

Coronavirus Could Impact Your Practice Value for The Next Three Years

Your practice value today and in the future is at risk due to the potential of declining collections in the coming months. Practices with declining collections are difficult, and in many cases impossible to monetize at the high values for which LPS is renowned. Potential IDSO partners will examine three years of a practice's financial results as a part of their value determination.

This is not just a short-term issue.

03.07.20, Washington, D.C: 5:00 EST UPDATE. The Association of Dental Support Organizations (ADSO) just announced the cancellation of their annual event scheduled to start on March 11. This is the biggest event of the year for DSOs and was to be held in Maryland, just down the river from Washington, D.C. LPS was a sponsor of the event.

The ultimate effect of the Coronavirus on the U.S. economy is an unknown. However, based upon the current activities in other developed countries, we can reach a general thesis as to the potential impact upon the U.S. and on dental practice values.

But first, let's put the Coronavirus in perspective. The World Health Organization statistics at 3.00PM EST, March 7, 2020:

- 103,168 confirmed cases
- 3507 deaths
- 95 countries with confirmed cases

As compared to:

On one of the worst days for Coronavirus in China (February 10, 2020), **108 people died**. But on a given day, globally:

- 26,283 people die of **cancer**;
- 49,041 people die of **cardiovascular diseases**;
- 4,383 people die of **diabetes**.
- 2,191 die from suicide
- 2,740 die from mosquitoes
- 1,287 people are murdered

Source: Peter Diamandis from www.Diamandis.com (interesting to read)

In terms of actual deaths, Coronavirus is not yet a “rational” fear. However, the public's perception, reaction and changes in behavior are what is important to your practice. And behaviors are changing rapidly.

An Unexpected Impact of Coronavirus

One of our yachts which LPS uses to entice practice buyers and reward great doctor clients is docked in Genoa, Italy a city of 585,000 people. Genoa is far from the most affected areas of Milan and north and has no confirmed Coronavirus cases. In a discussion with our captain and crew members this morning, we debated where we might move to complete our winter maintenance and repair works due to labor issues in Genoa. Spain, Greece and Croatia are all options, but we are not in the outbreak prediction business and would guess Coronavirus will be there shortly.

Like other parts of Italy, Genoa is functionally in hibernation due to the pandemic. With all schools and Universities in Italy shut down until March 15, the local labor our yacht crew relies upon to assist them in the annual maintenance and repair regimen is at home taking care of their children. People are venturing out only if required. **Most dental visits in Italy, nor in the U.S., are required. Practice revenues and profits in Italy are declining. They will do the same in the U.S.**

As the Coronavirus and the attendant media hype expands in the U.S., we can expect similar behavior here. This is likely to result in reduced dental practice visits and cancelled appointments, creating a decline in practice revenues and thus profits (EBITDA).

Plausible Explanation Does Not Change the Outcome

While the impact on your practice financials is 100% explainable to prospective IDSO partners, it does not eliminate the negative impact on your practice profitability and thus the immediate and future value of your practice. Declining revenues usually result in declining profits (EBITDA). Because practice values achieved are primarily based upon operating profit or EBITDA, the math says this will impact future values for all three types of practices: growing collections, static collections and shrinking collections.

The Reliable Law of Supply and Demand

The explosive growth in doctors interested in an IDSO partner gives the IDSOs far more practices from which to select partners. The IDSOs will choose growing practices over flat or declining practices, every time. Certainly, there will be the “bottom feeders” offering low values for declining practices, but that is not how LPS likes to assist our clients. We are the “unbelievable value specialists” and you don’t achieve unbelievable values for declining practices.

It does not necessarily render flat practices unsellable but it will possibly have a very significant impact on the salability and value realized by those practices with declining collections. And because the window of measurement on these transactions is the three years prior to closing, the Coronavirus could potentially impact your practice value far into the future, not just in 2020.

An illustrative data point of the recent growth in IDSO transactions:

LPS IDSO Transactions in 2019: \$200,000,000

LPS IDSO Transactions in the first QUARTER of 2020: \$200,000,000++

LPS IDSO Transactions forecast for all of 2020: \$480,000,000+ (Assuming Coronavirus moderate)

What to Do Now?

Unfortunately, you have no control over global pandemics and more importantly, your patients' reactions to them. However, you can market more aggressively, work longer hours and watch costs more carefully than ever to attempt to continue to grow your EBITDA through the developing storm. It is the bottom line that matters most.

2021 Federal Tax Rate Consideration

If you plan to monetize a part of your practice in the next three years, now is probably a good time to understand its potential value. You should also consider the outcome of the U.S. Presidential Election as each of the Democrat candidates promise to raise taxes and eliminate the Long-Term Capital Gains tax preference, effectively doubling the tax rate on a transaction. Your net proceeds would be reduced by about 20%.

Baseline Practice Valuation; Why Not?

You may also want to consider having LPS determine the value of your practice today. While this value will most likely change in the future, it is beneficial to have a base line value today. The process is confidential, free and painless. **You have no obligation whatsoever.**

**To schedule an introductory phone call, please call 844-976-5332 or Email
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