

Balancing out the numbers

Lis Hughes assesses the NASDAL survey by comparing the results with Frank Taylors and Associates data

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Having looked at the recent National Association of Specialist Dental Accountants and Lawyers (NASDAL) survey, we thought it would be useful to provide our thoughts to give a balanced overview.

It is worth noting that the valuation of dental practices has evolved to a point where goodwill values are routinely quoted as multiple of profit and not a percentage of fee income, as is the case in the NASDAL survey. Frank Taylor and Associates uses both measurements, as focusing on just one can lead to a flawed valuation.

The average NHS goodwill value reported in the NASDAL report was given as 118%, which is very low compared to our experience. For the last quarter, NHS deals we have been involved in showed a median goodwill percentage of 178%. Our hunch when looking at the NASDAL

report is that several of the deals cited may not have used a broker; we know these routinely result in the seller achieving a lesser value than the open market would achieve.

There is a similar disparity for private practices, as our data reveals an average percentage of 139%.

Interestingly, another difference between our findings and that of the NASDAL survey is that buyers and lending banks tend to favour practices with an element of regular income, be it either NHS or plan-based income.

Wider story

On the disparity point, there may be a

wider story behind these numbers, as based on our empirical evidence there is something that doesn't make sense. The 'corporate dumping' piece could well be the start of something bigger and may have influenced the figures if they included some sales.

The corporates, with the support of private equity, have been growing over the past few years to hit their targets. This has led to some acquisitions in areas that have proved to be hard to staff or do not fit the corporate model, or are just uneconomical to run – and these practices have been sold at very competitive rates.

Interestingly, there is now a plethora of dental corporates who could well see

their tied-in vendors leaving at the same time over a nine- to 12-month period – particularly as we have seen so many corporates who bought practices at the same time. Therefore, depending on the timeline being worked on by the investors, this could well impact on the expected exit multiple.

As ever, we encourage all sellers to obtain a valuation from an independent source rather than be flattered by a corporate or individual who may put in an offer that will be less than what could be achieved on the open market.

In regard to if associates are still buying, we have 5,007 associates registered looking to buy in England and Wales, and 14 banks wanting to lend – so, from our point of view, they are. **D**

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

PRACTICE ONE - HOME COUNTIES

Practice type – this practice occupies the ground floor of a large converted residential property in a predominantly residential area, with local shops in close proximity. The practice is leasehold, with a new 20-year lease being created.

It is a mixed four-surgery practice and being sold to relieve the principal of the administrative burden of running a clinic. The principal is happy to remain as an associate at the practice.

Practice gross – the gross income at this practice was in the region of £680,000, of which 68% is NHS-GDS contract and 32% private. The income has been generated by the principal working three days a week, two associates working a combined 48-hour week; supported by three part-time receptionists and one full-time, and three part-time nurses.

Price achieved – a price of £1,400,000 was achieved, in excess of the asking price.

Agent's comments – this practice showed a reconstituted profit of 54% and, with 2,179 associates looking to buy in the M25 corridor, there was no shortage of interest. The seller wanted an individual to buy the practice and we were able to provide a selection of interested parties for him to choose from. More of our principals are staying on post-completion for a number of years and this has become a major influencer in their decision-making process, as it is important to them as to who they want to work with in the future.

PRACTICE THREE - M25 CORRIDOR

Practice type – this is a single surgery, fully-private practice based in a two storey property within a mix of residential and commercial properties. It is being sold as freehold. The sale is to release the existing principal to focus on other business opportunities. The business runs under a limited company, but, on this occasion, the director is retaining the limited company and only selling the assets of the dental practice.

Practice gross – the gross income is in the region of £300,000. The gross has been generated by the current director working two and a half days a week, and a hygienist working half a day a week. They are supported by a full-time practice manager and a part-time nurse.

Price achieved – a price of £785,000 was achieved, which included the freehold.

Agent's comments – this practice had been underused over the past few years, as the existing principal has developed other business interests. The incoming principal found the legal process quite straightforward, as he was only buying the assets and none of the liabilities of the limited company, and, as there was no NHS element, the CQC registration was straightforward.

PRACTICE TWO - GREATER LONDON

Practice type – this practice occupies the first floor of a commercial building on a very busy high street, within a popular area where a regeneration has resulted in new housing estates being built. It is a two-surgery, mainly NHS, practice being sold with a lease of 15 years, with seven years left on the existing lease. The sale is to release the current owner to facilitate retirement.

Practice gross – the gross income is in the region of £150,000. The income has been generated by the principal working two days a week, supported by two part-time nurses working a combined two-day week.

Price achieved – a price of £265,000 was achieved, in excess of the asking price.

Agent's comments – this practice has been established for more than 50 years. The outgoing principal has acknowledged his reduction in his days has impacted on the profitability of the practice. The benefit is it allows the incoming principal an opportunity to develop a marketing strategy to build the private fee per item as the practice is underused.

PRACTICE FOUR - SOUTH EAST

Practice type – this practice is established in a shop-fronted property situation on a high street, close to a large residential area with schools and a health centre nearby. It is a predominantly NHS practice with only 4% of the turnover achieved through private fee per item. It being sold as freehold and the principal wishes to sell to improve his work/life balance.

Practice gross – the gross income is in the region of £200,000 and is generated by the principal working four days a week, and one associate working one day a week. They are supported by a full-time receptionist and two full-time nurses.

Price achieved – a price of £750,000 was achieved, in excess of the asking price.

Agent's comments – this practice came to the market with a great UDA rate of £25.50 and, to date, there had been little activity to grow the private element of the practice, which is reflected in the percentage of private fee per item in the turnover. There is also potential to add additional surgeries, which is always of interest to a new principal. Interestingly, the desire to improve work/life balance is becoming far more popular, as principals are looking to plan their exit at a younger age so they can enjoy clinical work without the burden of practice ownership.

