

The original and authentic Practice value index

Becoming a practice owner

Make sure you seek the most appropriate advice when considering purchasing your own practice, says Frank Taylor & Associates

Owning your own practice is seen by many as a natural career progression, and it can be rewarding both financially and professionally. Whilst you must seek professional advice, here are some of the key things you should consider in what will be one of the biggest decisions you will make:

- **Where do you want to be?** This seems obvious, but give this some real thought and make sure that you have access to the best choice of available dental practices
- **A squat versus existing practice** – An existing practice has a patient base and is the safer option. However, a squat is a chance for you to create your own vision and not have to work within the constraints of someone else's. But if you choose a squat, you have to get it right. Ensure you create a business plan and seek professional advice
- **Leasehold versus freehold** – Buying a leasehold property can be more complicated than a freehold, but less of a capital investment. The length of the lease will need to be considered, and whether it can be renewed. It may be that the remaining number of years is unacceptable to your bank and the lease

will need to be extended. The landlord's consent to assign the lease will be required and they may require you to pay a rent deposit or provide a guarantor.

The Care Quality Commission has affected many areas of the profession and buying a practice is no different. You need the right legal advice so that the registration changes don't hold up the process.

Which lender?

It is certainly more challenging today than a few years ago to gain finance; however, the banks are still lending but only to whom they perceive are the strongest applicants. You also need to appreciate that all banks are different, with varying credit criteria and requirements. Do not though go direct to your high street bank – instead find out about working with an independent adviser who will be able to provide you with an overview of the whole market – rather than just the thoughts of one bank.

The good news is there are currently 14 high street banks who are lending to dentists – and they really do want to lend to you. Remember, the cost of borrowing is currently at an historic low.

Alternatively, there are a number of

companies that offer independent advice and search lenders on your behalf – effectively doing the legwork for you, enabling you to concentrate on your dentistry. This can be seen as the ideal option as you will have had access to the full range of lending deals on offer. Do ensure though that your adviser is FCA-regulated and ideally registered with the NACFB.

Be prepared

Preparation is key. You need a sound business plan with profit and loss forecasts to demonstrate to the bank that both you and the practice you intend to purchase are a viable proposal. Affordability is essential in terms of purchase price, but also to ensure there will be sufficient profit to cover your loan costs, tax and personal drawings requirement.

An independent adviser will work with you to help shape your business plan and funding application and tender out your proposal to all of the lending institutions, to ensure you have the best chance of achieving a positive response, and what's more, they'll be able to negotiate the best terms for you. There are often huge differences in the cost of borrowing (especially the monthly repayments) even if on paper the difference is only 0.25%.

Are you buying on your own, as a partnership (and if so is this a conventional

partnership or on an expense share basis) or as a limited company or LLP? It makes a difference as there are merits and drawbacks to each option, but it is key you seek specialist advice to ensure the most flexible and tax efficient structure to fit your own circumstances. Making sure you use a specialist dental accountant is a must when it comes to confirming purchase structure.

Get the best advice

Always seek specialist legal advice from experienced dental solicitors. It is a false economy to use a lawyer without this specialist knowledge; you will most certainly run into problems later once the purchase is underway. It is key also to work with a solicitor who comes recommended by your peers and advisers – you need them to be approachable and willing to talk and work with all parties to ensure the transaction proceeds smoothly.

The most essential element, which is quite often left to the last minute and should really be sorted much earlier in the process, is your insurance. Most lenders will insist upon life cover, income protection and practice/property insurance as a requirement of the loan. To avoid any last minute issues, you really should commence your insurance applications as soon as possible and always seek independent 'whole of market' advice and from a specialist dental IFA. **D**

Practice one – Essex

Practice location – This practice is arranged across two floors of an end terrace property with facilities including two surgeries and a decontamination room. The practice is situated in a town centre location within a great mix of residential properties and shops.

Practice type – This is a two-surgery fully NHS practice, established over 80 years. It is a leasehold practice with a new 15-year lease in place. The principal is looking to retire and will want to cease work at completion.

Practice financials – The gross fee income from management information for the past 12 months is in the region of £350,000, which is derived from a NHS-GDS contract. It is mainly an associate run practice and the gross has been generated by the principal working one day a week, a full-time associate and an associate working two days a week. In addition, there are two nurses working a combined nine days a week and receptionist who works four days a week.

