Clinic Value Evaluation: Formula

Clinic Value Evaluation

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First Calculation:
Calculate EBIT Multiple based on **EBIT, EBIT Ratio**, and **Net Sales Growth**

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Second Calculation:
Further adjust EBIT Multiple based on **Net Sales Relative Variability**

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Third Calculation:
Further adjust EBIT Multiple based on **Dentist Availability / Risk of Dentist Leaving**

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Fourth Calculation:
Further adjust EBIT Multiple based on **Customer Based Variables**

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Fifth Calculation:
Adjust Clinic Value by embedding amount adjustment due to **Equipments Value/Condition**
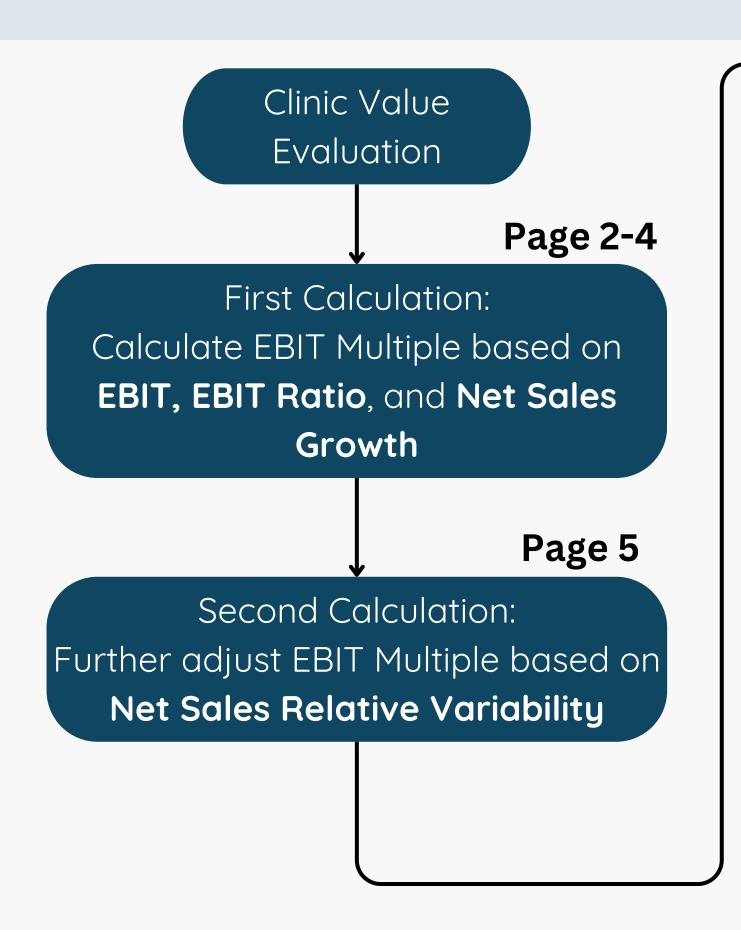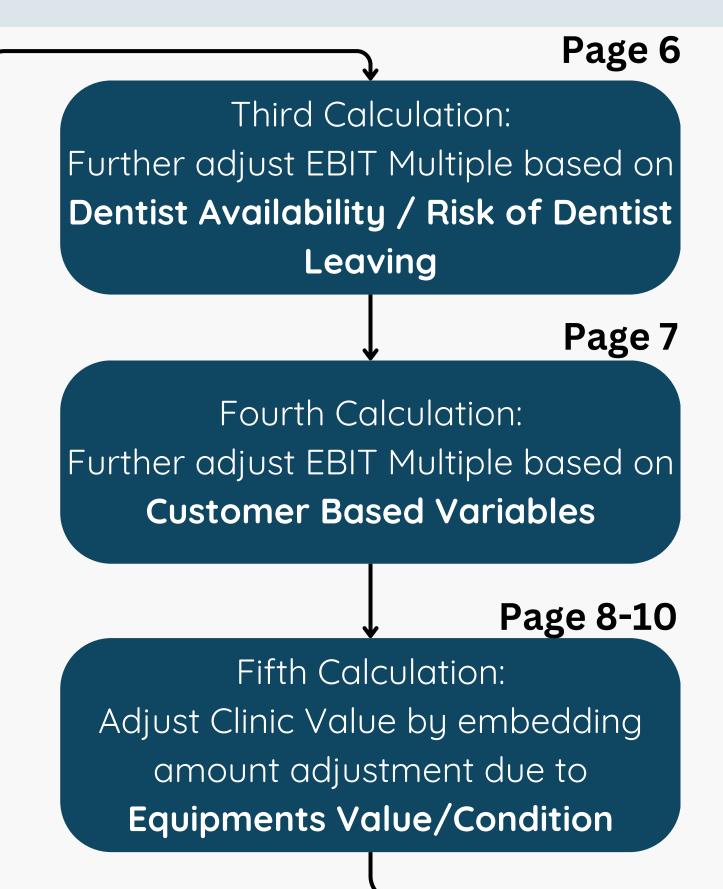
Final Clinic Value

