

THE ORIGINAL AND AUTHENTIC PRACTICE VALUE INDEX

Bucking the trend – yet again

Lis Hughes, managing director at Frank Taylor & Associates, reviews a 'substantial year' of bank funding to dental practices

It has been widely reported that lending to small and medium-sized firms (SMEs) via the Government's Funding for Lending Scheme (FLS) fell again in the second quarter of the year.

The Bank of England said that net lending to SMEs dropped by £435m and the bank's figures also show that net lending to all businesses under the FLS contracted by £3.9bn.

The FLS is meant to help banks release loans cheaply, mainly to SMEs, who had reported difficulty in securing funds.

So, for all the dentists out there who have a vested interest in funding and that will be either sellers or buyers, the good news is David Brewer, managing director of FT&A Finance, has reported another substantial year of bank funding. To date in 2014, he and his team have submitted over £1m of loan applications to the 14 banks that specialise in dental healthcare funding, and the even better news is that they have a 94% success rate in the applications they submit.

Preparation

Before any bank is approached for finance the applicant needs to be fully prepared and be able to show preparation – this will quite often be a business plan and associated cash flow and profit/loss forecasts to demonstrate the purchase is viable. The recommendation is always to work with an independent adviser who understands the dental market and can provide a full whole of market overview, as well as preparing the necessary proposal and forecasts in a format the banks prefer to see.

This highlights a number of points – one is to use a specialist who knows and understands the market, the banks, and more importantly the right bank manager.

The Bank of England report also highlights the importance of not taking all information at face value.

Goodwill

The recent NASDAL (National Association of Specialist Dental Accountants and Lawyers) survey reported in the quarter

ending 30 April the average goodwill value of NHS dental practices in the survey increased by 20% to 138% of turnover, and mixed practices stood at 106% of turnover. The average goodwill for all practices according to Alan Suggett, who represents NASDAL, was 97% of turnover.

We are delighted to be able to report we have recently completed on a mainly NHS practice where the goodwill value achieved was 212% – yes this may be exceptional, but it is certainly not unusual for us to complete on sales with goodwill values ranging up to 130% for private practices, and many NHS practices can be between 140% to 182%. Of course,

location and a number of other factors are key drivers, but we are confident we will continue to achieve higher figures than the NASDAL survey and secure the very best for our clients.

The dental market continues to be strong with demand exceeding supply and, as we have already mentioned, funding is readily available. We continue to see the drive and desire to be practice owners evidenced by an ever increasing number of dentists registering with brokers and coupled with this, we also have over 4,000 dentists registered with us looking to buy a practice, a number that continues to grow month on month. **D**

FOR MORE INFORMATION call Frank Taylor & Associates on 0845 612 3434 or the regional office on 0161 638 0875, email team@ft-associates.com or visit www.ft-associates.com.

Practice one – Wales

Practice location: This well presented and easily accessible practice is in a prime location within a busy shopping area. There is a recently fitted decontamination room and the practice is fully computerised with digital X-rays.

Practice type: This is a three-surgery, predominantly NHS practice being sold with a freehold.

Practice financials: The gross fee income for the 12-month period is shown to be in the region of £810,000 and comprises 36% of an NHS-GDS contract, 14% of an NHS-GDS orthodontic contract amounting to £113,609, 12% of a vocational dental practitioner (VDP) contract amounting to £101,624 and 32% of Denplan fees. The gross has been generated from the principal working four clinical days per week, with the support of one full-time VDP and two part-time associates. The practice also has one self-employed hygienist working half-a-day per week. Professionals complementary to the clinical team comprise of six part-time dental nurses and two part-time receptionists.

Price achieved: A price of £934,000 was achieved, which was significantly in excess of the asking price.

Agents comments: This practice proved to be very popular with a number of corporate entities expressing an interest and making offers. The principal was selling the practice to facilitate retirement and had no desire to continue working post sale, and in view of this decided to go with a private buyer rather than a corporate.

Practice two – Buckinghamshire

Practice location: This practice is situated in a modern building within the heart of the busy shopping area. There is the benefit of on street parking directly outside.

Practice type: This is a specialist, fully private, three-surgery practice, which is being sold with a new 15-year lease protected inside the Landlords and Tenants Act 1954.

Practice financials: The annual gross fees are in the region of £310,000 with 70% of the turnover being generated through periodontics, endodontics, prosthodontics, and implants and the remaining 30% from general dentistry. The practice generates good profits, with the reconstituted profit for the year at an impressive £111,980, which equates to a higher than average 37% of the annual income. The gross has been generated by the principal working three days a week, an associate prosthodontist working three days a month, an associate endodontist working two days a month, a hygienist working one day a week, and a full-time nurse and receptionist.

Price achieved: A price of £277,479 was achieved, which was the asking price. The finance for the purchase was arranged by FT&A Finance.

Agents comments: The practice has been bought by a dentist with a specific interest in specialist dentistry, who is then able to generate a larger portion of the fees rather than using specialist associates, which should result in higher profits.

Practice three – Greater Manchester

Practice location: The practice occupies a large Victorian end-of-terrace property on a busy road with a mix of residential homes and local shops in close proximity, the practice benefits from having parking for five/six vehicles.

Practice type: This is a five-surgery, mainly NHS practice, being sold with a freehold.

Practice financials: The gross fee income from the management information is shown to be in the region of £1,250,000, and the NHS contracts are extremely attractive and consist of two general dental services (GDS) and an NHS-PDS (ortho) contract. Each contract has a good UDA value at £28.68 and £23.58, and the UOA value is £62.55. The gross has been generated from the principal working two clinical days per week, with the support of seven part-time associates and an orthodontist working one day per week. The practice has one self-employed therapist working two-and-a-half to three days per week.

Professionals complementary to the clinical team comprise of six full-time dental nurses, two part-time dental nurses, one full-time senior dental nurse, three part-time receptionists, one part-time practice manager, one part-time finance administrator, one part-time office clerk and one part time cleaner.

Price achieved: A price of £2,350,000 was achieved, which was significantly in excess of the asking price.

Agents comments: This practice was always going to prove popular with such a healthy collection of NHS contracts all with good values of UDA and UOA rates. The interest in the practice came from both corporate entities and individuals and ended in a sealed bid process. The successful purchaser was able to evidence both financial capability to purchase the practice and also the personal attributes the existing principal required in a successor.

Practice four – Devon

Practice location: This well presented practice occupies a prominent mid-terrace site in an attractive terraced grade II listed property, conveniently located with a mix of residential homes and local businesses within a busy city. The practice benefits from having two parking bays, along with a municipal car park within a five-minute walk.

Practice type: This is fully private, four-surgery practice being sold with a freehold.

Practice financials: The annual gross income for the whole practice was shown to be in the region of £475,000 and comprises 85% of Denplan fees with the remaining 15% income derived from private fee-per-item income. The gross has been generated from the three co-principals; one works five days a week, one works four-and-a-half days a week and one four days a week. The practice also has one part-time self-employed hygienist and two part-time employed hygienists.

Professionals complementary to the clinical team comprise of four full-time and two part-time staff who undertake the dual role of dental nurse and receptionist and one full-time practice manager.

Price achieved: A price of £480,000 was achieved, which was less than the asking price and finance was funded via FT&A Finance. The reduction in the price has been attributed to the value of the freehold.

Agents comments: This practice came to the open market to facilitate the retirement of two of the three co-principals' retirement. And, as an expense share, the principals recognised they would achieve a higher price if they sold the practice as one entity. One of the principals is not ready to retire and his offer to remain at the practice was very much welcomed by the incoming principal who could see the benefit of cementing the goodwill of the practice.