

THE ORIGINAL AND AUTHENTIC PRACTICE **VALUE** INDEX

UK economy sees the light

Lis Hughes, managing director at Frank Taylor & Associates, explains why now is the perfect time to sell

In the five years since the collapse of Lehman Brothers sent the global financial system into near meltdown, the legacy remains with us and the dental sector, like all others, has been affected. However, finally there is good news as a number of indicators, such as the FSB Small Business Index and the BDO Business Trends survey, have been watched closely and are showing the UK economy accelerated in the second half of 2013. This is backed up by the ICAEW Economic Forecast, which shows the economy is likely to grow more than double the Office for Budget Responsibility's March forecast. Given the current momentum in the UK economy, economic growth potentially looks to be the best since 2007.

Whilst this is encouraging, a bit of perspective is needed. Over the past five years the UK population has increased by about two million, and as the economy is yet to hit its previous size, the per-person level of economic activity is way down on pre 2008 figures. So, what does this mean? For the average household none of the above will feel like a real recovery until pay growth starts to keep up with inflation. The boom times are not back, but finally the UK economy is getting back on its feet and moving forward.

It's a seller's market

You may be considering your future options, particularly if you have an NHS contract and are still waiting to find out

what the new contract will look, feel, and demand of you. After the recent The Future of UK Dentistry 2014 forum it is clear that there is still no clarity around the new contracts and with a general election and 'Proto pilots' being introduced next year, we are some way off before there will be any clarity.

The good news is we are seeing no lack of interest in NHS practices, as many would-be purchasers appear keen to secure an existing contract, as they believe it will provide them with a better base, no matter what the new changes may bring.

Cold calling is rife! We hear all the time of direct approaches to principals and there is nothing more flattering, but our response is always one of caution and advice to obtain an independent valuation. On so many occasions we hear of an offer being accepted, when we know if the practice had gone to the open market the real value would easily be realised.

Many principals are selling to their associates in a private transaction. We would always advise an independent valuation to benchmark the offer against and the number of private sales we are involved in is steadily increasing, as there is so much for a principal to deal with whilst continuing to run a business and maintain the relationship between principal and associate.

CQC

Sampana Banga, head of dentistry at the



CQC (Care Quality Commission) spoke at The Future of UK Dentistry conference; by the end of last year 8,000 providers had registered with the CQC in 10,957 dental locations. He confirmed what we all already knew, that dentistry is not as high a risk as other regulated sectors, and the good news is a new approach to inspections is to be considered and should take effect from April 2015 – what this new approach will be is yet to be determined, but a consultation document is to be issued in November 2014. Moving forward, CQC will be working more closely with the GDC (General Dental Council) and NHS England

and one of the aims will be to improve the registration process. For first time would-be principals, the emphasis may be more focussed on leadership and management – an area we suspect not all associates have much experience of. **LD**

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 – home counties

This practice occupies a ground floor practice in a residential area for a busy commuter town. The practice is equipped to a very high standard with a small car park and free on-street parking.

Practice type: This is a three surgery, mainly private practice with a considerable capitation scheme and a small element of NHS dentistry in the form of a GDS (General Dental Services) contract being sold with a 15-year lease.

Practice financials: The annual gross fee income is shown to be in the region of £755,000, of which 65% is private fees, 33% is capitation scheme and 2% NHS-GDS contract. Two co-principals, both work three days per week, have generated the gross. There are two associates, two hygienists, one full-time receptionist and three full-time nurses.

Price achieved: The full asking price of £725,665 was achieved.

Agent's comments: This practice has highly desirable net profits and is a thriving and well-established business being sold by two expense-sharing principals to facilitate an opportunity to pursue other interests. By deciding to sell at the same time the principals were able to achieve a higher price. They have decided to retain the freehold and create a lease to secure a rental income for the future.

Practice two – West Midlands

This practice is situated in a large two-storey detached property within a residential area complete with a large car park.

Practice type: This is a fully private three-surgery practice with room to expand if necessary. A leasehold sale with 15 years left on the term and the sale is to facilitate the principal's retirement.

Practice financials: The gross turnover is shown to be in the region of £220,000, of which 70% is capitation scheme and the balance is fee-per-item. The gross has been generated by the principal working three days a week with two hygienists working a combined three days per week, a full time dental nurse and a receptionist working four days a week.

Price achieved: The full asking price of £145,000 was achieved. The funding for this purchase was arranged by FT&A Finance.

Agent's comments: This practice had been established for many years and provides an opportunity of growth for the new principal, who is planning on working in the practice full-time and has an impressive marketing strategy, which will encourage growth. With three unused but plumbed and wired rooms in the practice, there will be an opportunity to develop the practice even more in the future.

Practice three – Hampshire

This practice is located in a two-storey detached residential-style property within a busy urban area. There is the benefit of parking at the practice as well as on-street parking.

Practice type: A three surgery mixed-income practice, being sold to facilitate the retirement of the principal. The freehold is being retained and a new 15-year lease has been created.

