

THE DENTAL EBITDA HANDBOOK

# **A clear explanation of what EBITDA is and How EBITDA affects the market value of your Dental Practice**

Everything you need to know in  
20 pages or less

By Matt Ornstein

Co-Founder of Dental Pitch Brokerage

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

© 2024 Matthew Ornstein



# **Foreword by Matt Ornstein (The Author)**

Thank you very much for buying and/or reading my book.

100% of the proceeds from the sale of this book will go to a 501C3 non-profit for the express purpose of providing financial aid and scholarships to financially underprivileged students attending Dental schools in the United States.

It is with deep & genuine gratitude that I say “Thank you” to you. I want to briefly explain my qualifications that make me an expert on the subject matter in this book:

I own a DSO (Dental Support Organization) called Oak Dental Partners that currently owns 60 dental offices. We have annual revenue/collections of over \$100 Million dollars a year with approximately 1000 employees, and we serve

approximately 250,000 individual patients per year in our dental offices. In 3 years, I grew this company from 20 dental offices with \$7,000,000 in EBITDA to 60 dental offices with over \$20,000,000 in EBITDA so I know what I am talking about.

I also own and operate 5 other operating businesses ... all of which are profitable with combined annual revenues of several hundred million dollars per year.

I am currently 55 years young, and I have a business degree from The University of Virginia.

Last and most importantly ... I recognize that in today's busy world business owners and Dentists simply don't have time to read books that are 200-300 pages long to get the information that they want ... so I have made a commitment to keep all my books 10 pages or less to provide you with extremely valuable and useable information without wasting your valuable time. I get straight to the point to provide the information that you

want and need and that is of super high value to you.

Again ... thank you very much for taking some of your very valuable time to read my book.

I promise you that it will be worth your time.

I wish you the very best in life and business 😊

# TABLE OF CONTENTS:

|   |           |
|---|-----------|
| CHAPTER 1: What does "EBITDA" stand for & really mean? .....                                      | <b>1</b>  |
| CHAPTER 2: How is EBITDA different from Net Income? .....   | <b>5</b>  |
| CHAPTER 3: Why is EBITDA important if you want to sell your dental practice or dental group?..... | <b>8</b>  |
| CHAPTER 4: How EBITDA affects the value of your dental practice .....                             | <b>12</b> |
| CHAPTER 5: Conclusion & Summary.....  | <b>15</b> |
| CHAPTER 6: Dental Pitch Brokerage (My company) .....  | <b>18</b> |

## CHAPTER 1:

# What does "EBITDA" stand for & really mean?

**EBITDA is:**

- (E) Earnings**
- (B) Before**
- (I) Interest**
- (T) Taxes**
- (D) Depreciation and**
- (A) Amortization.**

What does this really mean?

First You need to know what is meant by "Earnings" ... or what most people call "Net Income" or Profits". ("Earnings" is what businesspeople call "Net Income" or "Profits" after all normal operating expenses are paid by a company ... things like salaries, rent, insurance,

marketing, dental supplies, and the cost of the things used to make the product or service you provide and sell to your patients, etc.)

So "Earnings" means ... how much Net Income (or Profit) did your Practice make in the last 12 months (or calendar year): (1) before subtracting interest due on any loans your Practice has (2) before subtracting any income taxes your Practice owes (3) before deducting (or "writing off" for income tax purposes) the annual depreciation ("loss of") value on office or work related equipment or real estate related items (like dental chairs, dental equipment, oral scanners, computers, buildings, roofs, HVAC equipment, etc) and (4) before deducting the dollar amount of the principal of any outstanding loans (debt) that you have to pay back to the lender each year ("amortization"). "Amortization" means how much of the actual loan amount you owe to a lender that you pay back to the lender each year. For example, if you have an "Interest Only" loan then you only

pay the interest that is due on your loan each year and then at the end of the loan terms you pay back 100% of the amount of money you borrowed. In this example, if you borrowed \$100,000 for 5 years at 5% annual/yearly interest rate, then each year for 5 years you simply pay the lender \$5000/year (5% of the \$100,000 loan amount) in interest and then at the end of 5 years, you pay the lender back the full \$100,000 that you borrowed. Therefore, each year you paid "interest only" on the money that you borrowed. If you borrowed money with interest and "amortization", then each year on top of the interest that you pay your lender, you also have to pay back (or "amortize") some of the remaining loan amount. In a very simplified example, if you borrowed \$100,000 at 5% interest with \$1000/year of amortization for 5 years then each year you would owe your lender \$5000 in interest PLUS \$1000/year to pay down (or amortize) the loan ("amortize" means to reduce the amount you owe

back to your lender) ... So that after 5 years when the loan is due, you owe the lender \$95,000 instead of the \$100,000 you borrowed because each year for 5 years you paid down (or amortized) the loan amount due back to your lender \$1000/year or \$5000 over 5 years.

