

The original and authentic

Practicevalueindex

The seller and the agent's fee

Frank Taylor & Associates discusses why it is important for the seller to take responsibility and pay the agent's fee rather than pass it onto the buyer

It is well known that we all like something for free, in fact it recently ranked second in a recent poll of our

most favourite things!

Free doesn't exist – someone is paying and it is important to understand who and why.

If you are selling your practice for free then the only other party who can be paying is the buyer. Therefore, the buyer has less to pay for your practice as they need to factor in paying the agent.

For example, if I have £800,000 to spend on a practice but the agent wants 4% (which is not uncommon) then I only have £768,000 to pay

for your practice. Remember, I only have £800,000 to spend – there is no more money. The amounts can change and more money can be squeezed into a deal, but at some point the limit is reached and this principle will apply.

So, the buyer is now taking responsibility of paying the agent a commission fee and the agent who is acting under Law of Agency has a duty of care for the seller. Put another way, can there be a more blatant conflict of interest?

An alternative approach, using the same £800,000 example is you pay your agent fees yourself. In this scenario you receive the full £800,000 and pay the agency fee

(typically 2.5%) and receive a net amount of £780,000.

You are financially better off by paying a fee, sounds crazy but it is true.

As a seller I can see the immediate appeal of selling for free, but it makes no commercial sense to take this route – it is more expensive and creates a divided loyalty for the agent between the buyer and seller, which creates many complications. **D**

FOR MORE INFORMATION call Frank Taylor & Associates on **0845 612 3434** or the regional office on **0161 393 7107**, email team@ft-associates.com or visit www.ft-associates.com



Practice one - Essex

Practice location

This well-presented practice occupies the ground floor in a single storey property and benefits from having staff parking with free parking nearby.

Practice type

This is a five-surgery, mixed practice where the principal is the main income generator. The principal is selling the business but is committed to staying on at the practice for at least the next five years. This is a leasehold sale with 15 years on the lease.

Practice financials

The gross fee income is shown to be in the region of £1,250,000 with 43% being generated by fee per item; 27% by an NHS contract that has a UDA rate of £22.97; and 30% Denplan. The gross is generated from the principal working five-and-a-half days a week, two full-time associates, a therapist one day a week, seven nurses (part time) a full-time practice manager and part-time receptionist.

Price achieved

A price of £1,500,000 was achieved, in line with the asking price.

Agent's comments

The current principal has a strong desire to focus only on the clinical side of dentistry and was delighted we were able to find a buyer who was looking for an associate-run practice. We are definitely seeing a trend of principals considering their options at a younger age and many who want to realise the value in their asset and continue only with the clinical work – in this case it was a win/win situation!



Practice two - Midlands

Practice location

The practice is being sold with a three-bedroom residential property, a rental income can be derived from the property or it could be used to extend the dental practice.

Practice type

This is a one-surgery practice being sold to facilitate the owner's retirement.

Practice financials

The gross fee income is shown to be in the region of £250,000 that is made up of 77% NHS income and has been generated by the principal working four and a half days per week with three part-time nurses and two part-time receptionists.

Price achieved

A price of £535,000 was achieved, which was less than the asking price. The funding for this purchase was arranged by FT&A Finance.

Agent's comments

Whilst this is only a one-surgery practice, there is an excellent opportunity to extend the practice. The purchase is being made by two dentists who will continue to work in other locations and share the work load at this practice, an ideal entry into practice ownership.



Practice three - south coast

Practice location

The practice occupies a prominent corner site in a detached property. The practice also has two first-floor flats that are both occupied and the rental income of which would be shared 50/50 with the new incoming expense partner.

Practice type

This is an expense share of a very well established, private practice, being sold with 50% of the freehold to facilitate retirement.

Practice financials

The gross income is shown to be in the region of £275,000 and has been generated by the principal working four days a week; he is joined by an associate one morning a week, two self-employed hygienists who work a combined five days a week, a full-time practice manager and a full-time dental nurse.

Price achieved

A price of £470,000 was achieved that was slightly less than the asking price, the difference has been attributed to a lower freehold value.

Agent's comments

This is an incredibly well-established practice and an ideal opportunity for a first-time buyer. Not only is the client base well embedded, but the other principal will be looking to retire in the next five years that would generate an opportunity to buy the whole business.



Practice four - Staffordshire

Practice location

This well-presented practice is located in an ideal village location close to shops and residential properties. It has a recently refurbished surgery and a separate decontamination room.

Practice type

This is a mixed-income, one-surgery practice, being sold as freehold. As a limited company with the NHS contract in the name of the company this is being sold as a share sale.

Practice financials

The practice boasts a very varied mix of income that contributes to an overall gross in the region of £200,000. The turnover is made up of DPAS fees, Denplan, fee per item and an NHS contract. The gross has been generated from the principal working 28 clinical hours per week over five days. The practice also has one employed hygienist working one session per week, one part-time dental nurse, one part-time dental nurse/receptionist and a part-time dental nurse/practice manager.

Price achieved

A price of £334,527 was achieved, which was the asking price. The funding for this purchase was arranged by FT&A Finance.

Agent's comments

This practice proved to be popular and there is such an opportunity for the turnover to be increased by the incoming principal increasing the number of clinical hours.