

Looking back at 2018

Lis Hughes reflects on how the market for dental practice sales has evolved over the last year

Lis Hughes

Managing director of Frank Taylor & Associates



As we come to the end of another busy year, I wanted to highlight some of the changes we have seen in dentistry and how these have affected the sector.

Associates and principals

Associates continue to want to buy practices and we have seen a consistent increase in registrations over the year. This time last year, we had just over 5,000 dentists registering an interest in buying a practice, and this has remained a stable figure throughout the year.

There has also been a significant increase in the number of associates forming their own small groups to buy practices.

However, we have continued to see a lack of good quality associates, which is reflected in the fees that associates have been able to achieve.

On average, we now see an associate achieving 50% on private fees and between £11 and £11.50 per UDA, which can affect the profitability of a practice.

We continue to see many principals

who want to release themselves from the burden of practice ownership so that they can focus on clinical work.

Perhaps in response, there has been a steady increase in the number of new corporate bodies entering the marketplace, some with considerable capital to spend!

Popular practices

We have seen a surge of interest in private practices, particularly as there continues to be uncertainty about the impact of the proposed revisions to the NHS-GDS contract.

The good news is that the tender process for orthodontic contracts is now well underway and I am sure that we will see a number of NHS orthodontic practices come on the market during late 2019.

We continue to see many associates who aspire to move away from NHS dentistry

and towards private practice, which can be incredibly profitable if run well.

Banks are continuing to lend to dentists and dentistry is still considered a very safe option for them.

For buyers, the temptation is to stay with their existing bank. However, working with an independent business adviser can really save you money because once banks realise they have competition, they will often provide a far more competitive rate.

Banks appear to require even more due diligence and sellers have to be able to provide substantial information to a buyer. This is often the biggest delay in any sales transaction.

Our advice is to start collating the due diligence as soon as you are ready to put your practice on the market; then you can spread the pain of collating that information.

The year ahead

Practice goodwill values continue to be strong and while there is little evidence of a downturn in demand, we are certainly not immune to the impact of Brexit on the confidence of the market.

Additionally, CQC regulation is now firmly established and currently we are working through changes to the existing application process.

Frank Taylor & Associates provides a free CQC service for both buyer and seller, and even if you are not using our services, we are happy to provide you with information about this process.

After an exciting year, we are very much looking forward to what 2019 will bring to the market. **D**

IF YOU WOULD like to find out more, call Lis Hughes on 0330 088 1156.

PRACTICE ONE - NORTH WEST

Practice location - this practice occupies a substantial property, located on a busy road within a predominantly residential area. There is a large garden that could easily be converted into parking, as well as ample street parking in the immediate vicinity.

Practice type - this is a five-surgery, mixed income practice established over 20 years and is being sold to facilitate the retirement of the principal. The practice is being sold as freehold and is a share sale, since the practice is operating as a limited company.

Practice gross - the gross income at this practice was in the region of £750,000, of which 33% is private and 67% generated from a NHS-GDS contract with a UDA value of £30.24. The income has been generated by the principal working two days a week, four associates working a combined 11 days a week and two hygienists working a combined three days a week. The clinical team is supported by a part-time practice manager, three part-time receptionists and nine part-time nurses.

Price achieved - a price of £1,400,000 was achieved, in line with the asking price.

Agent's comments - this practice is presented in excellent order, with a great opportunity to expand should the new owner want to develop the practice. The practice was very popular when it was launched on the market, due to the very healthy UDA rate and the opportunity to develop the private element.

PRACTICE THREE - SOUTH EAST

Practice type - this is a two-surgery private practice, which is being sold to facilitate the retirement of the principal. It is being sold as leasehold with a new 10-year lease being created.

Practice gross - the gross income is in the region of £450,000. The gross has been generated by the principal working three days a week and a part-time hygienist working three days a week. They are supported by a part-time practice manager, a part-time receptionist, and two part-time nurses.

Price achieved - a price of £705,000 was achieved, which was in excess of the asking price.

Agent's comments - this practice only operates three days out of five, and with a net adjusted profit of 56%, there is a great opportunity to develop an already profitable practice. The incoming principal has asked the existing principal to remain at the practice for a six-month period to ensure a smooth handover.

PRACTICE TWO - HOME COUNTIES

Practice type - this is a predominantly three-surgery practice, which is being sold to facilitate the retirement of the current principal. It is being sold as a leasehold and has been established for 50 years.

Practice gross - the gross income is in the region of £650,000 and is a mix of 96% private and 4% NHS-GDS contract with a UDA rate of £23.50. The gross has been generated by the principal working four days a week, an associate working two days a week, and two hygienists working a combined two days a week. The team is supported by a full-time practice manager and three part-time nurses.

Price achieved - a price of £875,000 was achieved, which was in excess of the asking price.

Agent's comments - this practice has an 18-year lease, which resulted in the buyer managing to obtain his business loan over this period of time, therefore helping his cash flow. While it is a three-surgery practice, there is a fourth room with plumbing, which could easily be adapted into an additional surgery. The incoming principal focuses on implants and can see an opportunity to develop this area in the practice.

PRACTICE FOUR - M25 CORRIDOR

Practice type - this is a predominantly private three-surgery practice that has been established for over 40 years. The practice is being sold as leasehold with 15 years on the lease. The principal is selling to focus on other business interests.

Practice gross - the gross income is in the region of £750,000 and is a mix of 95% private and 5% NHS-GDS contract with a UDA value of £24. The income is generated by the principal working four days a week, and an associate working three days a week, with a hygienist working two days a week. They are supported by a part-time practice manager, a full-time receptionist and two part-time nurses.

Price achieved - a price of £1,110,000 was achieved, which was in excess of the asking price.

Agent's comments - this practice has a prominent position on a busy high street and there is room to expand it by at least two surgeries. Two associates, who have formed a limited company, made the purchase. We are seeing more limited companies being formed for this type of purchase and it may be a safer vehicle for the buyers rather than entering into a partnership agreement. In either case, we always advise the buyers to seek legal advice early on as to what kind of entity they want to use to buy a practice.

