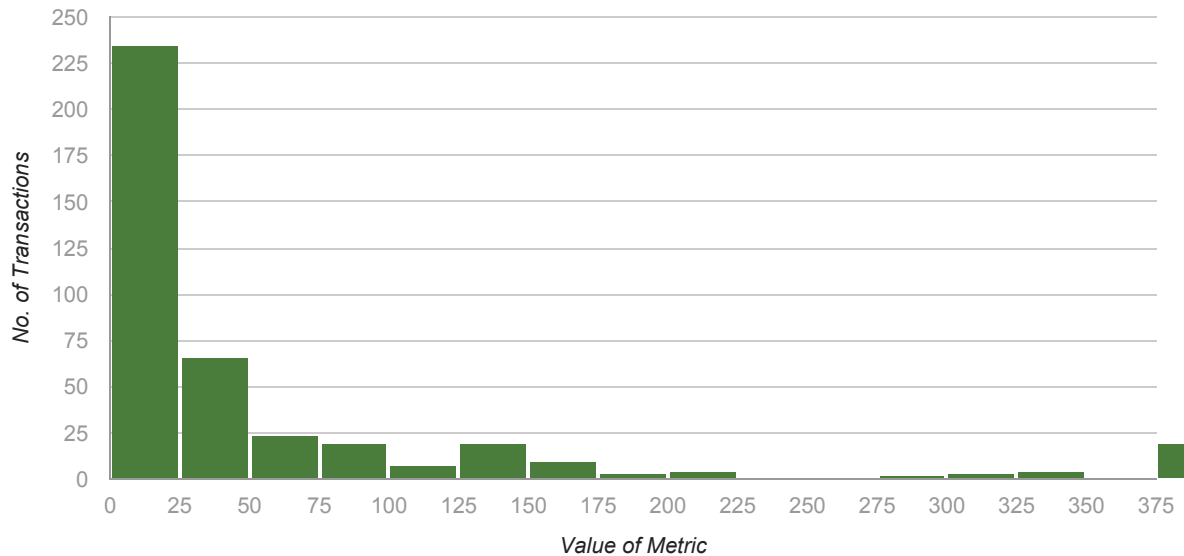
Date range: 12/23/1994 - 08/02/2021



Source: DealStats

Count: 529 **Min:** 0.05 **Max:** 3.17 **Mean:** 0.66 **Median:** 0.63

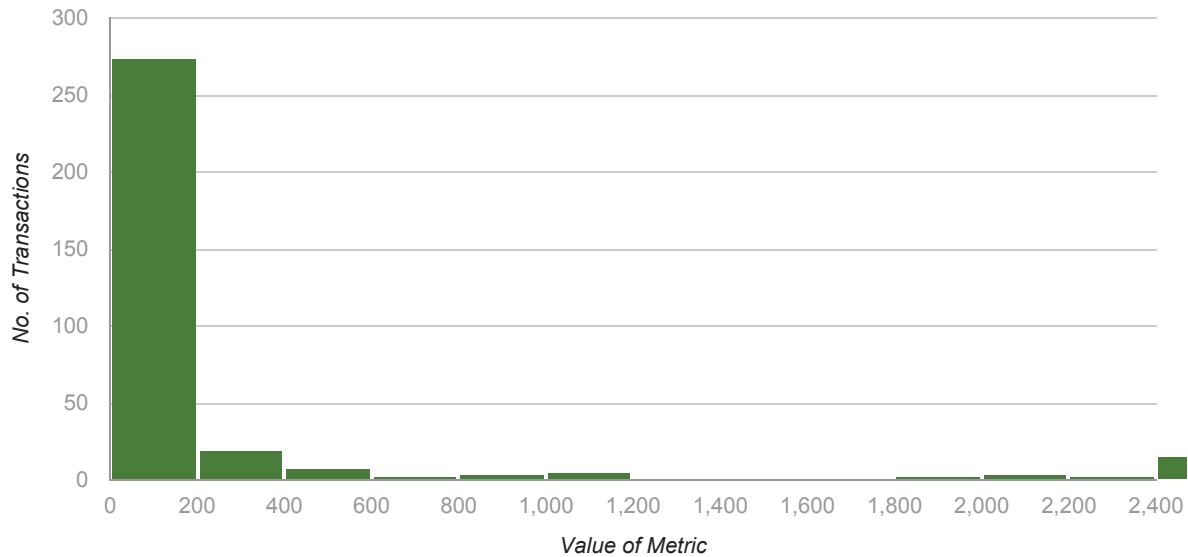
Price to Gross Profit = Selling Price/Gross Profit
Date range: 12/23/1994 - 08/02/2021



