

How Denticon Makes DSOs More Valuable



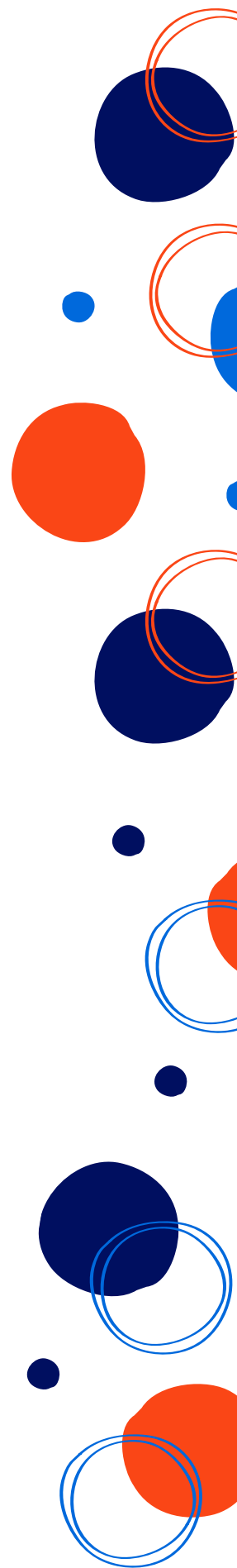
Setting the Stage

Stating that the dental industry is undergoing dramatic change has become somewhat of a cliché in the last few years.

But the change is real, and it's transforming dentistry from a landscape of single-doctor practices to one of the multi-location dental groups. Fueling this change in a variety of demographic, economic, and social factors that are as fascinating as they are significant.

One of the most interesting and alluring factors at play is the influx of outside capital for owners. When a multi-location group looks to sell, there are typically two main types of suitors to consider: other dental groups with capital or access to debt financing; and private equity firms looking to find a platform for growth or looking to add to an existing portfolio of offices.

The dental industry is one of the last remaining healthcare verticals that hasn't been fully consolidated, which (along with robust industry fundamentals) makes dental offices particularly attractive to the latter category of suitor — private equity firms.





It's simple math, really.

What makes dental practices so attractive to private equity firms? The answer is simple math.

At the right price, and with the proper growth strategy, private equity firms can make 1 plus 1 equals 5 (or more!).

$$1+1=5?$$

Private equity firms see an opportunity to buy individual practices at (relatively) low prices, build a multi-location group, and sell for a much higher price than what each individual practice would have commanded on its own, thanks to scale.

And because they're in the business of buying companies, private equity firms have well-defined criteria they use to evaluate potential acquisitions.

In this e-book we'll examine a few key valuation criteria used by private equity firms to price acquisitions, and show how Denticon practice management software can help with each, making a DSO more valuable.

This list is by no means exhaustive, and buyers look at these criteria differently. In no particular order then — and with the usual disclaimer that every deal is unique — private equity buyers typically look for DSOs that possess:

- Good Handle on the Numbers
- Low Technical Debt
- Centralized Services



A Good Handle on the Numbers



Few missteps will kill a deal more quickly than a few bad months of not hitting planned production numbers. Private Equity buyers, when issuing formal offers known as Letters of Intent (LOIs) or Indications of Interest (IOIs), almost always include language about how their offer is contingent on future revenue.

Because the average deal takes several months of work to complete, private equity firms want to make sure that the business they're buying doesn't take a nosedive before they close on the acquisition.

This contingency makes having coherent numbers vitally important. If you can't project where your group will be in a few months, you run the risk of missing the mark and putting your valuation at risk. But as many multi-location dental groups know all too well, generating consolidated monthly financials can be a huge chore especially if the group is using different practice management software programs at each location.

“**If you can't project where your group will be in a few months, you run the risk of missing the mark and putting your valuation at risk.**”

With different practice management software powering different locations, groups struggle to make sense of different reporting outputs. The same accounting terms can have different meanings in different software programs, with even basic numbers calculated using different formulas.

Some groups attempt to overcome this challenge with staff dedicated to “massaging” the numbers at the end of each month or quarter. These groups may have a basic sense of their financial performance, but they also have more staff expense eating away at profitability, which is a key valuation driver.

There's a far easier way to ensure your group has a good handle on the numbers: switch to Denticon. Denticon cloud-based practice management software allows groups to generate consolidated financials with just a few clicks of the mouse, across all locations, no matter how big or small the group.

Denticon eliminates the uncertainty and guesswork of cobbling together financials from different software systems, making clear financial projections possible — and making groups more attractive to buyers who are looking for clarity and predictability.



Low Technical Debt



Once a group has agreed to exclusivity with a potential buyer at a negotiated purchase price, the buyer initiates a process known as confirmatory diligence.

