Buying a dental practice – everything you need to know

In the second of his series on buying a practice, Jon Drysdale considers the critical issues of where to look and how to assess its value.

Much like purchasing a house, often the hardest part of buying a practice is finding one that is suitable. The mantra ‘location, location, location’ isn’t necessarily as important as with house buying because you’re not going to live there and don’t need to consider such things as where your children will go to school.

I find most dentists know the broad geographical area they’re considering. Not all regions offer the same availability of practices so the larger the area you’ll consider, the greater your likely choice.

Town or country? Our experience of selling dental practices tells us that city centre practices and those close to large centres of population are in high demand. There are a variety of reasons for this not least because highly populated areas attract large numbers of dentists and competition for practices can be fierce. Also, corporate bodies tend to favour having practices in close proximity for the sake of efficiency (transfer of staff, ease of visiting etc) and this is usually only possible in large conurbations.

It doesn’t necessarily follow that city centre practices are more profitable than rural ones. Dentists prepared to look slightly further afield than cities and large towns may be rewarded by finding a practice which is great value for money and turns a good profit. Where you live in relation to the practice is a consideration. A commute of up to an hour each way is probably the limit for most dentists – after all dentistry is a demanding job, physically and mentally.

How to search? Wherever your desired practice location, it is worth registering with all the main dental practice agents to receive details of practices coming to market. Establishing your financial position with these agents is worthwhile in order that any offer you make is taken seriously. Preparing the groundwork for this is vital and part one of this series provided details on this.

Dental practice sales agents will usually provide a prospectus outlining the main financial aspects of the practice as well as details of turnover, equipment and location. An asking price for goodwill (usually including equipment) should be stated as should the price of purchasing any freehold property, if applicable. An asking price isn’t necessarily an accurate valuation, although it should be a realistic estimate of the eventual sale price. NHS practices in built
up areas often sell for more than the asking price due to competing buyers. In this situation the agent should set a closing date for offers.

Many practices are sold by word of mouth, so keep your ear to the ground with colleagues and friends. Often associates get first refusal on buying the practice they work at. This can be a good way to buy, although negotiations on price can be difficult between a principal and an associate or associates trying to maintain a working relationship.

How to value?
As mentioned, the asking price may be determined by the selling agent. Making your own assessment of the value of a practice can be difficult. The key element to this is profitability and not, as is often thought, the turnover. While asking prices are commonly expressed relative to the turnover (e.g. 100 per cent of turnover) this is not necessarily a meaningful way to arrive at a valuation. For example, two practices in similar locations with a similar turnover but different levels of profit are probably not worth the same.

A professional valuer (see www.aspd.co.uk) will be able to offer their assessment of the value having reviewed the financial information and equipment. For associates buying a practice where they already work, a jointly instructed valuation with the principal can be a good idea. However, the value here may be hard to dispute for either party, so this can work against you in some situations. Factors that increase or decrease the value of a practice tend not to be costs and are usually financial. For example a practice with private fee income from a capitiation scheme is likely to be valued higher than one with fee per item private income. Practices that are deemed to be overstaffed or those with a relatively high cost lease will find it harder to command the highest price.

What to offer?
You must view the practice before making an offer. This can be an important element in the vendor’s decision making process. Turn up on time, ask relevant questions and try to build a rapport in a professional manner.

Practice owners are unlikely to be impressed with an offer significantly (probably 10 per cent or more) lower than their stated asking price. For practices in popular locations this approach just won’t work. If the practice is being sold through an agent, remember the agent is acting for the vendor and not you the purchaser. Agents will take note of your credentials as a buyer including your financial position and discuss this with the practice owner.

If ‘best and final offers’ are requested this usually means there are multiple offers on the table and the practice is popular. Without stating the obvious, put your best offer forward, having first checked if it is financially viable. Don’t be too disheartened if you aren’t successful. The experience will be valuable and most dentists don’t buy the first practice they look at.

In part three of this series we will look at the different ownership options including partnerships and limited companies and the financial implications of each.

Author Bio
Jon Devadle is an Independent Financial Adviser for PFM Dental, specialising in arranging finance for dentists buying a practice. For further information on the issues covered in this article please contact PFM Dental on 0845 201 4480 or visit pfmdental.co.uk.

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