Price achieved – A price of £758,199 (226%) was achieved, which was significantly more than the asking price. FTA Finance successfully sourced the finance for this purchase.

Agent's comments – This practice is an almost 100% associate run practice so it would make sense for the new owner to work in the practice, as this would impact massively on the profitability. By our conservative calculation the net profits could easily increase to 55% based on the 2015 figures. The UDA rate is a staggering £29.87, which when combined with the location made this such an attractive practice for would be purchasers. And with 2,290 registered with us looking to buy a fully NHS practice in Essex, it is not hard to see where the interest came from.

Practice two – Surrey

Practice location – This practice occupies a two-storey former residential property, ideally situated on a main road location.

Practice type – This is a five-surgery mixed practice, which is mainly NHS and is being sold with the freehold. There is potential for expansion as approved planning permission is already in place.

Practice financials – The gross fee income from management information for the past 12 months is in the region of £600,000, which is derived from a NHS-GDS contract and some fee per item. It is mainly an associate run practice and the gross has been generated by the principal working three days a week, a full-time associate and two more associates working a combined five days a week. In addition, there is a foundation dentist associate working four days a week, two full-time and four part-time nurses, a part-time administrator and a full-time receptionist.

Price achieved – A price of £1,500,000 was achieved, which was just above the asking price.

Agent's comments – This practice is ripe for expansion – not only is there planning permission in place for a decontamination room, an enlarged reception area and new staff room, there is capacity to increase patient activity. There is also a recently renewed foundation dentist contract and the principal is happy to stay on to assist with foundation training. The UDA rate is a healthy £24.65, which when combined with the location made this such an attractive practice for would-be purchasers. We currently have 1,966 registered with us looking to buy this type of practice in Surrey.

Practice three – Middlesex

Practice location – This practice occupies a suite on the first floor building of a prominent commercial building, ideally located within a busy town centre.

Practice type – This is a two-surgery (three chairs) mixed orthodontic practice, established over 20 years. It is a leasehold practice with a new 12-year lease in place, which has 11 years left to run. The principal is looking to reduce his work commitments.

Practice financials – The gross fee income from management information for the past 12 months is in the region of £500,000, of which 63% derived from a NHS-PDS contract and 37% from private income. It is mainly an associate run practice with the principal working at the practice three days a month. There are two associates who combined work a full week, a part-time therapist, two full-time nurses, a full-time practice manager/receptionist and an additional part-time receptionist.

Price achieved – A price of £950,000 was achieved (181%), which was considerably in excess of the asking price.

Agent's comments – The adjusted net profit for this practice is 56% and there is still a great opportunity to develop the opportunity of private work. We have just over 100 orthodontists registered looking for a specialist practice in this region and so much interest was generated that there were 16 offers finally made, all above the asking price. This enabled the principal to choose the right person for his practice, which can often be more important than the price being offered. We never make the purchaser pay a commission fee for the practice, which means there is more money in the pot for the purchaser to offer the principal even after the principal has paid our commission fee – which makes so much sense to us!

Practice four – Surrey

Practice location – This practice occupies the ground floor of a two-storey shop-fronted premises.

Practice type – This is a one-surgery predominately private practice. It is being sold as leasehold with 18 years remaining on a 20-year lease. The practice has been established for over 12 years.

Practice financials – The gross fee income from management information for the past 12 months is in the region of £110,000, of which 70% is derived from private income and the balance from a NHS-GDS contract. It is mainly an associate run practice with the principal working at the practice half a day a week.

Price achieved – A price of £155,000 was achieved, which was the asking price.

Agent's comments – This practice is yet another example of where an incoming principal who is planning on working at the practice could massively affect the profitability by working at the practice, and thereby losing the cost of the associate. Based on the information we have to hand this would increase the net adjusted profit to just over 63%. There is further opportunity to grow the practice by increasing the clinical sessions that currently run at seven per week. It is an ideal practice for an associate stepping into the role of principal for the first time.

TO FIND OUT more about Frank Taylor & Associates' services, call 0330 088 1156, email team@ft-associates.com or visit www.ft-associates.com.