

THE EDITOR'S CORNER

Show Me the EBITDA

“Earnings before interest, taxes, depreciation, and amortization” (EBITDA) is all the rage in orthodontics today, especially with the rise of corporate groups, private equity (PE) investors, and practice consolidators. It appears in every valuation report and buyout conversation, yet few clinicians can explain in simple terms what it means—or whether it truly reflects a practice’s value.

EBITDA was not originally created for dental practices or even small businesses. The term was coined in the 1970s and gained traction among investment bankers in the 1980s, the era of leveraged buyouts. It offered a quick way to judge how much money a company made from its core operations, without getting tangled in taxes or equipment costs. By the early 2000s, PE firms had adopted EBITDA as the universal language of valuation, and today, it has become standard in boardrooms and brokerage reports.

EBITDA aims to measure earnings from operations alone. In other words, it estimates how much profit a business generates without the potentially clouding influence of taxes, loans, or capital investments. In stripping away these financial details, it presents a cleaner picture of operational performance—one that investors find easy to compare across multiple practices with ownership structures, debt levels, or expenses that may differ significantly.

To better understand EBITDA, it helps to look at the four letters that follow “EB,” each of which influences profit. *Interest* is the cost of borrowing money, which varies depending on a practice’s loans. *Taxes* refers to the way income is reported and which deductions are taken. *Depreciation* is the gradual loss of value of physical items such as chairs, scanners, or computers. *Amortization* is similar but applies to intangible assets such as software, goodwill, or the cost of acquiring another practice. This is the term orthodontists often find the most confusing; to amortize simply means to evenly divide the cost of a

particular intangible asset over a number of years. For example, if an orthodontic practice purchases Dolphin Imaging software for \$25,000, that cost can be amortized over five years at \$5,000 annually. This gradual deduction lowers taxable income for each of those years, aligning the software’s long-term value with the practice’s ongoing benefit.

Consider a practice that collects \$2 million annually, with 50% overhead. In this practice, \$1 million covers staff, supplies, lab fees, marketing, and rent, leaving \$1 million in doctor income before taxes. To that remaining \$1 million, add back the “ITDA”: interest on loans, depreciation of equipment, and amortization of software or goodwill, totaling perhaps another \$200,000. The resulting EBITDA of roughly \$1.2 million represents the practice’s earnings from operations before financing, taxes, and accounting adjustments. (See Part 2 of the 2025 JCO Practice Study in this issue for an analysis of recent trends in practice income.)

Because EBITDA is typically about 117% of net profit before taxes, it can be estimated roughly by adding 17% to a practice’s annual profit to account for interest, depreciation, and amortization. A larger practice collecting \$3 million annually with a 60% overhead would have an EBITDA of roughly \$1.4 million (\$1.2 million in profit before taxes $\times 1.17$). This shortcut provides a practical way to approximate EBITDA without poring over financial statements.

Corporate groups will often value an orthodontic practice as a multiple of its EBITDA—typically around seven times. Yet while this math may impress investors, it rarely captures what truly defines a practice: relationships, trust, and the independence to lead with purpose. I believe the best orthodontic offices are still privately owned, with their success measured not by multiples but by meaning. After all, EBITDA may show you the money, but private practice? *It completes me.*

NDK