Source: DealStats

Count: 402 **Min:** 0.5 **Max:** 63492.06 **Mean:** 276.65 **Median:** 17.63

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 12/23/1994 - 08/02/2021



Source: DealStats

Count: 324

Min: 0.43

Max: 148375.0

Mean: 1493.98

Median: 10.68

Price to EBIT = Selling Price/Operating Profit

Date range: 12/23/1994 - 08/02/2021

Selling Price, also known as MVIC (Market Value of Invested Capital) is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncomplete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (Dental Practices, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio [?]	.62	.82	1.42
Quick Ratio [?]	.50	.65	1.26
Days Inventory [?]	1.64	2.49	1.36
Days Receivables [?]	9	2	6
Days Payables [?]	7.36	6.81	11.18
Pre-tax Return on Revenue [?]	7.19%	13.70%	21.10%
Pre-tax Return on Assets [?]	20.52%	84.91%	61.44%
Pre-tax Return on Net Worth [?]	225.37%	388.52%	247.94%
Interest Coverage [?]	8.27	28.12	27.46
Current Liabilities to Net Worth [?]	3.73	1.85	.92
Long Term Liabilities to Net Worth [?]	6.27	1.73	2.12
Total Liabilities to Net Worth [?]	9.98	3.58	3.04
<i>Number of Firms Analyzed</i>	<i>2,082</i>	<i>1,298</i>	<i>1,507</i>

Income Statement (Dental Practices, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	23.0%	20.56%	23.43%
Gross Margin	77.0%	79.44%	76.57%
Officers Compensation	10.44%	9.46%	9.16%
Salaries-Wages	19.7%	19.98%	23.77%
Rent	3.94%	4.0%	3.43%
Taxes Paid	2.45%	2.47%	2.67%
Advertising	1.3%	1.34%	0.53%
Benefits-Pensions	2.26%	2.35%	2.96%
<i>Number of Firms Analyzed</i>	<i>2,082</i>	<i>1,298</i>	<i>1,507</i>

ITEM	2018-19	2019-20	2020-21
Repairs	0.7%	0.72%	0.8%
Bad Debt	0.13%	0.12%	1.72%
Other SG&A Expenses	16.37%	18.57%	13.35%
EBITDA	19.71%	20.44%	18.18%
Amortization-Depreciation	4.24%	3.74%	3.83%
Operating Expenses	61.53%	62.75%	62.22%
Operating Income	15.47%	16.69%	14.35%
Interest Expense	1.99%	2.23%	1.9%
Other Income	0.19%	0.4%	-2.7%
Pre-tax Net Profit	13.29%	14.07%	15.15%
Income Tax	0.06%	0.16%	-0.28%
After Tax Net Profit	13.23%	13.91%	15.43%
<i>Number of Firms Analyzed</i>	<i>2,082</i>	<i>1,298</i>	<i>1,507</i>

Balance Sheet (Dental Practices, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	25.5%	25.26%	35.66%
Receivables	2.41%	3.03%	1.66%
Inventory	0.28%	0.24%	0.26%
Other Current Assets	2.88%	3.75%	2.35%
Total Current Assets	31.07%	32.27%	39.93%
Net Fixed Assets	31.63%	31.93%	24.78%
Net Intangible Assets	28.38%	22.69%	27.9%
Other Non-Current Assets	8.92%	13.08%	7.4%
<i>Total Assets</i>	<i>100.0%</i>	<i>100.0%</i>	<i>100.0%</i>
LIABILITIES			
Accounts Payable	1.4%	1.38%	1.09%
Loans/Notes Payable	21.54%	17.45%	22.71%
Other Current Liabilities	11.51%	16.06%	11.56%
<i>Number of Firms Analyzed</i>	<i>2,082</i>	<i>1,298</i>	<i>1,507</i>

LIABILITIES

Total Current Liabilities	34.46%	34.9%	35.36%
Total Long Term Liabilities	60.64%	55.55%	64.1%
Total Liabilities	95.1%	90.45%	99.46%
Net Worth	4.9%	9.54%	0.54%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	2,082	1,298	1,507

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at [RMA](#) and [Powerlytics](#).

