

Use tactics

Alan Suggett on the impact of corporate acquisition teams.

Corporate dental chains have shaken up the dental industry in many ways and one is the valuing, buying and selling of dental practices. When corporate acquisition teams, flush with investors' capital, start knocking on dental practice doors, a re-evaluation of dental practice values is inevitable.

Profitable practices should no longer base their goodwill valuations on a percentage of turnover but on practice profits. If your profits are high, sit down with an accountant who understands dentists and corporate finance, and estimate what your practice is worth to the corporate.

Work through an adjusted profits model for your practice and see what a valuation based on a reasonable profits multiple



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would look like. If this indicates that your practice is worth more than the usual percentage of fee income valuation, then be robust in your sale tactics.

For instance, I recently finalised the accounts for a National Health Service practice with fee income of approximately £2m and with a net profit of £650K based on the activities of a principal and several associates. The 'market' value of the practice is approximately £2m. But by adjusting the profit to reflect what the business would make if the principal was paid to carry out his work, profits would be reduced to £500K, and applying a profit multiplier of six, conventional in the wider commercial world, the value of the practice would be approximately £3m.

If your practice is worth more than the usual percentage of fee income valuation, then be robust in your sale tactics.

On the other hand, in a dental practice with modest profits, the dental business owner would be better off using the traditional system of valuing goodwill, a percentage of turnover (it seems everyone is trying to get 100 per cent, but the current average based on the most recent NASDA survey, is 85 per cent).

Until the generally accepted method of calculating dental goodwill changes, you should use either method, depending on which is advantageous to you. Just make sure you have a good advisor, a valuer who understands the dental profession and a trusted specialist accountant working on your behalf. ■

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