Practice finance made simple
Becki Barnett details finance issues

S o things are looking up if you listen to the news and the papers, although on the ground some worry that the resilience to spend is still there. Our practice sales team are still going into practices who say that they haven't been materially affected the patient books are still a little quieter than they were and patients continue to postpone treatment and are through not having the money but through fear of not having it!

However, from a practice finance perspective in honesty the ground hasn't really moved in the last two years. We have an exiting new entrant in the market with a further two banks who aren't active in the market at the moment in the crux of writing new credit policies to offer lending to dentists, but talk is talk and actually drawing down money is something entirely different. The new entrant openly admit to being more expensive but seek to compete on the grounds of being a different service offering and more informed credit team which is undoubtedly a draw given some of the big names' reputation. However, the days of 1 per cent above base are still sat in the past alongside petrol at 69p a litre!

I tend to find that when first approached by prospective buyers, they are in the main inquisitive about how much money they will be allowed to borrow and at what interest rate. Although these are difficult questions to answer specifically and lending decisions are based fundamentally on the target practice(ies) so we enter a chicken and egg style scenario.

However, with the average goodwill and equipment transaction value on Dental Elite's rostrum being £495,048 it is becoming more challenging for first time buyers as popular practices now rarely trade for less than £450,000. However, there are a number of government schemes, pro-active healthcare managers and ambitious banks who will often find a way to make a deal work if it is presented in the right way:

• Presentation is key: when you are presented with a set of accounts for a practice everyone knows that these accounts have been subject to some marking up to mitigate the annual sum paid to George Osborne! Motor Expenses / Spouse’s Salaries, I'm not even going to start here, ten are there other more discrete tax efficiencies hidden within the accounts and you shouldn't rely on your Bank Manager to find these to make your proposal attractive to credit. If you want the practice we are going to have to demonstrate to the lenders that this deal works and that it is a good business with a good profit margin. Further if you are going to add additional services or reduce overheads in the business to improve the bottom line, build it into a cash flow forecast and a supporting business plan if appropriate.

• Be Comfortable with the Target Practice: Two of the modal lenders in the sector instruct a chartered valuation as a matter of course which seeks to confirm your offer for the practice. Eight times out of ten this valuation will come in at the level you have offered for the practice but there are occasions, especially on very popular practices that the value comes in below that, that you have offered. Whilst we work with the valuers to give them comparable data and background marketing information to support the value offered, amusingly it is a fairly frequent occurrence that the value doesn't marry up. Depending on the lender the amount of deposit required can vary from 5 per cent upwards but obviously the bigger the deposit the more options you have for lending. It is however worth thinking about how this will affect your loan offer? If you have been offered a loan on the basis of 80 per cent Loan-to-Value (LTV) then the 80 per cent will often be 80 per cent of the valuation reported, which can leave a funding gap that will either need to be addressed by re-negotiation with your target practice or by you putting in the extra funds to cover the gap. Therefore if you can stretch to 22 per cent of the Purchase Price in your own funds this will make you a far better prospect for a lender than if you are scraping together the 20 per cent!

• Do not be afraid to challenge the valuation if you feel it inaccurate: we have just had successfully contested a valuation that came in £200,000 below the offer price. Whilst, we weren't able to make all of the gap up, we did get considerably nearer which was enough to make the deal work for buyer and seller alike.

• Be savvy about use of the Enterprise Finance Guarantee Scheme (EFG): The EFG is a great scheme that encourages banks to have a greater appetite than perhaps their credit teams would otherwise have had. However it is a reasonably expensive scheme as it carries a 2 per cent per annum interest premium which is payable quarterly. This expense of using an EFG bank have a habit of quoting their interest rate plus the EFG Premium, which means that the 5.6 per cent above base rate is actually 5.6 per cent above base for the component that is in the EFG Scheme.

We are finding this is the biggest area than can be negotiated with the banks as encouraging them to take an extra £100,000 risk themselves makes a considerable difference to your annual repayments and we are finding that if left un-debated the managers will divert to using the EFG Scheme by default without considering whether it is prudent for the bank to take all the risk for at least some of the loan.

• Be prudent with who you approach and when: if you approach NatWest and they submit a proposal to credit this will prohibit negotiations with RBS for a period of time but it may have been a deal that is better suited to the RBS team. Additionally, there are vast differences in the commercial attitudes of different personnel within a bank and you will want to work with someone who has a ‘can-do’ attitude. All too often I have known of buyers who have had their proposal knocked back before credit only for the same deal to go through with another buyer with the same bank who actually has a weaker proposition. However, once you have given a proposal to one Healthcare Manager it is difficult to change that manager whereas we cherry-pick the people we know want to make a deal work at all of the banks we work with.

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