Note:
- The formula for the calculation are consist of five calculation segments
- Each of Calculation segment are explained on the following slides

- How EBIT Multiple differs across different value of EBIT, EBIT Ratio and Net Sales Growth are proportionally compared based on the calculation of **EBIT after 12 Months**
- For example, the current baseline have EBIT Multiple = 2.5, with details of:
  - EBIT: $250,000
  - EBIT Ratio: 22%
  - Net Sales Growth (Annual): 10%
- Given this, we could calculate the projected EBIT after 12 Months for Baseline Scenario, is $275,000. Then if an evaluated clinic, given its EBIT, EBIT Ratio and Net Sales Growth for example result in EBIT after 12 Months = $200,000, the calculation of EBIT Multiple is:

$$EBITMultiple = \frac{\$200,000}{\$275,000} \times 2.5 = 1.8$$

- Then the EBIT Multiple for clinic we are evaluating is 1.8

- To guide this calculation, we set boundaries for variables EBIT, EBIT ratio, and net sales growth to better standardize the calculation results of EBIT Multiple (meaning if the variable are slightly different, the EBIT Multiple is still the same)

EBIT			EBIT Ratio			Net Sales Growth	
Lower Bound	Upper Bound		Lower Bound	Upper Bound		Lower Bound	Upper Bound
$100,000	$250,000		5%	10%		0%	5%
$250,000	$400,000		10%	22%		5%	10%
$400,000	> $400,000		22%	30%		10%	20%
			30%	40%		20%	30%
			40%	> 40%		30%	> 30%

- For example, if a clinic EBIT of a clinic is $150,000 then we will round it down to the lower bound of $100,000. Another example if EBIT ratio is 15%, we will round it down to 10%. This make sure the calculation of EBIT Multiple doesn't take too broad of a variability.

- Formula for EBIT:

$$EBIT = Revenue - COGS - Expenses$$

- Formulat for EBIT Ratio:

$$EBITRatio = \frac{EBIT}{Revenue}$$

- Formula for Net Sales Growth

$$YoYGrowth = \frac{(CurrentYearSales - PreviousYearSales)}{PreviousYearSales} \times 100$$

- Further adjustment to EBIT Multiple uses **Monthly Net Sales Relative Variation** in its calculation. Similarly, we define classess having lower value and upper value. The difference is that if an evaluated clinic having variable value in between, it belong to that class (the process is done without needing to rounding it down like previous)

Lower Value	Upper Value	Adjustment to Multiple
0%	5%	1.1
5%	10%	1
10%	20%	0.9
20%	30%	0.75
30%	100%	0.5

- For example, if an evaluated clinic has **Monthly Net Sales Relative Variation** only 3%, indicating that there is low variation/deviation in monthly net sales, we are adjust the EBIT Multiple to:

$$NewEBITMutiple = EBITMultiple \times 1.1$$

- Risk of Dentist Leaving translates into the percentage of reduction in expected total revenue. Their past contributions to revenue is used to determine the percentage of the risk

