Who said private practices weren’t selling?

I visit a lot of practices and also do a lot of seminars with dentists and commonly I come across a number of what I can only define as myths about the buying and selling of dental practices so I thought I’d restore some confidence in the private principal that ultimately their business does hold a good value and in my opinion will do for some time!

There is no secret that when it comes to buying and selling NHS dental practices they are proverbial hotcakes but I believe this has led many to believe that private practices aren’t selling which simply isn’t the case. So, let’s get the facts straight:

1. Proportionally, they don’t sell for the same prices – This is true depending what measure you use for valuation. If you are valuing in EBITDA terms there is a difference of 25% between the valuations. Eg., an NHS Practice in Cambridge with a £400k turnover would likely collect 5.4xEBITDA. An similarly sized and located private practice would probably be nearer to 4.5xEBITDA. Although if you are using turnover as a measure of practice value this is often misleading as if the private practice is managed efficiently could actually be more profitable, see my article What the EBIT? (DITUK Vol.3 No.11)

2. There is a direct relationship between risk and price – If the practice is an implant referral practice where there is a reliance on external referrals and the average spend per patient head is higher then this will value for a lower multiple than a practice with a large maintenance plan contingent where a lot of income is paid to the practice on a monthly basis by direct debit and the cash flow is more predictable.

3. The more confidence you can give a purchaser, the better the deal will be – a lot of this does of course rely of the abilities of your broker but I do notice a big difference between how a private practice is received to market if the vendor is nearer to 65 than 45. Equally if the vendor is happy to stay on for a period to ensure a smooth transition then this does undoubtedly give the proposed purchaser a confidence to move ahead with the acquisition if the Status Quo can be maintained beyond sale for at least enough time for the core attendees to come along to their check-up under the new management.

I also thought it may be helpful to qualify these findings with an outline of three recent practices which have both a deal and finance agreed to give you an indicator on what is actually being achieved for private practices in the market place.

One – South-East – 100 per cent Private

T/Over – £350k, Agreed Price £590k

A very young business in South-East England which offered the purchaser a steady low-price private business from which profitability could easily be improved and the turnover grown over a period of time. Vendor agreed to remain in post for six months beyond completion.

Two – South-Coast – 100 per cent Private

T/Over – £260k, Agreed Price £500k

A reasonably mature dental business where the Principal had begun working less and therefore the turnover had been declining. There was circa 70 patients registered to a Dental Plan but otherwise the practice was all fee per item. Marketed by two other known dental agents for six months but a deal struck by Dental Elite within three weeks. The vendor took a lower offer in order to have a guaranteed associate post for at least one year working one day a week.

Three – East – 70 per cent Private

T/Over – c£1.15m, Agreed Price £1.1m

A mature business with little room for growth where there was some NHS but this was largely performed by NHS associates as opposed to all dentists working on a mixed basis. Just over £10k per calendar month in income from a dental plan but otherwise the private income was fee per item. The principal has by choice agreed to remain in post for 12 months beyond completion. This practice could have got a higher price and was valued for more but the vendor chose to sell to an elite buyer on a reasonably closed market and made this decision based on the personality and ethics of the buyer.

Similarly, all of these deals are being financed by different banks so it is equally untrue that all the banks want is NHS. If a purchaser can put together a sound proposition both for maintaining and growing the proposed target then if the CV of the dentist is right they will lend just as easily on private practice as to NHS!

If you are considering buying or selling a dental practice, come and see me at Stand A32 at the BDA Conference or call me on 01788 545900.

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Dental Elite are a Practice Sales & Recruitment Agency with a nationwide remit. We offer all Principal Dentists a complimentary on-site practice healthcheck with no strings. The healthcheck includes a valuation of the practice and a report detailing the basis for this valuation and some suggestions how this could be improved.