Bank Product Usage

Top Bank Products Used by Dental Practices

The following table provides the frequency of bank product usage by Dental Practices with less than \$10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	97.0
Business savings or money market account	72.0
Point-of-sale credit card processing	72.0
Overdraft protection for business checking	68.0
Automated clearing house services (ACH)	68.0
Business debit card or business check card	63.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	58.0
Electronic payments initiated through the Internet (Bill Payment)	56.0
Wire transfer services	47.0
Money market mutual funds or short-term investments	43.0
SBA loans	43.0
Payroll processing	38.0
Commercial real estate mortgage	35.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	35.0
Credit lines secured by receivables, inventory, property or other assets	33.0
Commercial real estate mortgage (company occupied building)	31.0
Company sponsored 401(k), SEP, pension or profit sharing plan	31.0
Certificates of deposit	29.0
Unsecured short-term loans or working capital line of credit (less than one year)	25.0
Term loans or equipment financing (one year +)	25.0
Account reconciliation processing (ARP)	24.0
Commercial real estate mortgage (investment property)	23.0
Equipment leasing	20.0
Overnight investment or sweep accounts	15.0
Accounts receivable collection (lockbox)	14.0
International (foreign exchange, import/export letters of credit)	5.0

Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between \$100,000 to \$10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business (\$100K-\$10MM).

For more information on Barlow's banking research, go to <http://www.barlowresearch.com/>

Quarterly Insight

1st Quarter 2022

Most Dentists Work in Privately-owned Practices

About 85% of dentists who responded to a 2021 dental professional salary survey conducted by DentalPost and Endeavor Media work in private practice. The vast majority of respondents work in privately-owned practices, with 7% reporting they work in corporate practices, 4% in public or community health positions, and 4% in all other types of clinical employment. About 75.5% own or are a partner in a practice. Among respondents, 64% of women dentists own or partner in a practice, and 80% of men dentists own or partner in a practice. About 36% of those transitioning to owner or partner have five to nine years of experience. Some 46% work with five to 10 team members. Only 8% of respondents work in dental practices with 21 or more team members, and 86.5% of dental practices with 16-plus team members are privately owned.

4th Quarter 2021

Online Appointment Scheduling Could Differentiate A Practice

About 80% of respondents to a Healthgrades survey said that they would prefer to make their health-care appointments online. Some 35% of respondents said that scheduling appointments online with their health-care providers is a major factor when choosing between seemingly comparable options. Industry experts say that, with only 15% of all dental appointments currently being made online, this opens up a tremendous opportunity to differentiate a practice and attract more new patients.

3rd Quarter 2021

Industry Largely Exempt From Temporary OSHA Standards

Dental practices are largely exempt from new, temporary standards issued in mid-June by the federal Occupational Safety and Health Administration. Practices that are most likely to be affected by the new standard include hospital-based oral surgery practices or those dentists who provide care for COVID-19 patients. Experts cite the profession's widespread adoption of the guidance outlined in the American Dental Association Return to Work Interim Guidance Toolkit as a key reason for the exemption. The federal emergency temporary standard does not apply in states which have their own OSHA plan. Most healthcare facilities with 10 or more employees must conduct a hazard assessment and have a written plan to reduce coronavirus spread. Employers must also supply some employees with N95 respirators or other personal protective equipment. The standard also requires covered employers to provide workers with paid time off to get vaccinated and recover from any side effects. Covered employees who have the virus or who may be contagious must work remotely or otherwise be separated from other workers if possible, or be given paid time off up to \$1,400 per week. For most businesses with fewer than 500 employees, paid leave may be reimbursed through tax credits in the American Rescue Plan.

