

Finding the sweet spot

Set your principal gross at £300,000 max, urges **Lis Hughes**

Lis Hughes

Managing director of
Frank Taylor & Associates



Here's a simple tip on how to increase the goodwill value of your dental practice. As the principal of your own dental practice, you will typically be the top fee earner. You will gross more than your associates. This is not unusual.

In my 20 years of experience, I see a gear shift in principals, the mindset sharpens and, with this, the principal starts to perform at a higher level. There is a need to deliver more – and not just clinical dentistry.

As a principal, you start to work like it's your last day before going on holiday. You know that day where you somehow seem to fit a week's worth of work into eight hours! But this becomes your new normal.

No longer is delivering dentistry during the week enough – you also need to be the marketing director, sales director, HR director, managing director and responsible for CQC. Despite these additional responsibilities, it is not uncommon for principals to still produce most of the practice income.

However, a word of caution: this can be detrimental to the goodwill value of your dental practice.

Finding balance

When valuing goodwill, we assume that a principal can deliver about £300,000 of dentistry. If the actual figure is above this, we will increase the need for associates to compensate for the difference. For example, if the current principal worked four days per week and was a super-grosser generating £500,000, we would make an adjustment to assume a principal gross of £300,000.

An increased reliance on associates for £200,000 of fees means the associates costs would increase by about £75,000 (labs 6% and associate paid 40%),

meaning a profit deduction of this amount. This in turn is bad news for the goodwill value as this is based on a multiple of adjusted profit.

If the practice had a profit multiple of four times, this would take £300,000 off the goodwill value.

However, the opposite is also true, and this can increase your goodwill value. If you are a part-time principal and gross say £150,000, we would reduce your associates' costs down by about £55,000 to adjust for the new principal income up to £300,000.

The sweet spot is to work your own personal gross to about £300,000, but no more. I appreciate this could impact on the immediate profitability, but goodwill values are based on adjusted profit multiples, so you want to minimise the introduce of additional associate fees when the profits are reconstituted.

Ensuring your own gross is in line with the expected norm will help increase the value of your goodwill. It might sound odd, but you might need to lower your gross to increase your value! **D**

FOR MORE INFORMATION, call 0330 088 1156.

PRACTICE THREE - HERTFORDSHIRE

Practice type: this practice occupies a semi-detached property and is very well presented over two storeys. This is a two-surgery predominantly private practice that is being sold to facilitate the retirement of the current principal. The practice has been established for more than 50 years and owned by the current principal for 20 years. The principal will create a lease, which will be 15 years and inside the Landlord & Tenants Act 1954.

Practice financials: the gross fee income from the management information for the past 12 months is in the region of £350,000 and 16% NHS-GDS with a UDA value of £26.50 per UDA and 84% private income. The gross has been generated by the principal working three days a week, one associate working three days a week, and a hygienist working two days a week. The clinical team is supported by three full-time dental nurses/receptionists.

Price achieved: £520,000, in line with the asking price.

Agent's comments: with the principal working three days a week, there is a massive opportunity for the incoming principal to increase the turnover and, most importantly, the profit by working at the practice full time. Just like the previous practice, private income is currently incredibly strong and there is no shortage of demand. Another region that is showing the benefit of patients not commuting.

PRACTICE FOUR - ESSEX

Practice type: this practice occupies a shop-fronted purpose-built premises, in a vibrant and affluent high street. This is a three-surgery mixed practice, which is being sold as the principal would like to spend more time with his family and less time dealing with admin. He would be happy to stay on post completion to enjoy clinical work. The practice has been established for more than 50 years and is being sold as leasehold with a new 20-year lease put in place earlier this year.

Practice financials: the gross fee income from the management information for the past 12 months is in the region of £450,000 and is 72% private income and 28% NHS-GDS with a UDA value of £29.50 per UDA. The gross has been generated by the principal working three days a week, four associate working a combined 14 days a week, and a hygienist working two days a week. The clinical team is supported by full-time practice manager/receptionist, one part-time receptionists, and four part-time dental nurses.

Price achieved: £850,000, in excess of the asking price.

Agent's comments: the reconstituted profit on this practice was 38%, with additional profits available should the incoming principal want to work full-time in the practice. This practice proved to be very popular with buyers and, as the seller wants to stay on, he was able to choose a buyer that he felt he would work well with.

PRACTICE ONE - SUSSEX

Practice type: this practice occupies a prominent shop-fronted, two-storey building, which is very well presented with excellent foot fall and great transport links.

This is a two surgery, predominantly NHS practice that has been established for more than 50 years. It is being sold to release the principal from practice ownership as he has a strong desire to purely enjoy his clinical work. This is being sold as leasehold and a new 20-year lease is being created.

Practice financials: the gross fee income from the management information for the past 12 months is in the region of £350,000 and is derived from 66% of NHS income with a UDA value of £25.60 and 34% fee per item. The gross has been generated by the principal working four days a week, and an associate working three days, and a hygienist working one day a week. The clinical team is supported by a full-time receptionist and three part-time nurses.

Price achieved: £475,000, in line with the asking price.

Agent's comments: this practice shows a solid reconstituted net profit of 52%, which is a significant driver for any incoming principal. Interestingly, the practice has benefited from an influx of new patients who have discovered a new way of life while working from home alongside many who have relocated, which is reflected in the growth in the private work that has developed since June 2020.

PRACTICE TWO - HOME COUNTIES

Practice type: this practice occupies the ground floor of a two-storey building, close to an active shopping area and residential homes. It is a three surgery, mixed practice that has been established over three years, and is being sold to facilitate the retirement of the current principal and is leasehold with a new 20-year lease being created.

Practice financials: the gross fee income from the management information for the past 12 months is in the region of £320,000 and is 63% private income and 37% NHS-GDS with a UDA value of £25.60 per UDA. The gross has been generated by the principal working three days a week, two associates working a combined three-day week, a hygienist working two days a week. The clinical team is supported by a full-time practice manager, three full-time receptionists/dental nurses.

Price achieved: £730,000, in excess of the full asking price.

Agent's comments: this practice shows a healthy reconstituted profit of 34% and like 97% of all of our practices our value has been supported by an independent bank valuation, a statistic that provides great comfort to our sellers who do not want to deal with price reduction once a sale is agreed. The incoming principal wants to focus on converting the fee per item to a capitation scheme, and having seen the loyalty of most patients during COVID who were on a capitation scheme who can blame them?

