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Virus Versus Value: What has COVID-19 Done to Dental Practice Values?

Our "new normal" is anything but. Our profession is arguably in the most unpredictable and unsettling state in its history. Our new normal is, in fact, remarkably abnormal. Dentists, patients, banks, businesses, governments — all of us are asking big questions, anxious about the possibilities and desperate for information about how COVID-19 will affect our lives. For dentists specifically, significant questions remain about how we will navigate our gradual and careful reentry into the provision of comprehensive clinical care. We want to ease the discomfort, to settle the anxiety, to seek resolution, to get back to work, and to know how this will end. Many answers and projections have been offered by many sources. But, as we are learning, many of these predictions are being offered without or with little evidence, and that is likely inescapable at the moment, but something that we need to be mindful of.

Our ability to forecast is influenced by historical data and the perspective of the forecaster. In April, the *Wall Street Journal* published an article stating that predictions are:

> "[U]navoidably a Rorschach test of the anxieties and events of the present. That's why so many predictions fail; they miss the markers of what is truly new. Forecasters extrapolate, in effect, based on yesterday's technologies, or on what they think should happen to address today's troubles" (1).

More cynically, the article goes on to suggest that "there are three classes of forecasters: those who are paid to entertain, those who are paid to be right and those who have an agenda" (1). And because there exists little evidence on the effect of pandemics such as COVID-19 on present-day life, new and contradictory forecasts are being produced daily. Between mid- and late-March of this year, for example, Wall Street economists changed the projection that the U.S. was likely to avoid a recession, to predicting the most severe economic downturn since the end of the Second World War (2).

Publication bias is the publication of results or projections based on particular findings (think of publishing because there is preference for positive or negative results) (3,4). Confirmation bias is a form of publication bias and exists when information is presented that reaffirms a preconceived belief or thought while ignoring contradictory but relevant data (5-7). These biases are important to understand, as biased projections on the effects of the COVID-19 pandemic to dentistry and the dental practice marketplace have arguably been produced since the week after our regulator recommended the suspension of non-essential and elective dental services. As a profession, society, and global community, we are all craving optimism; however, accurate and truly unbiased conclusions (if that's even possible) cannot be drawn until there has been some time for observation and analysis. This is not a repeat of the 2008 market crash. This is not comparable to the introduction of gloves and masks into clinical dentistry in the 1980s. And this is not an environment where gross revenues can be entered into a financial model to predict how much your practice will net in three, six, or 12 months. These are statements and predictions that have been proposed but that beg skepticism and caution in my opinion.

An inference is one step in the act of reasoning, often in the presence of uncertainty (8), whereas a prediction is a statement about a future event "often, but not always, based upon experience or knowledge" (9). There is no doubt we are in uncertain times. With this consideration,

what inferences can be made with respect to the provision of dentistry and the future of dental practice values in the Ontario marketplace?

Inference: the non-fiction prediction

In our present state of unknowns, there are considerations of economics and public health in the delivery of dentistry that influence the value of a practice. Each of these considerations have impacted dentistry in the past and will be reviewed here, but the confluence, or some might say collision, of these is a first.

If one examines the impact of the global financial crisis of 2008 to dentistry, interestingly and optimistically one finds that the trends in the utilization of dentistry remained favourable. Studies have shown that this economic recession did not result in a significant decline in the use of dental care in the population as a whole (10). A comprehensive U.S. study on this time period found that household wealth had to decline by at least 50 per cent for adults to decrease their dental visits, as measured by at least one visit in a two-year period (11). This study concluded that even amongst older individuals, dental-care utilization is resilient to changes in household finances even after a major economic fallout (11). At the time of writing this article, economists expect unemployment to parallel that which followed the 2008 recession (12).

With respect to pandemics and the effect to dentistry in Canada, this is unchartered territory for our era with little historical basis to compare (13). Never in our history has our profession been limited in our practice due to the potential of increasing the spread of a communicable disease. With limited data this early on, an unknown potential for the virus to return in more than one wave, and with different strategies used by different governments in the attempt to limit the virus's spread, our ability to infer the short-term effects to our practices is a challenge. And because of this, we do not yet know what strategies our government, public-health agencies, and regulators will advise for our implementation.

Finally, the costs of delivering dental care have been on the rise in Ontario. These costs were known to be in excess to what can be passed on to the patient prior to COVID-19 (14). The reality is that in a post-pandemic world, any additional precautions are realistically going to increase the cost of the provision of care to the practice owner. There will of course be innovations and opportunities for technologies, equipment, and medicaments that respond to the need to decrease aerosols and contamination in our practices (13), but the inference we can make is that the implementation of personal protective equipment requirements, new technologies, and the possibility of decreasing patient volume to minimize person-to-person contact in our offices, will have an effect on top-line revenue, and our bottom line temporarily and even permanently. There are many spokes in the wheel of a private dental practice that impact gross revenue, the cost to generate this revenue, and the net income for a practice owner. The question still remains, how many of these spokes will require maintenance before we can get back on the bike?

What defines practice value?

