

Growing your dental practice: A financial guide

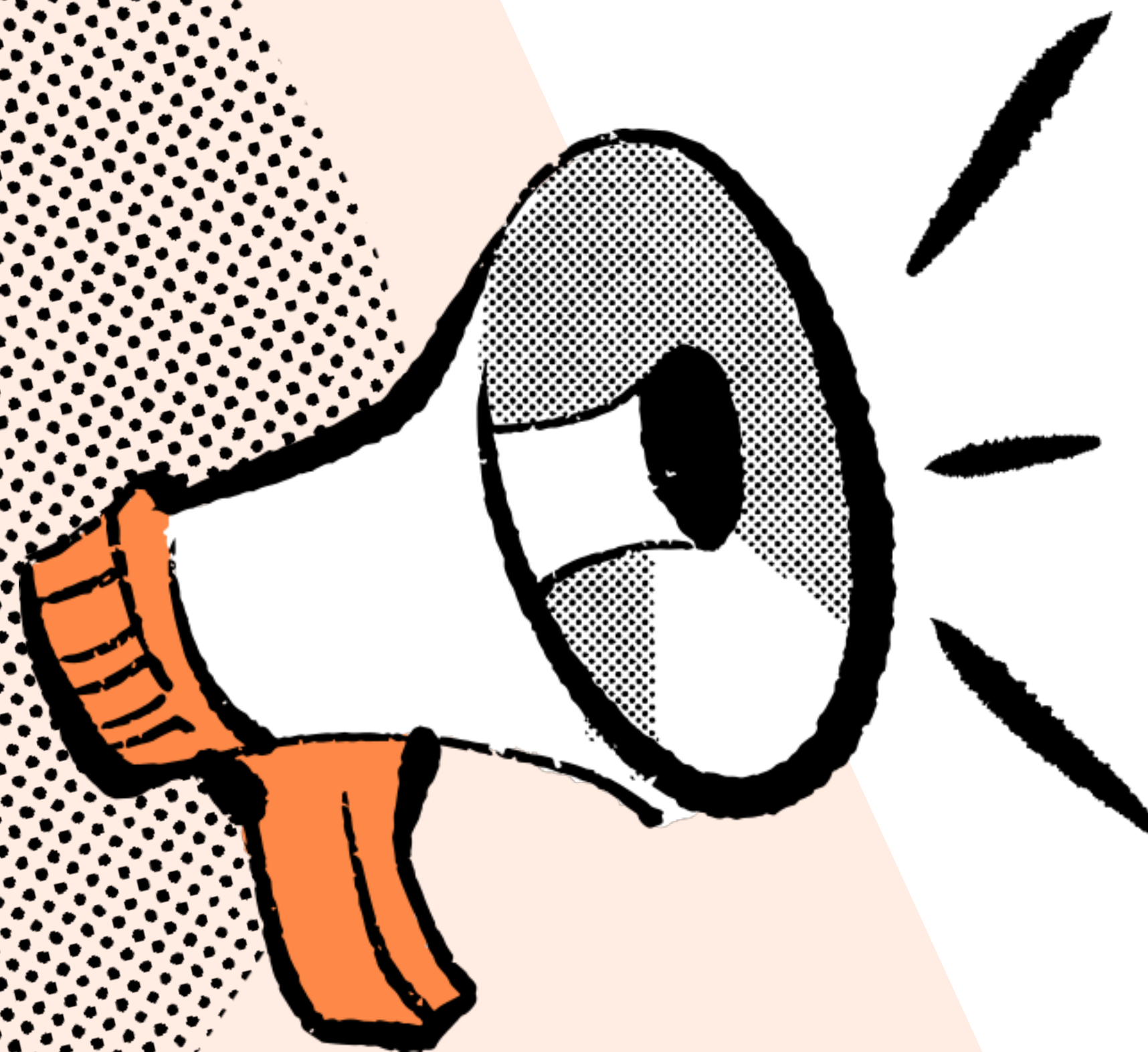
From BILL and CPA by Choice



Contents



Introduction	2
Common accounting methods (and why they matter)	3
Best financial practices for growing your dental business	4
Growth starts with good financials	8
Things to look for in a financial operations solution	9
BILL's benefits for dental practices and DSOs	10
Customer successes	11



Introduction

Dental practices have several paths for growth and need to make key strategic decisions along the way in order to maximize the value of their practices. These decisions have implications for what financial strategies practices should follow and tools to invest in to support that growth.

