Calculating financial realities

Richard Lishman, principal of money4dentists, explores the options of raising money if you want to buy a practice, bearing in mind the current economic climate.

There are as many financial challenges for dentists looking to go private as there are opportunities. These are often compounded by the reality that whilst the majority of dentists are excellent physicians, they may have limited financial experience.

Any dentist who wants to buy a practice or who wishes to join an existing practice as an associate or buy in as a partner, should study the historic performance carefully.

Although the acquisition price of a practice can vary significantly, it’s not unusual for the purchase price to be upwards of £400,000 to £500,000. In appropriate cases, this can be addressed either through a 10 per cent bank loan or a combination of bank loan and other financial sources.

Your business plan

To confirm viability, it is important that the acquiring dentist consolidates their understanding in a suitable business plan. Core elements in this plan include:

1. The sales particulars of the business in question
   a. What the practice is costing to buy and/or refurbish
   b. What are the reasons behind the sale
2. Three years’ historic accounts for the business in question
3. Forecasts and narrative for the next few years
4. Some background on the acquiring dentist’s own personal accounts:
   a. Are they a high earner?
   b. How long has the dentist been practicing?

Your personal account perspective can be easily identified as part of the ‘Asset Liability’ or Income and Expenditure analysis, which helps clients review where they are financially. This ‘snapshot’ can demonstrate the sound platform off which the dentist seeks to build. Dentists can either prepare this statement themselves or their Independent Financial Adviser (IFA) can help facilitate this with appropriate forms, which can be completed with ease.

Generally speaking a bank will lend to a practice against a combination of the freehold property value, the practice’s ‘goodwill’ and its fixtures and fittings, so personal investment is not always necessary. It’s vital that their IFA negotiates the best terms with all the specialist lenders.

Other key elements to feature in the business plan would include:

• What do you want to achieve with the practice? What steps do you need to take to make your practice as efficient as possible?

• Are you going to achieve these goals?
• What will you need to set-up, refurbish, upgrade or purchase in order to realise this and how much will this cost?

This then needs to be supported with financials including cash flow, profits and loss and balance sheet forecasts. How do these fit into your forecasts?

• Where are your future patients going to come from?
• Can you acquire more commitment from the PCP?

Will you be looking to convert them from the NHS to private plans or are they planning ‘local marketing initiatives’?

• How are you going to differentiate your practice?

• Will you be offering cosmetic surgery such as Botox or Implantology in addition to day-to-day dental services?

• Who will be working with you? Other associates? What specialties do they offer? Will you employ a specialist to attract different types of patients to complement the practice and receive referrals?

• How will your practice be different from the competition?

What will set you apart?

• Last but not least, proof that you are a registered dentist. This can be easily achieved by citing your registration number within the business plan.

Developing a robust business plan will often throw up new challenges and opportunities that you had not considered before. However, you can work through these with your professional advisers to find a bespoke financial solution to each one.

Calculating financial realities

Once you have developed a business plan, you will need to consider whether your funding request is financially viable.

Typically a bank will lend money against both the practice’s freehold – often up to 100 per cent of the value – or as much as 70 per cent (or possibly more in London and the South East) of the practice’s existing turnover.

You need to ensure that you build into your calculations not only the interest costs, but also other key factors like your own salary and capital costs.

An example

• Assuming 100 per cent finance on a purchase of £500,000
• Twenty-year period
• Capital and interest payable from day one
• Monthly payments of approximately £3,058.81 per month or £36,465.72 per annum
• Interest only in year one would be around £19,500.

Add to the monthly payment a sum equal to the gross income for a current associate of say £75,000.00 gross, then from year one the practice needs some £115,000 (excluding tax implications) on the bottom line to cover its commitments without discomfort.

As such, dentists should look realistically at the value of the practice balanced by the return on the investment it offers.

Management of income generation together with cost control through great teamwork and understanding within the practice will be vital to making the success the dentist seeks.

Let’s look at the structure

The structure of the facilities the banks will provide to meet a successful funding application will depend entirely upon your individual circumstances. Typically, such dentists will come to us with a global sum that they need to raise.

We will analyse the case to see if the banks can provide this funding with a capital loan for a prescriptive period. Small overdrafts may also be provided to help cover any emergencies in the practice’s cash flow, and have a ready work with specialist-equipment providers when required.

One of the unknowns in any business is future interest-rate movements. To mitigate against possible rates, you should consider the options around variable rate and fixed rate at the outset.

An increasing number of clients are setting up their own bespoke payment schemes that complement their practices, and a number are introducing these schemes, which are essentially a hybrid they are developing in house on the basis of cost savings.

This approach does require the frontline specialist to be knowledgeable about the available options around variable rate and fixed rate at the outset.

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This approach does require the upfront purchase of specialist billing software as well as bank approval to underwrite the direct debit patient payments.

A professional team

We recommend you work with specialist advisers including accountants and solicitors that are members of particular associations such as NASDA (National Association of Specialist Dental Accountants) or ASDP (Association of Specialist Providers to Dentists) as they have a detailed day-to-day knowledge of the intricacies of the dental world. They will be able to share their vast experience and knowledge in this area, which in turn will save you time and money.

Work with specialist independent valuers to evaluate freeholds as they have their finger on the pulse of the dental marketplace and can accurately assess goodwill, equipment, fixtures and fittings. They will also ensure you are not paying over the odds.

In order to secure the best possible funding targeted to your specific requirements, you should also ensure that you look to establish a solid partnership with a bank that has its own specialist healthcare managers who can provide a creative and effective response to your requirements.

You should look at what the banks offer regarding flexibility in its financial structures, allowing you to fix rates to create some security around initial repayments. You can do this yourself, but whilst the majority of dentists may have modest financial expertise, it will be a relief to learn that there are specialist independent financial advisers available to do all the work for you, whilst guaranteeing to provide you with the best overall deal available.

About the author

Richard Lishman is a partner in Money 4 Dentists, a member of the The Association of Specialist Providers to Dentists (ASPD). ASPD members offer professional, objective and practical advice and services, based on experience within the industry, to dental practices and other businesses within the dental sector. ASPD members include solicitors, accountants, banks, financial advisers, valuers and sales agencies, insurance brokers and leasing and finance companies. For more information on the ASPD please call 0800 458 6773 or visit www.aspdp.co.uk

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