

The original and authentic practice value index

Goodwill hunting

Recent high goodwill values indicates a trend and not a spike in the market, says **Frank Taylor & Associates**

The latest NASDAL (National Association of Specialist Dental Accountants and Lawyers) goodwill survey has nailed it with its recent commentary on the goodwill value of dental practices.

Historically we have always been able to demonstrate the widening gap between goodwill values achieved by the team at Frank Taylor & Associates and the NASDAL survey and more importantly our view of the market. However, this quarter NASDAL reported ‘...talk about a bubble, but it certainly shows no signs of bursting at present...’.

This is absolutely in line with our own experience as we believe the values we have achieved over the past two years indicate a trend and not a spike in the market.

NHS practices

NASDAL quite rightly comments that its report is based on averages and with geography playing such an important part in goodwill values, this can easily distort overall goodwill values when using averages. That said, the upper levels quoted (NHS 294% of turnover and mixed practice 202%) confirm the crushing demand for practices at present.

The NASDAL average goodwill figure for private practices at 84% is a bit light based on the evidence of sales through Frank Taylor & Associates – the in-house current average is 92%. However, it may be that in the next NASDAL survey the position has caught up, as is the case with the NHS and mixed practices.

With regard to the NHS, the reports states that the market ‘seems determined to ignore the uncertainty around the NHS in particular...’. We at Frank Taylor



& Associates are not sure that there will ever be true stability around government funding and don't believe there is any short-term plan to materially move away from the structure that currently exists.

The ‘new’ contract came into force in 2006,

and despite pilots and proto-pilots we have heard that any changes (and none have been disclosed) will happen before 2020. Politically we all know that dentistry is a sensitive topic and as we have seen in the past it is avoided at the time of national voting.

We also firmly believe that if the funding behind NHS dentistry did drastically change, one thing hasn't – the teeth are still there and patients need treating! The rapid development of a service to deliver a form of low-cost private dentistry would be quickly developed to serve the ongoing need.

The report concludes: ‘These trends look set to continue for the foreseeable future.’ We agree; with demand outstripping supply and a good supply of banks (14 at the last count) lending the pattern is set to continue for a while yet. **D**

Practice one – south east England

Practice location – this practice is located in a prominent three-storey semi-detached property and benefits from a small car park and pay and display in the surrounding area.

Practice type – this is a four-surgery, predominantly NHS practice. The premises are being sold either as leasehold or freehold.

Practice financials – the gross fee income is shown to be in the region of £1,200,000 and comprises of an NHS-PDS contract with a UDA rate of £59.38 per UDA. The gross has been generated from the principal working two days per fortnight and two associates working full time. Professionals complementary to the clinical team comprise of three full-time dental nurses/receptionist, a part-time business manager and a full-time clinical supervisor. Adjusted net profit for the last accounting year is 41%.

Price achieved – a price of £2,400,000 was achieved, which was in excess of the asking price. This figure includes the purchase of the freehold.

Agent's comments – the principal had reduced his working hours, which impacted on the profitability of the practice and the incoming principal, who plans to work full time in the practice, will immediately see the benefit of this. Orthodontic practices continue to be very popular and in this case a number of offers were placed.

Practice two – south east England

Practice location – the practice occupies the ground floor of a large detached two-storey property. It is close to local amenities with a mix of residential homes and shops nearby. The practice benefits from its own car park and there is additional free street parking close by.

Practice type – this is a five-surgery, predominantly NHS practice, which has been established for more than 80 years and is being sold as leasehold.

Practice financials – the gross fee income is shown to be in the region of £600,000 and the NHS-GDS contract shows a UDA value of £22.32 per UDA. The principal works four days a week and is assisted by three part-time associates each working 3.5 days a week. Professionals complementary to the clinical team comprise of two part-time dental nurses/receptionists and three full-time nurses. Adjusted net profit for the last accounting years is 41%.

Price achieved – a price of £1,155,000 was achieved, which was in excess of the asking price and funding was secured by FTA Finance.

Agent's comments – the principal wanted to sell the practice to fulfil his retirement plans, and with 1,540 dentists registered looking to buy a practice in this region, the practice attracted substantial interest and resulted in a sealed bid process. We always maintain confidentiality during this process and never release details of any offers made to potential purchasers, thus avoiding a bidding war. As always, if offers are made in excess of the asking price we ensure the potential purchaser can personally provide the funds to cover this element, as we would not expect a bank to fund anything over the established asking price.

Practice three – Midlands

Practice location – the practice is located on the ground floor of a three-storey, semi-detached property. The other two floors are rented, which generate a reasonable rental income for the principal.

Practice type – this is a fully private two-surgery practice being sold to facilitate the retirement of the current principal. The practice has been established for over 50 years and is being sold as freehold.

Practice financials – the annual gross fees were in the region of £260,000. The gross has been generated by the principal working 4.5 days a week, and a hygienist working one day a week, one full-time practice manager, a full-time and a part-time nurse/receptionist and a part-time clerical assistant. The adjusted net profit for the last accounting year is 36%.

Price achieved – a price of £635,000 was achieved, which was slightly less than the asking price. The freehold value was reduced slightly.

Agent's comments – the value of private practices continues to remain at a healthy level and this is yet another example of a private practice where we were able to provide the exiting principal with a number of offers. As in all practice sales the welfare of the staff and patients is always so important to the principal and being able to choose the right person for the practice is a constant concern.

Practice four – East Anglia

Practice location – this well-presented practice occupies a two-storey property, ideally situated in the town centre, which provides a variety of shops and amenities. There is ample parking surrounding the practice.

Practice type – this is a fully private two-surgery practice, which is being sold to facilitate the retirement of the principal. The practice is being sold as leasehold with an option to buy the freehold in the future.

Practice financials – the annual gross income is shown to be in the region of £200,000 and comprises of 60% of private income and 40% Denplan. The gross has been generated from the principal working four days per week, with the support of a hygienist and a nurse who also works four days a week. Professionals complementary to the clinical team comprise a receptionist working two days a week.

Price achieved – a price of £290,000 was achieved, which was slightly less than the asking price.

Agent's comments – this is a delightful practice, which has many opportunities for the new principal. There is much growth in the local community with a number of large housing estates being built and educational infrastructure to support this growth. The practice currently opens only four days a week and with an active marketing campaign there should be potential to increase the turnover of the practice.

FOR ADVICE AND information on selling your practice, contact Frank Taylor & Associates by calling 0330 088 1156 or emailing team@ft-associates.com. Alternatively, visit www.ft-associates.com.