Diligence typically takes around 3-5 months, but can easily stretch longer, especially if problems surface to give a buyer pause or to cause them to revise their offer down. Some private equity firms employ this tactic of “re-trading” a deal down to a lower valuation on all of their deals, regardless of how severe the “problems” uncovered during diligence.

“ **Diligence typically takes around 3-5 months, but can easily stretch longer**

During diligence, a buyer will examine the group from every angle, in what can seem like a full-blown cavity search (no pun intended). Buyers in diligence are looking to confirm the assumptions that went into their acquisition offer (growth, profitability, overall health of the business) and identify sources of risk (legal, financial, personal) that may threaten the business under their future ownership.

One common negative finding that reduces the value of a business is known as “technical debt.” For dental groups, technical debt can mean a few things, including operatory equipment at the end of its useful life, outdated x-ray machines, or antiquated practice management software. A group that runs five different practice management software systems across seven locations will not command the same valuation as a group that has already streamlined to a single practice management software system.



Groups that run multiple software systems are viewed as requiring future investment to streamline operations. Private equity firms factor that future investment into their offer, which makes the group less valuable in their eyes because it will require a future outlay.

A group running Denticon across all of its locations has already made the required investment, which won't be subtracted from the purchase price.

Even better, the group will be operating more efficiently by virtue of having a common practice management system. The benefits touch every functional department, helping to make the group more profitable, which in turn will help it sell for a higher valuation. So it's win-win for the group.



Centralization

If the private equity investment thesis is to buy low, grow, and sell for a higher multiple of EBITDA than the one paid at purchase, then the initial acquisitions that can serve as platforms for growth are the most attractive to private equity firms.

EBITDA

Earnings before interest, taxes, depreciation, and amortization—a common measure of profitability used by acquirers to assign value to a business



A dental group that needs a lot of investment and streamlining before it can grow effectively, on the other hand, will not be looked upon as favorably.

Those dental groups that command the highest purchase prices frequently have centralized operations — more than just a loose collection of individual offices under the same ownership; they are truly a dental group with shared operations. In other words, they have achieved centralization.



Groups looking to sell in the near or medium-term can make themselves a lot more attractive by centralizing their operations. Centralization confers many benefits that all combine to make a DSO more valuable in the eyes of potential acquirers.

“ **Migrating to a single, cloud-based enterprise practice management software system is the single most effective means of achieving centralization**

Software like Denticon allows DSOs to operate efficient central service office(s) that liberate their individual practices and let them shine at what they do best — patient care.



What’s more, switching to Denticon helps eliminate several big expense line items to help make a group more profitable (and therefore more valuable).

Traditional legacy desktop software places a huge hardware burden on dental organizations, requiring them not only to pay for the practice management software itself but also for the hardware that runs that software — typically in the form of servers. The total cost of ownership for desktop software quickly consumes a big portion of any IT budget.



See the Difference

Traditional software vendors only present you with costs “above the waterline” — but that’s just the tip of the iceberg.

 ON-PREMISE PRACTICE MANAGEMENT SOFTWARE	 DENTICON'S MODERN CLOUD SOLUTION
DISADVANTAGES	ADVANTAGES
Duplicate documents and patient records	One patient record across all locations
Remote logins and third-party tools required to access off-site data	Access data from any web-connected device, anywhere, anytime
Security setup for each physical office can require substantial support and resources to stay secure and compliant	Streamlined and unified security permissions and access configurations across all offices, HIPAA compliant
Less flexible methods to standardize and centralize billing, call centers, info hubs	Centrally manage billing, insurance plans, claims, call centers, with one solution
Time-consuming reporting per office, requiring costly tools or integrations	Enterprise-level reporting, standardized across all practice locations
Expensive backup/disaster recovery tools and critical data vulnerable to permanent damage or loss	Safeguard data from breaches and disasters with cloud redundancy, instant data backups, and enterprise security
Added server and IT-related costs, maintenance	Cost savings on servers, maintenance, and IT-related fees



Take a Step in the Right Direction

These are just a few examples of how Denticon cloud-based enterprise practice management software makes DSOs more valuable.

Sticking with outdated desktop practice management software doesn't help DSOs achieve their full potential, and potential buyers know it — they price their offers accordingly.

The great thing about switching to Denticon is that it offers so many other advantages even before a group sells, or even if a DSO decides not to sell at all.

Which is why Denticon is the only cloud-based PM software in use at top ten DSOs.

There's no substitute for seeing the real thing, so we invite you to contact one of our dental practice experts for a detailed look at how Denticon can help you centralize services at your group.

A background image of a city skyline at dusk, with various skyscrapers and buildings illuminated against a twilight sky. The image is partially covered by a dark blue banner at the top and a large blue gradient shape at the bottom.

Contact Us



Planet DDS and our enterprise, cloud-based practice management solution, Denticon, was built for solo and multi-location dental practices.

For more information, visit our website:
www.planetdds.com