BILL has partnered with CPA by Choice to dig deeper into what these growth options are and the financial considerations that go along with them. We also provide guidance on selecting the right financial operations tools that can help you lay a solid financial foundation as you scale.

Common accounting methods (and why they matter)

Before diving into growth strategies, it's important to understand the different financial and accounting strategies used by individual practices or DSOs. These methods each have advantages and can impact your future growth plans. Here are the major differences:



Cash-based accounting

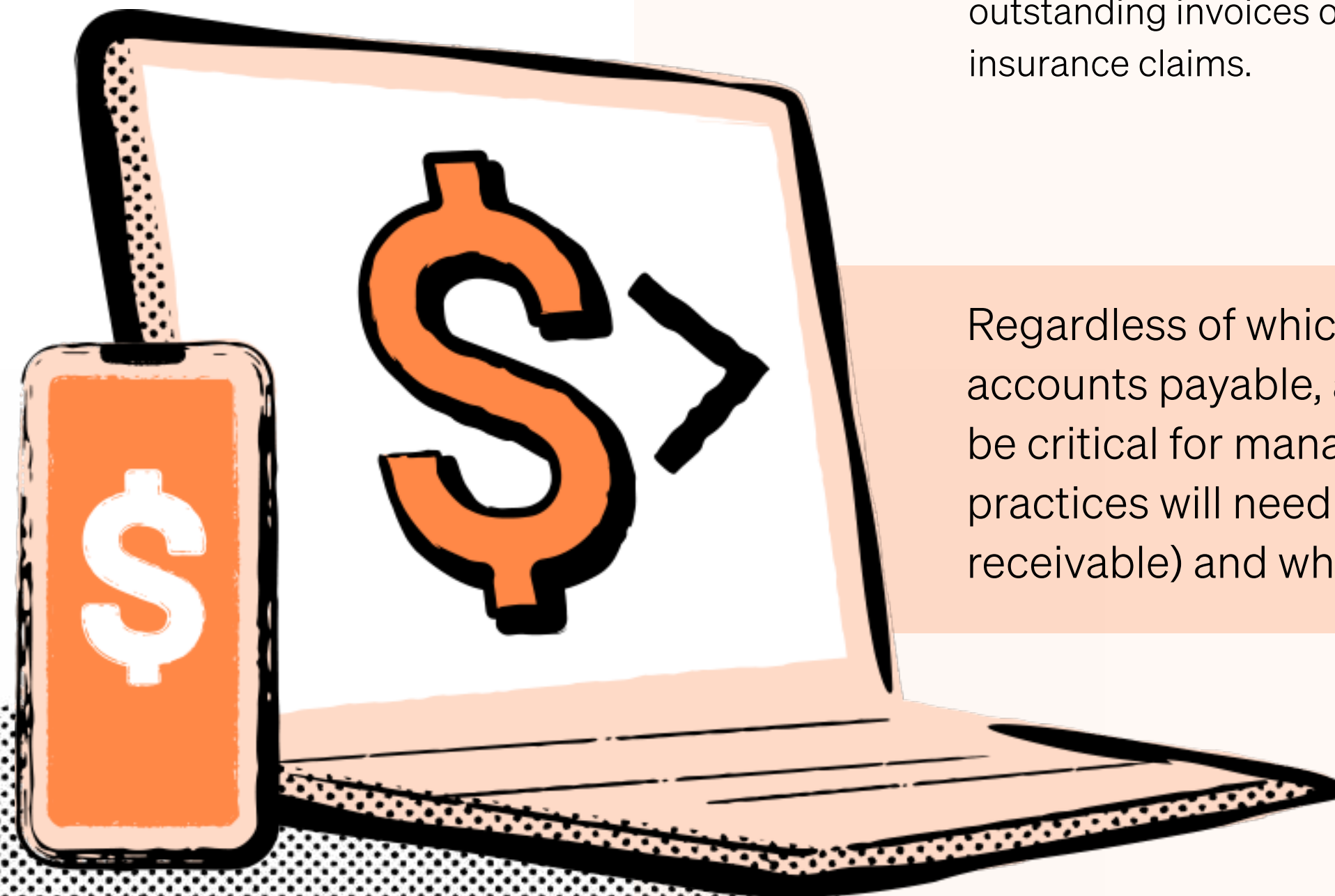
Individual dental practices often choose to use cash-based accounting because it is a simpler method that aligns with their cash flow and minimizes taxes. Cash-based accounting records transactions when cash is received or paid, providing a clear picture of the actual cash available at any given time. This approach is sometimes suitable for smaller practices with straightforward financial operations. It provides visibility into day-to-day operations for potential lenders, and reflects any seasonality or trends in your practice's finances. However, it won't necessarily reflect your total billings, outstanding invoices or bills, or unpaid insurance claims.



