

How much does a dental practice sell for?

Lis Hughes takes a look at what determines a practice worth and how the pandemic may influence future purchases

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There is no standard for what a dental practice sells for – but then why would there be as no two dental practices are the same? There are more than 30 factors that need to be considered when assessing the goodwill value of a dental practice. Some of these factors, of course, have a greater weighting than others.

The key determining factor on how much a dental practice will sell for is the location. The location will set the upper and lower limit for dental practices within a certain catchment.

A dental practice located in a large city or town will be among the most desirable, with a larger pool of interested buyers, and as such will command a higher value. The simple economic rule of supply and demand applies here. However, there are early signs of regional practices increasingly in desirability, which could be linked with

changing behaviour as a result of the pandemic.

The upper and lower range of what a dental practice will sell for is set by the location then other elements come into play: income type (NHS, private, plan based or mixed), dentistry delivered (general, orthodontics, periodontics etc), financial performance (gross fees, core costs, net profit and earnings before interest, taxes, depreciation, and amortisation [EBITDA]).

Property tenure

The next tier of consideration is the property tenure – is it freehold or leasehold? A freehold provides guaranteed long-term security with leases being for a pre-determined period. The stability of the team is a strong indicator too; if the team keeps changing this could relate to a poor practice culture.

Marketing techniques and quality of the practice

facilities also need to be factored in. All these elements add up and will influence the goodwill value calculated for each practice on a bespoke basis.

Ultimately, a dental practice sells for what someone is prepared to pay for it. At the bottom end, a dental practice in the UK could sell for a multiple of the adjusted net profit (similar to EBITDA) of one times and upwards of nine times for a highly desirable practice with a strong demand.

Depending on the valuation approach taken this could be up to 12 times but most likely be based on a lower EBITDA. As you can see the range is huge, which is why anyone keen to understand what dental practices sell for does some specific research on the area and practice type they are interested in. Using averages or comparable data which isn't relevant for the target area can produce information which is misleading and can result in a bad decision being made.

At present the demand for dental practices is high. As a result of this high demand, partly driven by the COVID-19 pandemic, goodwill values are at historically high levels meaning that dental practice are commanding high prices. There is no sign of this situation changing. **D**

FOR MORE INFORMATION about selling your dental practice or to obtain an up to date valuation for your practice, call Frank Taylor & Associates on 0330 088 1156.

PRACTICE ONE – NORTH WALES

Practice type – this practice occupies a two-storey commercial property, based on the edge of a large residential area, within walking distance of an active town centre. This is a three-surgery, mainly NHS practice, which has been established over 60 years and is being sold to release the principal from practice ownership and allow him the freedom to enjoy his clinical work. It is being sold as freehold.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £440,000 and the NHS-GDS contract has a units of dental activity (UDA) rate of just over £25. The gross has been generated from the principal working four days a week, two part-time associates working a combined eight days a week and a hygienist working one day a week. The team is supported by a part-time practice manager, a full-time nurse/receptionist.

Price achieved – £745,000, which included the freehold.

Agent's comments – the price is ripe for development of the private income and currently has limited marketing, website, or social media presence – the incoming principal is keen to develop this area and the outgoing principal is happy to continue working on the mainly NHS area of the practice – a perfect match.

PRACTICE TWO – CORNWALL

Practice type – the practice occupies a two-storey building in a busy town centre high street, which has been established for more than 50 years. This is a three-surgery mixed practice and is being sold to facilitate the retirement of the current principal. The practice is being sold as leasehold.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £420,000 and is generated from private income of 53% and 47% of NHS with a UDA rate just over £27 per UDA. The income has been generated from the principal working four days a week, one associate working four days a week and two hygienists working the equivalent of one and a half days a week. The team is supported by four nurses (two full-time and two part-time) and two part-time receptionists.

Price achieved – £585,000, in line with the asking price.

Agent's comments – this practice proved to be popular when it was launched to the market and the buyer was keen to take over and develop the established turnover by introducing a website and social media – the exiting principal was conscious of the opportunities, but had decided he would prefer to retire and enjoy life rather than focus on new opportunities.

PRACTICE THREE – SURREY

Practice type – this practice is situated in prominent detached property with local shops in close proximity and ample free parking. This is a single surgery, mostly private practice (70%) with a NHS contract with a UDA rate of just over £25 per UDA. The sale is to facilitate the retirement of the principal. A new 15-year lease will be created for the incoming principal and will be inside the Landlord & Tenants Act 1954.

Practice financials – gross fee income from the management information for the past 12 months is in the region of £145,000 and the income has been generated from the principal working three and a half days a week and he is supported by a full-time nurse.

Price achieved – £300,000, which was slightly higher than the asking price.

Agent's comments – while this is a single surgery practice, there is room for an additional surgery and all indicators are there will be the demand for private dentistry particularly as there is new housing development with 350 houses and no other dental practices within a five-mile radius.

PRACTICE FOUR – GREATER LONDON

Practice type – this practice is on the ground floor of a substantial residential property in a major regional town. This is a three-surgery fully private practice, which is being sold to facilitate the retirement of the principal.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £490,000 and the NHS-GDS contract has a units of dental activity (UDA) rate of just over £28. The gross has been generated from the principal working two days a week, three part-time associates working a combined five days a week and a hygienist working one day a week. The team is supported by a part-time practice manager, a part-time receptionist and three part-time nurses.

Price achieved – £1,350,000, in line with the asking price.

Agent's comments – this practice was due to complete in April 2020, however, due to the pandemic, the sale was put on hold and became active again once the practice was reopened in June and the principal could provide management information at the end of December 2020 to evidence the income generated post-lockdown. We have seen a consistent goodwill value post-COVID-19 with a number of practices actually increasing their turnover. As importantly, the banks are supporting the loan applications and we are seeing bank valuations aligning with our own values.