- Calculating Risk Formula:

$$\text{Risk of Leaving Dentist (Expected Revenue Reduction)} = \frac{\text{Revenue Contribution of Dentist}}{\text{Total Clinic Revenue}}$$

- The formula how these variables could affect re-adjustment of EBIT Multiple is defined as follows:

$$\text{New EBIT Multiple} = \text{EBIT Multiple} \times (1 - \text{Risk of Leaving Dentist})$$

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- Similar to second calculation method, this fourth calculation is also using lower and upper value boundary in setting adjustment to multiple. For Customer Based Variables, we will have two variables which are:
  - **Number of Active Yearly Patients (left table)**
  - **Patient Spending Relative Variation (right table)**

Lower Value	Upper Value	Adjustment to Multiple
0	500	0.6
500	1000	0.8
1000	1500	1
1500	2000	1.2
2000	3000	1.5
3000	10000	2

Lower Value	Upper Value	Adjustment to Multiple
0%	5%	1.1
5%	10%	1
10%	20%	0.9
20%	30%	0.75
30%	100%	0.5

$$NewEBITMultiple = EBITMultiple \times 1.2 \times 0.75$$

- For example if an evaluated clinic has number of active yearly patients equal to 1700 and patient spending relative variation equal to 27% hence

- The fifth calculation represent adjustment due to Equipments Condition. But unlike previous which calculation has to do an adjustment to EBIT Multiple, this particular calculation effects the clinic valuation by amounts.
- This approach is chosen since we felt that Equipment Condition is not directly affecting EBIT, and also due to it's adjustment by amount is relatively not high in amounts.
- Equipments Condition here is defined as two variables:
  - Type and quantity of clinical equipments (which total price is represented as Tangible Assets)
  - Equipment Usage Ratio (Current Usage / Expected Lifetime)
- The list of Equipment type, quantity, and price in such a way it calculates the baseline of tangible assets is explained on the following slide.

Equipment List	Price	Equipment List	Price
Intra Oral Camera	$1,729.5	Prophylaxis hand piece	$175.0
Bleaching Unit	$487.5	Handpiece set	$2,000.0
Ultrasonic Scaler	$1,349.5	Compressor	$3,325.0
Light Cure	$595.0	Apex Locator	$600.0
Dental Unit	$30,500.0	Dental Loupe	$250.0
Portable Xrays	$9,750.0	Portable Light	$250.0
Endomotor	$997.5	Camera DSLR	$2,907.5
Autoclaves	$11,500.0	Water Tank Hose	$10.0
Ultrasonic Cleaner	$2,500.0	Sealing Machine	$1,500.0
Water Tank	$900.0	Xray Sensor	$9,500.0

- Total Equipment listed is 20 different types
- The price is taken from Indonesia (IDR) reference price multiplied by 5 times
- Equipment here are all Clinical Equipment
- In Baseline Value, all the equipment are available as part of existing clinic with quantity = 1 for each type of equipment

- It is assumed that expected lifetime of all equipment is 4 years.
- It is assumed that overall Equipment Usage Ratio for baseline value is 50% (meaning currently used for 2 years

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Light Cure	$595.0	Apex Locator	$600.0
Dental Unit	$30,500.0	Dental Loupe	$250.0
Portable Xrays	$9,750.0	Portable Light	$250.0
Endomotor	$997.5	Camera DSLR	$2,907.5
Autoclaves	$11,500.0	Water Tank Hose	$10.0
Ultrasonic Cleaner	$2,500.0	Sealing Machine	$1,500.0
Water Tank	$900.0	Xray Sensor	$9,500.0

Example Clinic Value Adjustment:

Suppose that a potential clinic to buy has all these equipment and running usage of two years except that:

- Clinic does not have **Autoclaves**.
- The existing **Dental Unit** is just used for 1 year instead of 2 year since its procurement

Hence the amount adjustment is:

- -$11,500 due to **Autoclaves** absence
- +$7625 due to **Dental Unit** is 1 year newer than baseline value (2 years) of liifetime usage

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