Practice financials: The gross turnover is shown as in the region of £470,000, of which 65% is income from a capitation scheme, 21% is fee-per-item and 14% NHS-GDS contract. The gross has been generated by the principal working one day per week, two associates working a combined five days per week, a hygienist working one day a week, three part-time dental nurses, two part-time receptionists and a part-time practice manager.

Price achieved: A figure of £400,000 was achieved, which was in excess of the asking price.

Agent's comments: This well established practice has a high percentage of Denplan patients, which has grown steadily over a number of years and the incoming principal has plans to increase this. There's the potential to expand the practice as there's a large unused space that could be converted.

Practice four – Greater Manchester

This practice occupies a larger two-storey semi-detached residential-style property situated on a busy main road, with ample parking available.

Practice type: A mixed three-surgery practice, being sold with the freehold.

Practice financials: The gross turnover is shown to be in the region of £550,000, of which 50% is fee-per-item, 30% is NHS-GDS contract, 19% is from a capitation scheme and the balance is sundries. The gross has been generated by the principal working four days a week, one full-time associate and one associate working one day a week. There are two hygienists working six sessions a week, a full-time practice manager, two receptionists and four nurses.

Price achieved: A price of £752,000 was approved, which was well in excess of the asking price. The funding for this purchase was secured by FT&A Finance.

Agent's comments: We're seeing more principals consider their exit strategy at a younger age, some are doing so as the current market is great, and some just want to escape from practice ownership. In this case the principal has chosen to release his asset and plans to take a break before returning to clinical work. Many principals are keen to take on more experienced dentists as associates so he should have no problem in the future.

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Practice four – south

This practice occupies a two-story, residential style property, with three ground floor surgeries.

Practice type: This is a mixed, two-surgery practice, sold as leasehold with a new 20-year lease.

Practice financials: The gross fee income is shown to be in the region of £450,000 of which 65% is Denplan, 25% is NHS-GDS contract and the balance being fee per item income. The principal works full-time in the practice with two part-time associates and a hygienist one day per week. Professionals complementary to the clinical team comprise of three part-time dental nurses, two part time receptionists and a part-time practice manager.

Price achieved: A price of £400,000 was achieved that was in excess of the asking price. The funding for this purchase was arranged by FT&A Finance.

Agent's comments: Mainly a Denplan practice with a small NHS-GDS contract and was sold by the principal to facilitate the retirement. The principal decided to retain the freehold and create a 15-year lease. Therefore not having to deal with a third party landlord as most delays on transactions are caused by landlords who have no interest in the sale or purchase. Whilst freeholds are increasing in value we do deal with more principals who are flexible in selling the freehold or creating a lease, particularly if they have had sound financial advice and can see the benefits of putting the freehold into a self invested personal pension (SIPP). If you are considering this option – seek advice. We can always put you in contact with a specialist dental IFA who will happily provide the right advice.

Practice five– Essex

This well presented practice occupies the ground floor of a former residential property in a residential area.

The practice benefits from being a self contained three bedroom flat above the dental practice.

Practice type: NHS two-surgery practice, being sold with freehold to facilitate retirement sale.

Practice financials: The annual gross fee income is shown to be £240,466 and comprises solely of an NHS-GDS contract, which equates to £33.99 per UDA. The gross has been generated from one of the co-principals working three days per week. Professionals complementary to the clinical team comprise of two part-time dental nurses/receptionists.

Price achieved: A price of £680,000 was achieved, which was in excess of the asking price.

Agent's comments: This practice generated a huge amount of interest and with so many offers it went to sealed bids. Unlike some agents we never disclose other offers received, as we do not believe the price should be inflated by a form of horse-trading. By going through a sealed bid process we believe the would be purchasers put in an offer they are comfortable with and most importantly are able to follow through with funding as it is too easy to make an offer which cannot be sustained.

Practice six – Oxfordshire

This well presented practice occupies a double unit on the ground floor within a thriving student and residential area.

Practice type: This is mainly NHS, a five-surgery practice, being sold as leasehold with a new 20-year lease.

Practice financials: The gross fee income is shown to be in the region of £925,000 of which 88% is a NHS-GDS contract and the balance being fee-per-item income. This is an associate run practice with five working full-time and one part-time. Professionals complementary to the clinical team comprise of two full-time and one part-time qualified dental nurse, one fulltime receptionist/manager who is also a qualified dental nurse, one full-time and one part-time receptionist. In addition there are three full time trainee dental nurses.

Price achieved: A price of £1,425,000 was achieved which was in excess of the asking price. The funding for this purchase was arranged by FT&A Finance.

Agent's comments: This had all the signs of being a popular practice and once again, the sealed bid process was used on this sale. The location, UDA rate and the future opportunities were all key points that any would be purchasers would be attracted to and with a 20-year lease it made funding opportunities really attractive as the bank provided the funding over the terms of the lease.

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