

# Investing in the future

**Economically speaking, the dental sector has a brighter future than most, according to Lis Hughes**

**Lis Hughes**

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While none of us are impervious to the vagaries of the political climate, healthcare continues to be considered a very stable sector in the financial world – dentistry in particular. There is no crystal ball to see the future, and even if there was, I am not sure it could help us with the current situation with no guide for what a post-Brexit environment looks like.

If we assume the predicted economic downturn takes hold in 2020, what does this mean for dentistry, and the sale and purchase of dental practices? Through a recession the banks still need to lend money – it's what they do. So, the obvious thing is to seek lower-risk sectors where you can continue to be active and manage your risk. This leads the banks right to the door of the dental sector. The

business of dentistry is classified as low risk, and as we know from the dark days of 2008, funding hardly skipped a beat. Dentistry has key characteristics that make it low risk.

## A safe bet for lenders

With over 50 years' experience of lending to the dental profession (and this time period includes several recessions and double-dip recessions), there is evidence of very low default rates in comparison to other sectors. The basic financial performance of dental practices delivers a profit in the region of 20 to 25%.

Typically, where dental practices have encountered financial difficulties, it tends to be as a result of personal matters that have impacted on the business, such as investing in a non-dental business,

personal tax issues, or matrimonial matters.

The need for dentistry will never go away, and people get toothache regardless of the economic and political situation. Interestingly, back in the recession of 2008, many dentists saw an increase in the demand for cosmetic treatments, as people wanted to impress prospective employers as there was competition for fewer work opportunities.

Most importantly, banks have an edict to lend, which is vital to ensure the wheels of commerce keep turning during any downturn, and they are far more likely to lend to professions they are already comfortably with and have a proven track record of a minimal default rate.

Banks are required to manage their

overall risk portfolio and, with exposure across a spectrum of sectors, healthcare is a 'go to' sector in times of turmoil.

## Powering through

However, all banks are different, with preferences for different type and size of proposals, so it really is important any application for funding is submitted in the correct format. We always encourage any buyer to engage an independent broker that understands the market, to provide the best opportunity to secure the best terms from at least one of the 14 banks lending to the dental sector.

It is very likely that dentistry will power through the next period of change, and, should there be a period of uncertainty, this will be capitalised on by smart purchasers. Between 2008 and 2010, which for many were torrid years, some buyers made excellent acquisitions. There is no crystal ball, but my best guess is dentistry will fair significantly better than most sectors over the next few years. **D**

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## PRACTICE ONE - HOME COUNTIES

**Practice type** – this is a two-surgery predominantly private practice, which occupies the ground floor of a purpose-built block within a very busy town centre. There is a mix of local shops and residential properties. The practice is being sold as leasehold and to facilitate the retirement of the current principal.

**Practice gross** – the gross income at this practice was in the region of £350,000, of which 92% is private. The reconstituted profit shows a very healthy 42% and the income has been generated by the principal working five days a week, a hygienist working 1.5 days a week, and the support of a full-time nurse/receptionist.

**Price achieved** – a price of £500,000 was achieved, in line of the asking price.

**Agent's comments** – this practice has been established for over 30 years, and the existing principal has built a very successful private practice with a small NHS contract. There has been a significant increase in the population of the town over the past 10 years – which has benefitted the practice – and there is ample opportunity to grow as the second surgery is underused.

## PRACTICE THREE - HOME COUNTIES

**Practice type** – this is a four-surgery mixed practice occupying a well-maintained end of terrace two-storey building, based in a lively market town. It is being sold as leasehold with ample street parking nearby.

**Practice gross** – the gross income is in the region of £900,000 and is 50% NHS-GDS contract and 50% private. This is an associate-run practice, with five associates working a combined 10 days a week, and two hygienists working a combined three days a week. They are supported by a full-time practice manager and five full-time nurses/receptionists.

**Price achieved** – a price of £1,200,000 was achieved, which was in excess of the asking price.

**Agent's comments** – this practice is located in an incredibly beautiful part of the country and there was no shortage of interest. We continue to see much interest in mixed practices, and, in this case, the incoming principal will focus on the private element of the practice, with a strong desire to grow and develop the aesthetics elements.

## PRACTICE TWO - DEVON

**Practice type** – this is a mainly private three-surgery practice occupying a spacious two-storey detached property situated within a busy market town. It is being sold as freehold and the sale is to facilitate the retirement of the principal. There are great public transport links and a municipal car park nearby.

**Practice gross** – the gross income is in the region of £400,000, and has been generated by the principal working four days a week, an associate working two days a week, and a hygienist working two days a week. They are supported by two part-time nurses and two part-time receptionists.

**Price achieved** – a price of £700,000 was achieved, which was in excess of the asking price, and included the freehold.

**Agent's comments** – this practice has been established for over 50 years, and the current principal started his dental career here as an associate, so it was incredibly important to the seller that the right buyer was found to ensure the practice, staff and patients would be taken care of. We have 464 dentists registered looking to buy a practice in Dorset and Devon, so we were able to put forward a number of interested parties for the seller to find the best fit (and the best price) for his practice.

## PRACTICE FOUR - GREATER LONDON

**Practice type** – this is a private three-surgery practice, which has been established over 60 years. The practice is being sold as leasehold with a 15-year term. The principal is selling to facilitate semi-retirement and is happy to continue on a part-time basis. The practice is situated on a high street location, with a mix of residential and commercial properties nearby.

**Practice gross** – the gross income is in the region of £250,000 and is generated by the principal working four days a week, a hygienist working two days a week and a full-time nurse/receptionist.

**Price achieved** – a price of £500,000 was achieved – in excess of the asking price.

**Agent's comments** – the incoming principal had always wanted a fully private practice, and the style of this practice alongside the location meant he was prepared to pay a premium to secure this practice, as it fulfilled all of his requirements.

