Timing is everything when selling your practice
Martyn Bradshaw explains why the timing of your practice sale is key

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Money Matters

tten principals approaching retirement by reducing their workload in the years prior to the sale of their practice. Nice idea, but the winding down period can hurt your pocket twofold, with reduced income and reduced sale proceeds.

NHS practices
Although your practice will have a regular income from your NHS contract it is important to ensure that the UDA target is met, otherwise you risk the possibility that the NHS contract is reduced, especially where there has been a shortfall year on year. As the NHS contract is unlikely to be reinstated this could arguably be more of a concern than just a dip in your income before retirement.

Private practices
Purchasers (and their lenders) are likely to only pay a price based on the valuation at the time of the sale. Where there has been a reduction in income in the years running up to the sale, crucially purchasers will consider the final year as a basis. There may also be concerns if where the trend illustrates reducing income, especially in the current economic climate. This may lead a purchaser to offer a lower price and/or put more strenuous clauses in the sale/purchase contract.

Valuations
The valuation methods used commonly take into account the income levels of the practice whether by turnover or a multiple of the profitability. A reduction in turnover will clearly have a direct impact on any valuation based on turnover. However the more commonly used calculation, now based on a multiple of the profit (known as EBITDA), will be impacted upon even more so, by reduced fee income. This is because overheads are generally fixed. The end result is that (lower) profitability is multiplied to give reduced fee income. This is because profitability is multiplied to give reduced sale proceeds.

What are your options?
If you are seeking to reduce your workload then there are a number of options to ring-fence the value in your practice.

• Employing associates to undertake the proportion of your output you wish to reduce, is one of the most common and preferred routes. This helps keep turnover at the same value. Although profitability will dip due to the cost of the associate this can be ‘added back’ when assessing the practice for sale; i.e. your purchaser can assess profitability without this associate in situ. Great care needs to be taken when negotiating the split of income here. A note of warning – a newly qualified associate may not produce the same level of gross fees as you do within the same timescale and this should be monitored very carefully.

• Sell earlier than intended. Where your practice is a multi-chair practice we experience more dentists selling their practice a few years prior to retirement and continuing on as an associate. This allows you to continue undertaking the dentistry but lose the administrative burden. Your sale contract can include the requirement to keep you on as an associate. It also ensures that the sale price achieved is based on the gross fees before you start reducing your hours. Flexible retirement is now a well trodden path.

It is encouraging that practices we bring to market often have a sale agreed in a very short space of time however the legal work takes on average six months from start to finish. In summary, if you are contemplating retirement early planning is required.