

The original and authentic Practice value index

The missing £180 million goodwill value

It's a sellers' market right now with goodwill on the rise, says **Frank Taylor & Associates**

In conjunction with *Dentistry* we compile and provide the Practice value index to give a snapshot of the current market for the sale of dental practices. In such a fast moving market, these numbers change on a quarterly basis and you might be surprised by just how much.

As a benchmark, we review our own performance against a published quarterly survey of goodwill values, and Frank Taylor & Associates consistently out-performs these results across the board; this is for NHS, mixed and private practices.

Achieving the best value

It is important to consider where and how the best value is achieved when selling a dental practice. Without doubt the best price is achieved by selling on the open market – this means going to all interested parties and not a select group. Private off-market sales are also highly unlikely to deliver the best value available, due to the lack of competition. The open market represents the 'acid test'.

To illustrate this point, for the past quarter Frank Taylor & Associates' NHS

practices were sold for an average of 188% of turnover compared to 125% on the published survey – the highest being sold at 248%. We believe this is a combination of the wealth of internal comparable data available, due to the vast number of valuations undertaken and these sales being achieved on the open market.

Based on a recent review of goodwill values from 2012, the most notable difference was a practice with an increased goodwill value of 57% in just three years

Whenever selling a valuable asset, we all want to achieve the best deal possible; this might not necessarily be the highest price, but most often is. To do this it is important to create healthy competition, but not so fierce as to create an auction situation, as these are well known to fail. In an auction situation the successful enthusiastic buyer will often have the 'what have I done' moment and look to re-negotiate the



price or terms as it dawns on them they have over-paid.

Sellers' market

Clearly this upward trend of increasing goodwill values is not good news for buyers and those advising buyers. However, with an ever-growing number of dentists looking to buy and over 14 banks actively lending to dentists, the market is most definitely in favour of sellers at present.

Goodwill values have been increasing for some time now and whilst there are noticeable differences over a quarter when this is viewed over a three-year period, the added goodwill value is eye watering.

Based on a recent review of goodwill

values from 2012, the most notable difference was a practice with an increased goodwill value of 57% in just three years. This was a practice that back in 2012 had a value of £460,000 had risen to £722,000. This was not an isolated case, with many practices seeing increases upwards of 50%. It is also important to note that these increased values are being proven to be accurate, as they are being sold for the increased value too. As we all know, a value only has meaning if it can be sold at this level – and they are.

Given the number of practices Frank Taylor & Associates has valued since 2012, it is possible that there is an additional £180 million of goodwill value relating to these practices. **D**

Practice one - Essex

Practice location – this practice occupies a two-storey shop fronted property in the middle of a high street area in a busy commuter town. There is a mix of residential and commercial properties nearby and ample free parking within minutes of the practice.

Practice type – this is a three-surgery mixed practice, which has been established for over 30 years. The practice is being sold with the freehold and the sale is to facilitate the retirement of the current principal.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £500,000, of which 55% has been generated from a NHS-GDS contract, and the balance from fee per item. The gross has been generated by the principal working three days a week, one full-time and one part-time associate, a part-time hygienist, four full-time nurses, two part-time receptionists and a part time practice manager.

Price achieved – a price of £1,119,000 was achieved, which was in excess of the asking price.

Agent's comments – Essex practices are always eagerly sought after and our 1,696 dentists registered currently looking to buy in Essex aren't shy at jumping on good practices. This particular one ticked all the boxes: location, three surgeries, mixed income (with a decent sized NHS contract) and good profits. It was these characteristics that led to multiple offers being made and the delighted vendor just slightly above the valuation figure.

Practice two - London

Practice location – this practice occupies the first floor above a parade of shops in a busy London suburb. There is a mix of shops and residential properties in close proximity and metered car parking in the road.

Practice type – this is a one-surgery fully NHS leasehold practice, which has been under the same ownership for almost 30 years and is being sold to facilitate the retirement of the principal.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £300,000 and there is an exceptionally high UDA rate of £39.01. The principal works full time in the practice and is supported by four part-time dental nurses who also cover reception.

Price achieved – a price of £660,000 was achieved, which was £220,000 above the asking price.

Agent's comments – we have 2,267 dentists registered currently looking to buy in this region of London – this is the primary driver for how such an amazing price was achieved. I am sure you will have also spotted the exceptionally high UDA rate! The combination of the UDA rate and the principal delivering all the dentistry also meant the adjusted net profit was an amazing £196,000. Unsurprisingly, the vendor was bowled over by the price achieved.

Practice three - Surrey

Practice location – this practice is situated within an attractive grade II listed building, and encompasses the first floor of a three-storey, semi-detached property. It is ideally located within a town centre, providing a good mix of residential and commercial properties. There is plenty of parking surrounding the practice, including free street parking, a pay and display car park and a supermarket car park in the surrounding area.

Practice type – this is a two-surgery private practice being sold with as leasehold. The principal would like to sell and continue to work at the practice as an associate.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £300,000 – 40% of this is derived from a capitation scheme. The income is generated from the principal working three days a week, with a visiting periodontist and implant specialist working two sessions a month and a hygienist working two days a week. They are assisted by two part-time dental nurses.

Price achieved – a price of £380,000 was achieved, which was in excess of the asking price.

Agent's comments – quite rightly buyers look at the historic and current performance when making a decision to buy a practice. However, many also take a 'future view' and look for development areas too. This practice was only open for patients three days per week, providing an immediate opportunity for growth. It was one of the 1,364 looking for a private leasehold in Surrey that felt this was the deciding factor in making a winning offer.

FOR MORE INFORMATION call Frank Taylor & Associates on 0330 088 1156 or call the regional office on 0161 393 7107. Alternatively, email team@ft-associates.com or visit www.ft-associates.com.

Practice four - Sussex

Practice location – this practice is situated in a one-storey property in a busy high street, with free parking in close proximity.

Practice type – this is a two-surgery fully private practice, which has come to the market as the principal wants to devote his time in another practice he owns.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £160,000, of which 40% is generated purely from implants.

Price achieved – a price of £215,000 was achieved, which was less than the asking price.

Agent's comments – Sussex is a very accessible county with good road and transport links, which means it is desired by many buyers – we currently have 889 looking to buy a freehold private in this area. This practice was crying out for a full-time principal to come in and drive it forward. The significant portion of implant income did impact on the price achieved, as generally speaking specialist income is not as desirable as general dentistry. The freehold was acquired with the practice providing the new principal with great long-term security and the confidence to invest for their future.