Accrual-based accounting

Dental service organizations (DSOs) often use accrual-based accounting due to their larger scale and more complex financial operations. Accrual-based accounting records transactions when they occur, regardless of when cash is received or paid. This method provides a more accurate representation of the organization's financial position, as it considers revenue and expenses when they are earned or incurred, rather than when cash is exchanged. Accrual-based accounting allows DSOs to track their financial performance more comprehensively and make informed decisions, such as whether to expand organically or through acquisition, based on a more complete financial picture.

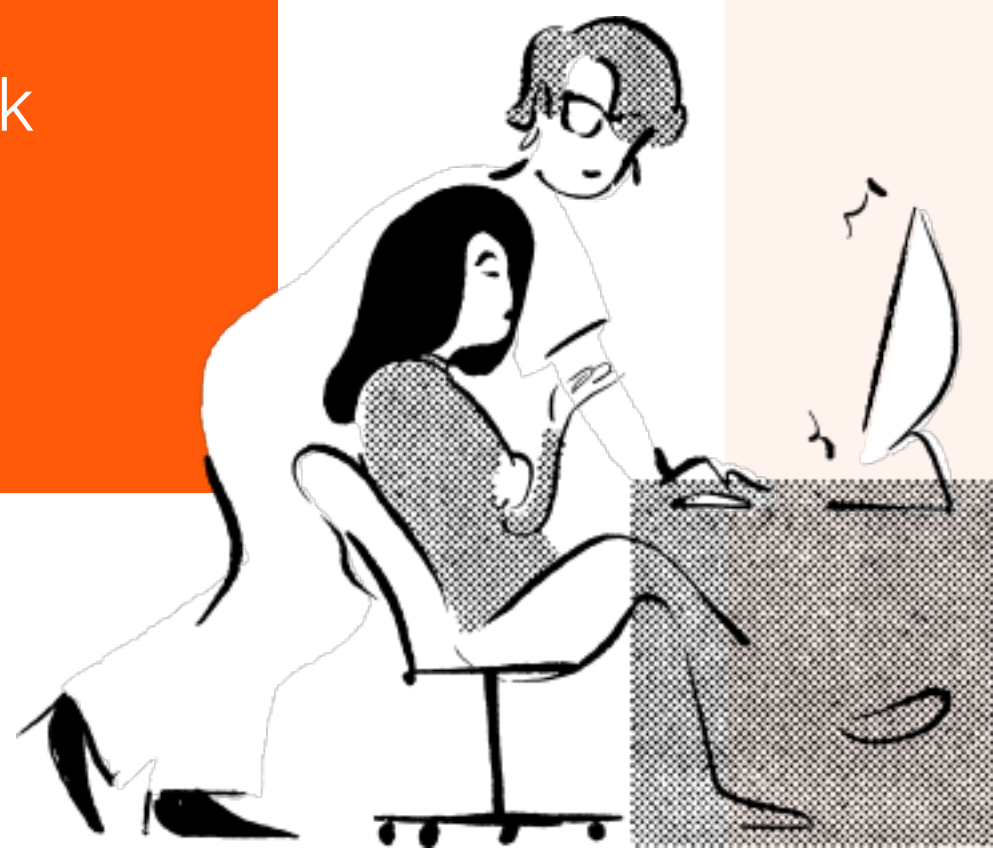
Regardless of which method is followed, a financial operations system that includes accounts payable, accounts receivable, and spend and expense management will be critical for managing your practice's finances. Even with cash-based accounting, practices will need to keep accurate books on what is owed them (accounts receivable) and what they owe (accounts payable).



