

Stable accounts prior to sale

To increase the goodwill value of your dental practice, **Lis Hughes** shares a simple tip that will add value and give buyers comfort too

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Frank Taylor & Associates has sold more than £2bn of dental practices and the common theme among buyers is they want to buy consistency, stability, and opportunity – that is what goodwill is all about.

That's the buyer's viewpoint, so keep this in mind when you start to plan the sale of your dental practice. In reality, the things a buyer is looking for are the exact same things you should want in your own business.

A buyer will ideally want to see three years of growing, or at a minimum stable, income and profit. Remember, it's not just the gross; the profit is what will be paying the bank loan and new owner an income.

A wise old owl once said: 'Turnover is vanity. Profit is sanity. Cash is king!'

Turnover makes you feel good. In 2003, Amazon broke even and turnover was about \$2bn. Quite remarkable really when you think Amazon started back in 1994.

Profit will keep you sane. This is the difference between your income and costs. Pat yourself on the back, you made some money.

When you get paid for this profitable work you will get the cash. Cash is the air your business needs to survive but let us go back one stage to profit, as this influences your goodwill valuation.

Don't worry too much if the true underlying profit doesn't appear in your published accounts. This will get adjusted in the goodwill valuation by adding back non-essential items to calculate a reconstituted net profit.

Clearly declining practices make buyers nervous but so do rapidly growing practices in the year prior to sale. This can be perceived as

a big push to deliver higher than normal levels of dentistry on the patient base prior to sale to drive up profits and the price. Buyers want to see fees are sustainable.

Consistent and sustainable doesn't just apply to fees, too. A stable team also says so much about the culture in a dental practice. People tend to change quite quickly in badly led practices or those with a toxic environment. A constantly changing team will also impact on the financial performance, as the team won't develop personal relationships with patients.

Across every element consistency and stability really do add to the goodwill value of your dental practice. After all, remember, the buyer of a dental practice pays for the past but they are buying for the future. **D**

FOR MORE INFORMATION, call 0330 088 1156.

PRACTICE ONE - HOME COUNTIES

Practice type - this practice occupies the ground floor of a large prominent corner site. It is shop fronted and benefits from excellent foot fall and great transport links. This is a two-surgery, fully private practice that has been established for more than 50 years. Owned by the current principal for 20 years, it is being sold to facilitate his retirement. This is being sold as leasehold and a new 15-year lease is being created. It is a limited company and is being sold as a share sale.

Practice financials - the gross fee income from the management information for the past 12 months is in the region of £320,000 and is 100% private income. The gross has been generated by one of the directors working five days a week, and a hygienist working two days a week. The clinical team is supported by a full-time receptionist, and a full-time nurse.

Price achieved - £520,000, slightly more than the asking price.

Agent's comments - this fully private practice has recovered well post-COVID, as we have seen in the majority of practices we are working with. The incoming principal is keen to introduce a capitation scheme as her current practice really benefited from the income of the scheme during the first lockdown and she saw the benefit of this first-hand.

PRACTICE TWO - SURREY

Practice type - this practice occupies a purpose-built, shop-fronted building, based in an affluent market town in Surrey. This is a three-surgery, mixed practice that has been established for more than 20 years, and is being sold to allow the current principal to focus on other family interests. It is being sold as leasehold with 10 years remaining on a 15-year lease.

Practice financials - the gross fee income from the management information for the past 12 months is in the region of £450,000 and is 73% private income and 27% NHS-GDS with a UDA value of £29.90 per UDA. The gross has been generated by the principal working three days a week, five associates working the equivalent of 10 days a week, and two hygienists working a combined two days a week. The clinical team is supported by two part-time receptionists and one full-time and three part-time dental nurses.

Price achieved - £820,000, slightly in excess of the full asking price.

Agent's comments - this practice shows a healthy reconstituted profit of 36% and the mix of private and NHS has worked well for the existing principal. The range of dentistry has been rather limited and the opportunity for the new principal to develop aesthetics has encouraged him to look into hiring a consultant to help with social media activity. We see far more outsourcing of this element these days as keeping social media activity alive and fresh is not something to be done on an ad hoc basis.

PRACTICE THREE - BERKSHIRE

Practice type - this practice occupies a high street location in a busy commuter town, with a lively mix of residential and commercial properties. There is ample off-street parking. This is a two-surgery, mainly NHS mixed practice, which is being sold to facilitate the retirement of the current principal. The practice has been established for more than 20 years and owned by the current principal for 15 years.

Practice financials - the gross fee income from the management information for the past 12 months is in the region of £450,000 and is 84% NHS-GDS with a UDA value of £28.50 per UDA and 16% private income. The gross has been generated by the principal working one day a week, two associates working a combined eight days a week, and a hygienist working one day a week. The clinical team is supported by a part-time practice manager and three full-time dental nurses.

Price achieved - £1,100,000, for combined goodwill and virtual freehold, and this was above the asking price.

Agent's comments - this was a practice that bounced back from the lockdown period and has seen an increase in the private activity with a reconstituted net profit in excess of 55%. The incoming principal worked at this practice as an associate before moving to another practice several miles away and had always felt if the opportunity arose, he would jump at the chance to become the principal.

PRACTICE FOUR - ESSEX

Practice type - this practice occupies a purpose-built property on the outskirts of a large housing estate in a very active town with ample parking. This is a three-surgery, predominantly NHS practice, which is being sold to facilitate the retirement of the current principal. The practice has been established for more than 40 years and is being sold with a leasehold a new 20 year in place.

Practice financials - the gross fee income from the management information for the past 12 months is in the region of £450,000 and is 50% private income and 50% NHS-GDS with a UDA value of £29.50 per UDA. The gross has been generated by the principal working three days a week, three associates working a combined 11 days a week, and a hygienist working one day a week. The clinical team is supported by a part-time practice manager and five nurses/receptionist.

Price achieved - £1,380,000, in line with the asking price.

Agent's comments - this practice was so popular when it was launched as it has a healthy mix of patients, and an increasing demand within the local community. Historically, the town had been very much a commuter environment but now more people are working from home and seeing the benefit of using more local services. This is certainly not unusual, and we have seen a consistent increase in patient activity away from city centres.

