

The original and authentic

Practice value index

Unlocking the bank of mum and dad

Frank Taylor & Associates' Lis Hughes discusses the increased use of the parent of the buyer providing the deposit for a practice

Back in the early 2000s the banks were even more generous than they are today. A loan for 100% (even 110%) of the purchase price of a practice was commonplace; as such the need for a cash deposit didn't exist.

Today, things are slightly different with a 20% contribution being common – which is actually still very generous compared to those outside of dentistry. If I was looking to fund a new business venture of a similar size I would be required to put in about 50% of the investment required.

I also think it is a good thing that a contribution is required from the buyer – I am with Warren Buffet who coined the phrase, 'skin in the game'.

However, the need for a deposit does present challenges for the young buyer

and over the past few years we have seen an increased use of the 'bank of mum and dad'. This is where the parents of the buyer provide the cash deposit to enable the purchase to take place. Clearly this option isn't available to all buyers, but changes to pension rules announced in the Chancellor's 2014 Budget could change things.

Someone aged 55 or over can release up to 25% of their total pension savings as a tax-free lump sum (and from April 2015 the rest at their own personal tax rate). With attitudes towards what a pension is changing, some may see investing their money in a dental practice as being a wise investment. Unlocking a pension does have risks attached to it as there is the potential that the investment ultimately results in less money for retirement, but it is an option. To avoid claims of ageism – this mechanism is to also be used by more mature dentists looking to buy in their own right.

Unlocking a pension is a serious undertaking and one that you do need to seek professional advice on. You will want to talk with an independent adviser who



has experience in the field of pensions and ideally understands the business of dentistry too. Unlocking your pension is very different from pension liberation, which will result in a huge tax bill and to be avoided at all costs.

I doubt this will be a game changer for how practices are purchased, but it does highlight the funding options available to get a foot on the ladder of ownership.

With a general dental practice producing

a net profit in the 22-28% range, the investor could see a decent return on their money along with aiding the purchase. **D**

FOR MORE INFORMATION call Frank Taylor & Associates on **0845 612 3434** or the regional office on **061 638 0875**, email team@ft-associates.com or visit www.ft-associates.com.

Practice one - Oxfordshire

Practice location – the practice is well presented and occupies a large Victorian property situated within a busy residential environment with car parking very close by. The principal is happy to consider selling the freehold.

Practice type – this is a four-surgery private practice that has been established over 50 years and is being sold to facilitate retirement. This is a share sale as the business is a limited company.

Practice financials – the gross fee income for the latest 12-month period is shown to be in the region of £950,000 and comprises of purely private income, of which less than 1% is a capitation scheme. The gross has been generated from the principal working five days a week and is supported by a full-time associate, and a therapist working three days a week. The practice also has three self-employed hygienists working a combined seven and a half days per week. Professionals complementary to the clinical team comprise of four full-time dental nurses, one part-time dental nurse, one full-time practice manager and one full-time receptionist.

Price achieved – a price of £975,000 was achieved, which was in line with the asking price.

Agent's comments – the principal had over a period of many years created a practice to be proud of and was looking for more than just a purchaser. He wanted to ensure he could leave his practice in safe hands, and with so many potential purchasers to choose from, he was able to ease himself into retirement safe in the knowledge he had found the right person to take over. Interestingly, we see many principals selling to the right person at a slightly lower price than just selling to the highest bidder.

Practice two - Bedfordshire

Practice location – the practice occupies a converted two-storey property, with a mix of residential homes and local shops in close proximity. There are ample staff parking spaces at the practice, free street parking and a municipal car park within five minutes' walk of the practice.

Practice type – this is a three-surgery mainly NHS practice being sold as freehold. The practice relocated a few years ago so has the added benefit of being completely kitted out with state-of-the-art equipment, fixtures and fittings (EFF).

Practice financials – the gross fee income is shown to be in the region of £150,000, which is made up of 95% NHS income and 5% fee per item. The practice is associate-run with one full-time associate and a therapist working one day a fortnight, there is a full-time dental nurse and a part-time dental nurse working one day a fortnight. The practice manager works one day a week and is supported by two part-time receptionists who work a combined five days per week.

Price achieved – a price of £660,000 was achieved, which was the asking price including the freehold. The funding for this purchase was arranged by FT&A Finance.

Agent's comments – as an associate-run practice, any incoming principal can see an immediate opportunity to improve the profitability by working at the practice. With only two surgeries in use there is also an opportunity to increase turnover by utilising the third surgery. Many purchasers see and understand the opportunity of growth and in this area in particular there is certainly an opportunity to develop a revenue stream from private patients.

Practice three - east Midlands

Practice location – this is a three-surgery practice that occupies a two-storey converted detached house. The practice benefits from being situated within the heart of a residential area but close to local shops and a commercial area. There is very little competition within the area.

Practice type – a mainly NHS practice that is being sold as a share sale and with an option to purchase the freehold or the principal will create a lease.

Practice financials – the gross income is said to be in the region of £700,000 with 80% of this being generated by NHS income, and the balance from fee per item. The gross income was generated by the principal working full-time along with a full-time and a part-time associate. There is a therapist working two days a week and a hygienist working one morning a week, these are supported by a number of full-time and part-time nurses and a full-time practice manager and two part-time receptionists.

Price achieved – a price of £1,075,000 was achieved, which was in excess of the asking price. The funding was secured by using FT&A Finance.

Agent's comments – the principal had a strong desire to realise the value of his asset but wanted to remain at the practice to enjoy clinical work. This is a trend we are seeing more of and the purchaser in this case was delighted to have the principal stay on and work alongside each other. The practice is in a prime location and the exiting principal has recognised that the practice was not fulfilling its full potential as the marketing of the practice was very limited. For an incoming principal it is ideal to have an impressive income stream in place and the opportunity to develop the practice; a win-win situation.

Practice four - Devon

Practice location – the practice is a four-surgery practice situated within a two-storey detached building. Conveniently situated close to residential properties with extensive public parking and excellent public transport links close by, it benefits from all the associated amenities that such an advantageous location offers.

Practice type – this is a mainly NHS practice being sold as a share sale with a newly-created leasehold for a 15-year lease. The principal is selling to facilitate a retirement.

Practice financials – the gross income is shown to be in the region of £750,000 with 70% being NHS income and the balance is made up of fee per item and a slight income from a capitation scheme. The principal is not working in the practice and has four associates working a combined 10.5 days a week, two therapists working a combined two and a half days a week, a full-time practice manager and a full-time receptionist and five part-time nurses.

Price achieved – a price of £675,000 was achieved, which was in line with the asking price.

Agent's comments – here was a principal who wanted to retire and had no desire in remaining in a clinical role, so was delighted when we found him a purchaser who wanted this scenario. Devon is proving to become more popular with potential purchasers as many have studied at the dental school in Plymouth and subsequently wanted to settle in the region, which is great for the many principals we have in Devon who are considering their exit strategies.