

Methodical approach to valuation

Lis Hughes provides nine steps that will give you an accurate valuation of your practice

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Valuing a dental practice requires a methodical approach, the ability to interpret and analyse key information, and, critically, access to comparable data to benchmark the figures to arrive at a goodwill value.

So often inappropriate or out-of-date comparables are used leading to an exaggerated valuation, which could be either high or low. Either way, there is trouble ahead.

Step 1: Make sure you own the information used to value the dental practice or have the permission of the owner to use it. If not, the rightful owner will be – quite reasonably – unhappy.

Step 2: Set time aside to prepare the

necessary information. This will most likely be during an evening or weekend, for privacy reasons.

Step 3: Financial data collection – this will include your financial accounts for the past three years, fee income for the most recent 12 months, details of your income types whether NHS, and private fee per item or plan-based.

Your latest set of accounts should be no older than nine months from the year end in the accounts. The more current your financial information, the more accurate the valuation.

Step 4: Property data collection – this will either be the current lease terms or the freehold value. If a freehold, this provides

excellent long-term security, which positively impacts the practice value. If the practice operates under a lease, then the remaining lease term will be a factor. The remaining lease term often influences the period over which a bank would lend to a would-be purchaser.

Step 5: Team data collection – the hours each person works, their role, how long they have worked at the practice and how much they are paid. The same is required for self-employed clinicians, along with a split of their respective gross fees.

The practice team is a key intangible asset, it delivers the services and has the relationships with patients.

Step 6: Practice data collection – this

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

Step 7: Competitor analysis – review the local area. In a big city a perimeter of half a mile may be enough, whereas in rural locations you may need to extend this to several miles.

Step 8: Use current comparable data to assess your own practice against others of a similar type. You may need to engage a specialist valuer to assist as comparable data is critical in establishing an accurate value.

Step 9: Decide your next steps now you know the value of your practice. Often there are many options available if you have valued your practice for sale and all of these should be fully explored before deciding to pursue a certain path.

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

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PRACTICE ONE – LEICESTERSHIRE

Practice type – this is a three surgery, mixed practice (with room to expand to a fourth surgery) established over 40 years and being sold to release the owner from the burden of the administration. It is leasehold with 18 years of a 20-year lease in place.

Practice gross – the gross fee income from the management information for the past 12 months is in the region of £450,000, and derived from 62% NHS-GDS contract and 38% fee per item. The UDA rate is just over £25 per UDA. The gross has been generated from the principal working four days a week, three part-time associates and one full-time associate. The team are supported by a part-time practice manager, five part-time nurses and a full-time receptionist.

Price achieved – a price of £475,000 was achieved, in line with the asking price.

Agent's comments – this principal decided some time ago that practice ownership was no longer as enjoyable as it had been previously and wanted to enjoy the next few years of pure clinical work. The principal also recognised the opportunity for a new owner to develop the practice, as the local area is under a massive development.

PRACTICE THREE – THE MIDLANDS

Practice type – this is a two surgery, predominantly NHS practice, which has been established over 20 years and relocated to these premises several years ago. It is being sold to facilitate the retirement of the principal.

Practice gross – the gross fee income from the management information for the past 12 months is in the region of £400,000 and has been generated from the principal working five days a week, alongside a full-time associate. The team are supported by a full-time practice manager, two full-time nurses and two part-time receptionists.

Price achieved – a price of £650,000 was achieved, slightly under the asking price.

Agent's comments – this practice has little or no marketing activity, and the incoming principal has plans to extend the practice by two surgeries (an option the current principal chose not to pursue), as the desire and opportunity to grow this side of the practice was key to the purchase.

PRACTICE TWO – HOME COUNTIES

Practice type – this is a single surgery, fully NHS practice established over 30 years and is being sold to facilitate the retirement of the principal. The practice is being sold as leasehold, with a new 20-year lease in place.

Practice gross – the gross fee income from the management information for the past 12 months is in the region of £290,000, and derived from 100% NHS-GDS contract, with a UDA rate of just over £23 per UDA. The gross has been generated from the principal working full-time and supported by two part-time dental nurses/receptionists.

Price achieved – a price of £650,000 was achieved, which was in excess of the asking price.

Agent's comments – despite the limitations of a single surgery there is room for expansion at this practice – and to the delight of the owner – we were able to present several interested parties, all of whom offered in excess of the asking price. The incoming principal is confident with better chair management in the first year there would be the opportunity to derive additional fee per item income, and hopefully the need for a second surgery.

PRACTICE FOUR – SOUTH WEST

Practice type – this is a three surgery, mixed practice, which has been established over 40 years and is being sold to enable the current owner to focus on new areas of interest. The principal is happy to stay on post-sale. The practice is being sold as leasehold with a new 15-year lease in place and it is a share sale.

Practice gross – the gross fee income from the management information for the past 12 months is in the region of £1,100,000 and is derived from 49% NHS-GDS contract, and 51% fee per item. The UDA rate is just over £29 per UDA. The gross has been generated from the principal working one day a week, three full-time associates and a hygienist working two days a week. The team are supported by a full-time practice manager, three full-time nurses and two part-time nurses/receptionist.

Price achieved – a price of £2,100,000 was achieved, slightly higher than the asking price.

Agent's comments – this practice ticked the boxes for many of our buyers, as it is in an area always in high demand. The mix of NHS and private income, the high UDA rate and the opportunity to develop the practice – what was not to like?