2nd Quarter 2021

Private Practice is Decreasing

The percentage of dentists who owned practices fell from 84.7% in 2005 to 76.1% in 2019, according to the American Dental Association's Health Policy Institute. About 63.1% of dentists worked by themselves in private practice in 2005 compared to 50.3% in 2019. Many analysts say that the decreases may have been further accelerated by the COVID-19 pandemic, while acquisition of practices by DSOs is speculated to have risen.

1st Quarter 2021

Top Performers Are Highly Efficient

The latest results from the Levin Group's 30-year ongoing study of the top 10% performing dental practices showed that the dentists of top 10% practices weren't necessarily characterized by having some type of unique or superstar capability. They were dentists who gradually figured out how to continually improve their practice performance. Levin Group also found that moving into the top 10% of practices was a gradual process, taking approximately seven years on average. Key tools for moving into the top 10% are excellent systems that allow for high levels of efficiency and staff longevity that is eight to nine years higher than most other practices.

4th Quarter 2020

Missed Calls = Missed Revenue

The average dental practice in North America misses 20% of their new-patient inbound calls, according to industry news site Dentistry iQ. Of the 80% that are answered, less than half are converted to a first appointment. A practice that answers an additional 15 calls and converts 33 more new patients stands to gain at least \$150,000 in practice revenue per 100 new-patient calls. "Oftentimes, a call from a prospective patient might be the only chance a practice has to connect with that person," said Joanne Bishop, senior vice president of Patient News. "The majority of new patients won't wait to leave a message on voicemail."

3rd Quarter 2020

Practice Management Firm Declares Bankruptcy

Benevis, along with parent company LT Smile Corporation, has entered voluntary Chapter 11 bankruptcy reorganization. Benevis provides dental practice management services to nearly 200 supported practices across the country. Company officials said that revenue fell more than 60% recently due to the coronavirus pandemic. The firm had terminated 158 workers as of March 23. Operations will continue during the sale and recapitalization of LT Smile Corporation.

2nd Quarter 2020

Industry Group Would Expand Uses of PPP Funding

The Organized Dentistry Coalition is asking Congress to allow dentists to purchase personal protective equipment with Paycheck Protection Program funding. The coalition said in a letter to leaders of the House and Senate that many coalition members have already received their funding and are now tasked with making decisions on what nonpayroll costs they will use these funds for in order to receive full loan forgiveness. The coalition added that small business health care providers – "especially those in dentistry" – will need a "significant increase" in personal protective equipment in order to protect themselves, dental team members, and patients from COVID-19 infections. The organizations pointed out in the letter to Congress that the intent of the Paycheck Protection Program was to encourage small businesses to retain or rehire staff in a timely manner but said that dentists who own practices cannot do that without first ensuring the health and safety of everyone.

Industry Terms

Case Acceptance Rate

Success rate in convincing patients to accept a treatment plan.

Case Presentation

Proposing a treatment plan beyond routine cleaning to a patient.

Operatory

Patient care station.

Recare and Hygiene

Routine cleaning and consultations for oral health.

Restorative Treatments

Non-surgical treatments, such as cavity filling, crowns, implants, and root canals.

Web Links

[American Dental Association](#)

News and information from trade association

[Consumer Guide to Dentistry](#)

Information on latest dental treatments

[Dental Economics](#)

Practice management advice and metrics

[DentistryQ](#)

Practice management articles and equipment information

[The Levin Group](#)

Education on practice management from dental consultant

[Mercer Advisors](#)

Dental practice management and financial consulting

Related Profiles

Dental Laboratories

NAICS: 339116 SIC: 8072

Medical & Imaging Labs

NAICS: 621511, 621512 SIC: 8071

Medical Device Manufacturers

NAICS: 339112, 339113 SIC: 3841, 3842

Niche Profiles

Endodontists

NAICS: 621210 SIC: 8021

Oral and Maxillofacial Surgeons

NAICS: 621210 SIC: 8021

Orthodontists

NAICS: 621210 SIC: 8021

Pediatric Dentists

NAICS: 621210 SIC: 8021

Periodontists

NAICS: 621210 SIC: 8021

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