Why is "EBITDA" important to understand? ...

Because when you are selling your Dental Practice, most buyers will value your Practice based on the EBITDA (not based on your Net Income). For example, if Practices in your industry sell for 8 times EBITDA and your Practice has EBITDA of \$1,000,000 then you could sell your Dental Practice for \$8,000,000 ( $\$1,000,000 \times 8 = \$8,000,000$ ).

## CHAPTER 2:

# How is EBITDA different from Net Income?

How and why is EBITDA different than Net Income? Let me explain in very simple terms ...



Let's look at 2 Practices, both of whom make a "profit" of \$1,000,000 per year ... but Practice #1 has a lot of debt with annual interest payments of \$1,000,000 due to the lender/bank each year and

Practice #2 has no debt and thus no annual interest expense/cost.

Practice #1 makes a profit of \$1,000,000 but owes the lender \$1,000,000 in interest payments each year ... so after paying the interest cost, Practice #1 now has Net Income of \$0 (\$1,000,000 of Profit minus \$1,000,000 of interest cost = \$0 of Net income).

Practice #2 makes a profit of \$1,000,000 but has no debt and therefore no interest cost, thus Practice #2 has a Net Income of \$1,000,000 (\$1,000,000 of Profit minus \$0 of interest cost = \$1,000,000 of Net income).

Both Practices have the same EBITDA of \$1,000,000 a year, but Practice #1 has Net Income of \$0 and Practice #2 has Net Income of \$1,000,000. The interesting thing is that BOTH practices have the same value to a buyer and could be sold for the exact same amount (EBITDA times some multiple of EBITDA) even though their

net incomes are drastically different, and one practice is profitable and makes \$1,000,000 a year and the other practice is not profitable and makes \$0 per year.

I know this EBITDA stuff is very confusing for most practice owners at first, but it is extremely important to understand if you ever plan on selling your practice and cashing out or retiring. Having a competent and experienced CPA (accountant) is very important if you are considering selling your dental practice so you know what your EBITDA is before you try to sell your practice. I also recommend that you hire a CPA that has many years of experience working with dentists and understands the intricacies of dental accounting.

## CHAPTER 3:

# Why is EBITDA important if you want to sell your dental practice or dental group?



Buyers of Dental Practices generally come in 4 forms as follows:

- (1) Other DSOs (Dental Support Organizations) like Heartland Dental.

- (2) Private Equity Firms that own multiple dental offices.
- (3) Other Dentists that own 1 or more dental offices that want to grow their dental practices by buying more dental offices ... or
- (4) Family Offices (Very wealthy families that want to be in the dental industry by buying existing dental offices or dental groups).

These Buyers value dental offices (individual or multiple dental offices) using 2 methods ...

- (1) EBITDA or (2) Annual Collections
- (1) Let's begin with the Annual Collections Business Valuation method:

For smaller dental offices (or dental groups with multiple offices) with collections under \$10,000,000 per year, Buyers usually (but not always) value a dental practice based on annual collections. This may range from 80% - 120% of annual collections.

For example, if you own dental practice with \$1,000,000 of collections, a Buyer might value your dental practice at approximately \$1,000,000 and then offer to pay you approximately \$1,000,000 for your dental practice. If your dental practice (or group) has annual collections of \$10,000,000 a year, then a Buyer might agree to pay you approximately \$10,000,000 for your dental practice or group. From my experience, these are reasonable expectations if you want to sell your dental practice or group if your annual collections are \$10,000,000 per year **or less**; however, I do want to be clear that every buyer uses their own valuation methods and each and every buyer will have their own opinion of what a practice is worth and often these valuations differ greatly.

In my opinion, the "annual collections" valuation method for Buyers generally holds true until your annual collections are greater than \$10,000,000 per year and then at that point Buyers will likely value your dental practice (or Group) based on

your EBITDA and this is when things get interesting (and awesome) for you as a seller and why EBITDA is important to understand if you are a Seller. 😊

So, now let's move onto Chapter 4.



## CHAPTER 4:

# How EBITDA affects the value of your dental practice

As I said in Chapter 3 ... the value of your practice is either determined by annual collections or by EBITDA. In Chapter 3, I explained how a Buyer will usually value your dental practice based on annual collections if your collections are under \$10,000,000 per year.

Now let's talk about dental practices with annual collections over \$10,000,000 a year (and likely EBITDA of over \$2,000,000 a year) 😊

A well-run dental practice (or group) with \$10,000,000 of collections per year or more should have net profits (or EBITDA) of somewhere between \$2,000,000 to \$3,000,000 per year. In other words, a well-run dental practice should

have net profits between 20% - 30% of all the money collected by a dental practice (or group) per year.

