



DUE DILIGENCE

The seller's perspective

Following on from last month's article, **Luke Moore** continues a discussion on due diligence.

Selling a dental practice isn't always easy – in fact, it can be unequivocally complicated at times. The thing to remember, however, is that it doesn't necessarily have to be that way.

If you speak to past or present vendors about the selling process, they will most likely cite at least one of the following reasons as the source of their stress and the cause of unwanted delays. The

three most common complications are the CQC application, NHS contract transfer and due diligence – the latter of which is probably the greatest culprit of them all in causing disruptions to the transaction. The reason for this is, for the most part, the approach that is taken when collating the information – it is not, as some would believe, the accessibility of the documents themselves.

What is due diligence?

So what is due diligence and why does it have such a huge impact on the sale? Once the heads of terms have been agreed upon and signed by both parties and deposits have been made, due diligence takes place to review the financial, legal and commercial aspects of the business. For a vendor, that means preparing all

of the information that the buyer requires about both the business and the property – or lease if you are just selling the contract of the practice.

This serves a twofold purpose: for the buyer to fully assess the business from a legal and financial standpoint to confirm the value and viability of the practice, and to negotiate the terms of the sale. Due diligence is also an important part of the exchange of contracts. While in some ways it can prove to be most beneficial to the buyer, the transparency means that the sale can go through legitimately and correctly. That way, one can rest assured that nothing untoward will occur once the transaction is complete. If, however, information is concealed during the due diligence process, it leaves the vendor vulnerable to a breach of



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☛warranty claim and/or a claim of misrepresentation from the buyer.

The role of the vendor

Consequently, due diligence is a pivotal part of the sale. The role of the vendor and his or her advisers is also crucial to the success and timeliness of the sale, because when done well, it can hugely minimise both stress and delays.

The biggest mistake that vendors often make is underestimating the time and effort that goes into finding and putting the appropriate documents together. That is why it is always advisable to begin the compilation of information either before the practice is put on the market or immediately after.

Organising the relevant details can also be beneficial when visiting the solicitors, as it not only cuts down the amount of work that is required – which could also reduce the cost – but it minimises the chance of the buyer's solicitors having to request additional documents. While it is likely that they will ask a number of questions and make further

enquiries, it could potentially keep the toing and froing to a minimum – all in all, a win for everyone.

Key documents

Information is required about the practice, the property, equipment, employees, suppliers and goodwill, all of which should be put together in a folder, clearly labelled and organised so that they are easy to find. While it may sound obvious, planning is key.

On the practice, one simply needs to collect evidence of data protection registration, proof of CQC registration – including all correspondence, certificates and original application – and a copy of the practice's health and safety policy.

Information on the property itself, such as building regulations, copies of asbestos reports, cross contamination risk assessments, energy performance certificates and proof that the property is permitted to be used as a dental practice, are also needed in due diligence.

As for equipment, an inventory of all fixtures, fittings and equipment

that are being included in the sale of the practice should be put together, as well as notification of items that are subject to a hire purchase or lease agreement. Test certificates and maintenance contracts are crucial too.

In regard to employees, it is always prudent to collect information about vaccinations, GDC registration certificates, details about PAYE and NI and so on. Other documents that solicitors require include three years worth of accounts, a list of current patients and information about suppliers and goodwill.

Because of the potential problems that can occur during a sale, it is always wise to utilise the services of a sales and acquisitions agency such as Dental Elite. Not only can they advise you on the best ways to approach due diligence, but they can also recommend a top solicitor to represent you during the process. If you are looking to sell your practice and want to master due diligence, take action today.

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