Best financial practices for growing your dental business

As you look to expand your businesses, it's important to know what areas to focus on. Here are four practical tips to get you started:

A financial operations platform can help you track many of the components that go into EBITDA.



ONE Pay attention to EBITDA

EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It is an accrual-based metric that signals the value of your practice to private equity-backed DSOs or other practices for potential mergers and acquisitions. You'll want to show upward trends in EBITDA to maximize the value of your practice and be confident in your financial statements, as EBITDA is thoroughly scrutinized during due diligence processes.

It is also a common practice for dental practices to be sold in multiples of EBITDA. Multiples, short for the Multiple Approach, refers to a valuation theory based on the idea that similar assets sell at similar prices. In other words, it's a comparative analysis or relative valuation method used to evaluate similar companies using the same standardized financial metrics.

Depending on the size of your practice or the number of locations you operate, the multiples in the dental industry can vary considerably. For example, if you have 1 or 2 locations, your multiples might range from 4x to 6x. This means your practice's value would be 4 to 6 times your annual EBITDA. However, with upwards of 100 or more locations and favorable market conditions, this multiple could rise to as much as 16x.

A financial operations platform can help you track many of the components that go into EBITDA, and make it faster and easier to calculate your practices' value to a potential buyer.

TWO

Choose the right growth strategy

Dental practices typically have two options for growth: they can grow organically or through mergers and acquisitions (M&A).

Organic growth refers to expanding your patient base either by diversifying service offerings or by accelerating patient acquisition through marketing and promotions. Another growth strategy can be achieved through mergers, acquisitions, or affiliations with other practices. There are pros and cons with both approaches.

	Organic growth	Mergers and acquisitions
Growth	Slower growth and gradual expansion, but limited access to a larger patient base.	Rapid, potentially exponential growth, but comes with integration and cultural challenges.
Economies of scale	Some cost savings and efficiency gains but low immediate cost reductions.	Immediate economies of scale but high costs associated with M&A.
Patient relationships	Development of strong patient relationships over time but have limited access to a new patient base.	Potential to acquire an established patient base but may encounter patient retention challenges post-M&A.
Brand reputation	Local reputation for trust and quality care, but will have lower brand recognition.	An established brand will have immediate recognition, but may not have strong customer loyalty at the local level.
Control	Full control over operations and decision-making with the flexibility to change, but potentially at the cost of outside expertise and fresh ideas.	Ability to shape merged practices' direction on a larger scale but internal alignment on decisions and rolling out changes become more difficult.
Diversification	Continued focus on your practices' strengths and gradual expansion, but slower diversification of services and limited offerings.	Rapid diversification and broader offerings to patients, with service integration challenges with new practices.
Financial commitment	Typically lower upfront financial investment, but a longer time horizon for achieving high revenue.	Potential for higher revenue and profit, but high upfront financial commitment and risks.
Competition	Less marketing effort to survive, but need greater marketing investments to stand out.	Competitive edge in crowded markets with an established brand, but need to maintain high marketing investments.



THREE

Plan today for your future exit strategy

Having an exit strategy is important whether you manage an individual dental practice or a DSO. Even if you're not going to exit anytime soon, it's best to have a plan for several reasons:



Retirement planning

Just as you contribute to your 401K, you should have a retirement plan for your practice. An exit strategy facilitates a smooth transition, safeguards your financial future, and offers stability to your patients.



Financial security

An exit strategy allows you to cash out equity and capture the financial value you've accumulated throughout your career. It also helps maximize value to ensure the best possible return on your investment in the practice.



Succession planning

You should identify and cultivate successors, either from within the practice or via external buyers to ensure continuity in patient care and business operations.



Practice legacy

Dentists often forge deep connections with their patients and communities. An exit strategy can help preserve the legacy of your practice and maintain its reputation.