The seven principles of valuation established by the Canadian Chartered Business Valuation program for the appraisal and subsequent sale of a business are:

1. Value is determined at a given moment in time.
2. Value is prospective such that a business is expected to generate future revenues.
3. The marketplace determines the appropriate rate of return in the investment of a business. Economics, interest rates, and the number of buyers relative to the number of sellers all influence marketplace conditions.
4. Businesses with higher tangible assets and going-concern values (expressed as the ability to operate and produce income) have higher relative values.
5. Value in a business can be commercial in nature or non-commercial in nature. Commercial value is that which is transferrable to a buyer. Non-commercial value is that which is not transferrable to a buyer and is unique to the vendor.
6. Value is affected by liquidity. The greater the ability for a business to be sold as reflected by number of available buyers, the greater the value of the business on the open market.
7. On a per share basis, the value of a minority interest in a business may hold less value than that which is of a majority interest (15).

In a dental practice, value is drawn from the tangible assets of the practice, the ability of the practice to produce revenue and take home an income as measured by the goodwill and practice operations, and the marketplace, which includes demand and lending considerations. Each of the above seven principles of valuation have been affected at this juncture by the response to COVID-19 as they relate to dental practice valuation, even if temporarily because the future is not yet clear. The value of the hard assets of a dental practice are not going to change, but what remains to be answered is whether or not this pandemic is an isolated event or one that causes our profession to pivot in the ways we operate and provide care.

Lenders, patients, buyers and sellers each contribute to the value of a dental practice in unique but dependent ways. With respect to lenders, interest rates and the availability of funds are major drivers in practice value. At lower interest rates, the upside is that practices can support relative higher affordability at higher purchase prices. In the short term, it is reasonable to expect lenders will exercise greater caution as they wait to see how practice function will change as guided by the government and regulators, and how this affects cash flow for practice owners. As a result, one might expect lenders to look for greater security to back loans, as risk is higher to a lender when the landscape of practise is in flux. Where appraisals were conducted prior to the response to COVID-19, an updated analysis of practice function as the pandemic resolves is likely to be requested on the part of a lender for reassurance that the practice shows consistency in the ability to operate as a going concern. The good news is, dentists have historically been a low-risk group for default with lenders in Ontario with quite predictable and consistent practice cash flow, and banks will undoubtedly be looking to support economic recovery.

Questions remain about how patients will respond to dentistry with respect to economics and psychology after the pandemic. As mentioned, we know from historical patterns that the provision of dentistry is resilient even in a recession (10, 11). However, it is reasonable to expect a decrease in elective and preventive treatment during slower economic times, but this will not last forever. The contagious nature of COVID-19 has increased awareness of infection-control measures in our general population, but it has also increased anxiety about transmission of disease. All one has to do is venture out to the grocery store to find individuals experiencing anxiety amongst the aisles of the store. Will concerns due to patient perception of infection-control measures and spread of disease through aerosol or airborne particles be a concern that affects the ability of practices to operate at the same capacity? It will be important as a profession to communicate to the public that the closure of offices in the province was a preventive measure in the name of public safety, and not a reactive one.

Purchaser behaviour is linked strongly to lender response in terms of financing terms and availability. Can we say that the same number of buyers will remain in the marketplace as we have seen in recent history? Further, economics may temporarily reduce the number of sellers in the marketplace, as it did after the recession in 2008, which could also lead to even higher demand for practice ownership until availability increases. But the fact remains: accurate predictions on practice cash flow cannot be formulated until the pandemic has passed, dentists have been given direction on standards of practice, and we are back in the operatories, which in turn have implications for both purchasing and selling.

When it comes to value, the bottom line is the bottom line

Practices sell because they generate income. Buyers purchase cash flow, lenders finance purchases that can justify affordability and minimize risk, and sellers expect to get top dollar for the practice they have created. Businesses that are generating income with promise of future revenues are, in accounting, said to be a "going concern," meaning they will maintain as is. Thus, the inability for practices to operate — much less how they will operate moving forward — is undoubtedly a black hole in this professional era. The good news is that the pandemic won't last forever and one assumes practices will continue to be sought after because there will arguably be more buyers than sellers. Again, sellers that choose to defer the sale of their practice from their originally intended timeline will potentially further increase this demand. Economic consumption is also likely to return. Patients will continue to require dentistry, likely with a surge of demand when doors reopen. And as a profession, dentistry already had a very high standard of infection-control measures, which is something to be proud of regardless of any new considerations that are required.

Given the above considerations, and based on the history of pandemics of this magnitude, and the fact that dentistry has never before been affected in this way, the author optimistically infers a return to values consistent with what we have seen. How that return happens, and the rate of that return, is something that arguably cannot be forecasted at this juncture because too much is unknown. As dentists, we must be reliant on the expertise of public-health experts, regulatory mandates, standards and guidelines, and one our provincial and federal associations working together in ways that protect patients, staff and providers. Costs incurred to practice owners affect a practice's bottom line. That bottom line is what provides the ability for a purchaser to afford a practice and take home an income; it is that simple. Interest rate cuts make purchases more affordable, but until we have a return of revenue to support the high cost of practicing, values will likely be affected. It will take more time and observation if we are to be accurate in our forecasts and predictions, and avoid the plague of biased opinions that have a higher prevalence than the virus itself. No opinion is ahead of public policy. The bottom is line is that it is reasonable to infer a return of practice values to those that preceded COVID-19. But how we get there, and when we get there, remain open questions. OD

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