

VALUING A PRACTICE IN NINE EASY STEPS

Written by **Andy Acton**



Andy Acton breaks down the process of valuing your practice accurately into nine simple steps

Valuing a dental practice requires the gathering of information on a practice and analysing it against data from comparable practices in order to benchmark the figures and arrive at a goodwill value.

Establishing an accurate valuation is critical. With only 10,000-12,000 dental practices in the UK, ensuring that your practice is compared to others that bear similar characteristics is key. Often inaccurate comparisons are made because some data is misunderstood, misinterpreted or missing.

The age of the data being used is critical. Using financial information from 18 months ago is no basis for a current valuation. By the same token, the data to which you compare should ideally not be more than six months old. In short, the more current your information, the better.

1. INFORMATION

Make sure you own the information that is going to be used to value the dental practice or have the permission of the owner to use it. If you do not have permission to use this information then, quite reasonably, the rightful owner will be unhappy.

2. PREPARE

Set time aside to prepare the necessary information, and keep in mind you will most likely want to do this away from interruptions and outside of office hours. You may want to extract data from your practice management applications. Setting time aside at a weekend or over an evening or two might be the best approach for this task.

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3. FINANCIAL DATA COLLECTION

This will include your accounts for the past three years, fee income for the last 12 months and details of your income types. Being able to analyse income by the different treatment types is crucial as profitability can vary greatly.

The financial data is a key driver in assessing the value; put simply, the more up to date and comprehensive the information, the more accurate the valuation will be. Your latest set of financial accounts will most likely need to be completed no later than nine months after the last accounting 'year end'.

4. PROPERTY DATA COLLECTION

This will either be the current lease terms and/or the freehold value. If it's freehold this provides excellent long-term security, which in turn positively impacts the practice value. If the practice operates under a lease then the remaining lease term will be a factor, influencing the period over which a bank would lend money. In addition, if it's leasehold it's important to know if this is covered by the Landlord and Tenant Act of 1954, as this affords the leaseholder degrees of protection.

5. TEAM DATA COLLECTION

At the very least this will include contracted hours, roles, tenures and salaries. The same is

required for the self-employed clinicians too, along with a split of their respective gross fees. If there is a single clinician that accounts for a disproportionate amount of the income, this will likely require explanation. The practice team are a key intangible asset at the practice; they deliver the services and have the relationships with patients.

6. PRACTICE DATA COLLECTION

The operational nuts and bolts of the practice. This will include the services offered, opening hours, marketing used and compliance certificates. The quality of the operational structure will directly impact on the management time required.

7. COMPETITOR ANALYSIS

Review the local area, the exact size of the area will vary depending on the specific nature of your location. In a big city half a mile may suffice whereas in a rural location you may need to extend this to several miles.

8. COMPARE

Use current comparable data to assess your own practice against others of a similar type to establish the true value. You may need to engage a specialist valuer to assist at this stage, as comparable data is critical.

9. NEXT STEPS

Often there are many options available if you have valued your practice for sale and all of these should be fully explored before deciding which path to take. Equally if the purpose is to arrange finance, then a broker should be engaged to assess the options and range of funders available.

If you follow these nine steps you can be confident you will have an accurate and up to date valuation of your dental practice. ●

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