Efficient transitions

Think about how you'll leave your financial processes for the next owner or practice leader. Maintain reliable and accurate books to ensure a clean transition.

If you manage a DSO, you should also plan your exit strategy for the following reasons:



Streamlined processes

Streamline all operational, marketing, human resource, financial, and accounting processes and procedures. This includes standardizing practice management software, accounting software and financial operations software for all your locations so you can produce accurate financial reports.

Standardized marketing initiatives and goals, along with a professional HR team, can help you onboard new locations and implement necessary compliance rules across the DSO.



Audited financial statements

A DSO should have audited financial statements readily available for future investors and lenders. This adds credibility to the financials reported by the company and would assist with its sale.

FOUR

Understand DSOs and consider selling to them

The primary goal of a DSO is to help dental practices streamline their operations, improve efficiency, and enhance patient care while allowing dentists to focus on clinical aspects of their work. There are many benefits of joining a DSO, such as the ability to negotiate deeper supplier discounts and reduce operational costs. DSOs often use financial automation software to help them run practices efficiently, and this could help you focus on better patient care.

As an owner and a dentist, if you are selling to a DSO, you'll likely be offered an employment agreement to stay onboard and continue working. This protects both your patients and the reputation you've built over the years. The terms of the agreement are often negotiable, depending on the flexibility of the DSO.

In addition, you might be presented with an “earnout” option based on target EBITDA goals. Remember to negotiate the terms of your earnout, a contractual mechanism in the agreement that stipulates contingent additional payments from a buyer (DSOs) to the seller (you). If you are unsure how to negotiate, seek advice from your M&A attorney and your business consultant.

Growth starts with good financials

Your future growth is built on a strong financial foundation. Here are a few tips on how to get your finances in order:

TIP 1

Use practice management software to monitor operational results of your practice

Practice management software provides critical operational data, including new patients per month, recurring patients, type of procedures performed, and more. Having immediate visibility into the information will help not only with operations, but also with understanding financial standing, revenue, patient receivables, supplies inventory, and cash required to continue operations.

TIP 2

Consolidate financial data by connecting your accounting systems

To ensure your practice's financial health, consolidate your financial data by integrating your accounting software, such as Sage Intacct and QuickBooks, with your budgeting, expense reporting and payment solutions. This provides a comprehensive view and real-time insights into revenue, expenses, and cash flow. For DSOs with multiple locations, centralizing financial data is especially critical. Solid insights and reporting can help you make informed business decisions.



TIP 3

Consider an integrated financial operation platform

Financial automation is designed to help make processes faster, more consistent, and more efficient. This is more than just digitizing paper records and processes—it also includes using tech-assisted tasks like data intake, matching, categorizing, and reporting. The right financial automation platform can also help you integrate across systems and between software platforms for a single, trusted source of information.

Other examples of financial automation include features such as digital receipt capture, enhanced reporting for tracking spending patterns, and automated invoicing, approvals, and payments. You can also benefit from real-time visibility into cash flow, budgets, and other key metrics.

You can expect to see more AI and machine learning capabilities in your finance software now. These tools can help you flag errors, calculate cash flow, approve and reimburse employee expenses, pay predictable invoices, and more. Most importantly, they should sync with your accounting software or ERP.

Common financial automation tools include accounts payable, accounts receivable, corporate cards (including virtual cards), expense management, and financial planning & analysis.

Things to look for in a financial operations solution

Selecting the right solution for financial operations is crucial, because it can boost operational efficiency and help your business scale while providing better visibility into your cash flow. This section outlines key factors to look for when evaluating automated financial operations solutions.

Customizability

Every practice is unique, so you need to be able to tailor approval workflows for different use cases. There should be options to customize roles and workflows to support your internal policies.

Speed

From start to finish, financial automation solutions should speed up invoice capture, approvals, and payment processing. Be sure to run timed tests of any solution you demo to see how quickly each step is handled.

Audit trails

External stakeholders such as auditors may request remittance details. Make sure that your financial automation solution keeps complete and detailed transaction details to simplify future audits and inquiries.