If a dental practice has EBITDA of \$2,000,000 or more per year, then buyers will likely value your practice by taking your EBITDA and multiplying your EBITDA by another number (or what is called "a multiple" of your EBITDA). The interesting thing about this is that (generally speaking) the higher your EBITDA is, the higher the EBITDA multiple will be. The following EBITDA multiples & practice values are examples only:

- ✘ If your EBITDA is \$2,000,000 a year, then a buyer might agree to pay you **5X** your EBITDA or \$10,000,000 for your practice (\$2,000,000 of EBITDA times 5 = \$10,000,000).
- ✘ If your EBITDA is \$5,000,000 a year, then a buyer might agree to pay you **7X** your EBITDA or \$35,000,000 for your practice

(\$5,000,000 of EBITDA times 7 = \$35,000,000).

✘ If your EBITDA is \$10,000,000 a year, then a buyer might agree to pay you **10X** your EBITDA or \$100,000,000 for your practice (\$10,000,000 of EBITDA times 10 = \$100,000,000).

✘ Finally, if your EBITDA is over \$10,000,000 a year (let's say \$12,000,000 of EBITDA), then a buyer might agree to pay you **12X** your EBITDA or \$144,000,000 for your practice (\$12,000,000 of EBITDA times 12 = \$144,000,000).

In summary ... the higher your EBITDA ... the higher the multiple on your EBITDA that can be reasonable expected for the sale's value of your dental practice. Please keep in mind that the multiple on EBITDA that a buyer is willing to pay will be different for each buyer and the multiples can be affected by interest rates & many other factors.

## CHAPTER 5:

# Conclusion & Summary

As an owner of a Dental practice, it is important to know and understand what EBITDA is and how it affects the value of your practice.

It is actually not as complicated or confusing as most people think, but it is important to know what EBITDA is and to understand that the higher your EBITDA is, the more money your practice is worth.

There are only a few ways to increase your practice's EBITDA as follows:

- (1) You can reduce costs
- (2) You can increase revenue and collections
- (3) Or you can buy another dental practice and add that practice's EBITDA to your existing practice's EBITDA.



goal

**Now here is the real magic ☺ ...**

If you own a Dental practice that will sell for 7X the EBITDA, then every \$1.00 that you increase your EBITDA actually increases the value of your practice by \$7.00 when you sell your practice.

As an example, if your practice has EBITDA of \$5,000,000 and would sell for 7X EBITDA, then your practice would sell for \$35,000,000 ( $\$5,000,000 \times 7 = \$35,000,000$ ).

However, if you are able to increase your EBITDA by another \$100,000 (by reducing costs by \$100,000 per year or by increasing your collections

and profits by \$100,000 per year (or by doing so with a combination of cost reductions and increased collections and profits), then right away this extra \$100,000 of EBITDA will increase the sale's value of your practice by \$700,000 ( $\$100,000 \times 7 = \$700,000$ ) and now the value of your Dental practice just increased from \$35,000,000 to \$35,700,000 ... an extra \$700,000 in your pocket when you sell.

**And that, my friends, is why EBITDA is so important to understand 😊**

## CHAPTER 6:

# Dental Pitch Brokerage (My company)



Thank you very much for taking some of your very valuable time to read my book.

I am deeply grateful.

**I am also the Co-Founder (& Owner) of Dental Pitch Brokerage which helps sellers of individual Dental Practices (or Multi-Group Dental Practices of any size) sell their dental practices to our group of over 50 active Buyers.**

Dental Pitch Brokerage represents only Sellers of Dental Practices, and our experienced and talented team of experts guide you through the entire process of selling your practice (or group) for the optimal price & terms that work for you as the owner (and seller) of your dental practice or group. We charge **no up-front fees** of any kind. Our fees are reasonable and only paid if we successfully sell your Dental practice to one of our many buyers for a price (and with terms) that you are happy with.

**If you are considering selling your dental practice (or group), or if you have any friends thinking about selling, I would love to connect.**

Our website is: [www.dentalpitchbrokerage.com](http://www.dentalpitchbrokerage.com)

My email is: [Matt@dentalpitchbrokerage.com](mailto:Matt@dentalpitchbrokerage.com)

My cell number is: 404-401-3505.

Please feel free to email, text, or call me anytime as it would be my pleasure to connect.

**Thank you again for reading my book and  
congratulations on all of your success.**

**I wish you a life filled with peace, love,  
happiness, success and joy.**

**~ Matt Ornstein**

© 2024 by Matthew Ornstein





**YOU WILL  
DO BIG  
THINGS**