Integration

Your solution should integrate with your accounting software or ERP, so you always have an up-to-date view of your practice's finances. A good financial automation solution should offer an automatic sync with major accounting software, such as Oracle NetSuite, QuickBooks, Sage Intacct, and Microsoft Dynamics, or at least an option that allows you to easily move data between systems.

Ease of use

Financial automation solutions should be easy to use, so employees can quickly understand it and start using it. Take a demo of the software you're evaluating to ensure it's intuitive for administrators, approvers, and daily users.

Mobile apps

Every financial automation solution should come with a mobile app, so the management team can approve payments or budgets anytime, anywhere. This is especially important if you remotely manage multiple dental practices.

Workflow modification

As your business needs change and new hires are added, you may want to adjust your workflows. Make sure your solution gives you the option to bulk replace approvers, so you can seamlessly transition responsibilities to new hires as you grow.

Security & HIPAA compliance

Ensure the solution you choose includes security features like 2-step verification and SSL encryption. This helps keep your business and vendor data safe and secure. You should also consider solutions that can safeguard the privacy, security and integration of protected health information (PHI) of your patients so that your financial processes remain HIPAA compliant.

Multi-entity management

As your practice expands, it's important to have a centralized view into the finances of all your dental office locations and be able to drill down into the cash inflows and outflows of each practice.

PO matching

The purchase-to-pay workflow needs extra attention for better spending control and team productivity. Look for automated two-way and three-way matching capabilities to ensure that payments for goods and services match what was pre-approved and received.

Real-time visibility

A good financial automation solution should have the ability to track and monitor expenses in real-time and provide insights into spending patterns, allowing for proactive financial decisions and budget adjustments.

BILL's benefits for dental practices and DSOs

BILL's financial operations platform helps dental practices and DSOs improve efficiency, gain control and visibility into spend, and scale with confidence. Two core solutions on the platform for managing spend include:



bill ACCOUNTS PAYABLE

BILL Accounts Payable removes manual paperwork and time-consuming tasks, so practice owners can focus on what matters: patient care and satisfaction. It helps you:



Safeguard sensitive information

Protect and control access to accounting data containing ePHI.



Gain control

Maximize cash flow with deferred payables and accelerated receivables.



Customize the experience

Set up custom user access roles and approval policies to match the needs of your practice.



Scale your practice

Manage multiple practices or locations from one console, which syncs or integrates with your accounting software.

bill SPEND & EXPENSE

BILL Spend & Expense eliminates manual expense reporting, gives you real-time spending data, and provides flexible credit lines to help your dental practice scale. It helps you:



Maximize visibility

Track spending by person, vendor, card, or any way you like, in real-time.



Control spending

Never go over budget again with easy controls and visibility into every dollar spent.



Save time and cost

Sync all your spending to your accounting system, saving hours of work at month end—and all month long.

Customer successes



“Our growth has been through acquisition—and BILL has definitely played a big role in that.”

Peter Yu

Head of Accounting,
Guardian Dentistry Partners

[READ CASE STUDY](#)

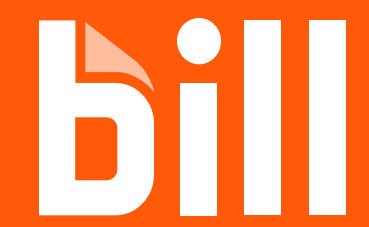


“BILL allows us to function in a multi-location space by having one software for our accounts. It’s seamless and efficient for one staff accountant to bounce between locations and update the latest AP information across multiple practices.”

Katie Kraig

Vice President and Controller,
Lightwave Dental

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Scale your dental practice with BILL

GET STARTED



BILL (NYSE: BILL) is a leading financial operations platform for small and midsize businesses (SMBs). Our integrated platform helps businesses to more efficiently control their payables, receivables and spend and expense management. Hundreds of thousands of businesses rely on BILL's proprietary member network of millions to pay or get paid faster.



CPA By Choice is a consulting, outsourced accounting, tax, and financial services company with an office located in Miami Lakes, Florida. The company was founded in 2002, and has since established a tradition of excellence, integrity, innovation, and individualized service. We have served corporate and nonprofit clients for many years and have acquired a significant amount of experience providing accounting, tax, and advisory services to organizations in various industries.

