

# Don't inflate or deflate

Paul Wilkinson explains why the right valuation can improve your chance of selling a practice.



In many ways, a practice valuation is very similar to the tale of Goldilocks and the Three Bears – it has to be ‘just right’. So, should you choose to go to market with a valuation that is inflated or deflated – in other words

over or under the usual market values – there’s the possibility that your practice might not do as well as it would have done at the right price.

With a deflated valuation the main risk is that your practice sells for a lesser price than it’s worth, which might be better for the buyer but is an injustice to you and all your hard work. In some instances, a lower start price can help to drive up the prices in an open bidding process, but there’s no guarantee with this so it’s always best to avoid a valuation that is below the true value of your practice. However, if the practice is brokered professionally the risks of a lower valuation are often hedged against by maximising

competition. On occasion a practice is sent to market at a lower price to maximise ‘the heat’ in a deal to create the best possible price.

For this reason there is arguably greater risk with an inflated valuation. Even if your practice is high in demand and in an area that has naturally higher values, try to steer clear of an agency that has provided you with an exaggerated valuation. The main reason being that if your practice is on the market for too much money you could seriously damage the value and reputation of your practice, as a lot of buyers won’t even entertain looking at it. If that were to happen and you then



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tried to reduce the asking price, it's quite likely that you still wouldn't gain the same sort of traction. Firstly, because potential buyers that might have been interested in your practice will likely have already taken their money elsewhere, but also because it makes people suspicious of your practice, and of your motives. It's hardly the best start to a relationship with a buyer; especially if their back is already up because they feel like you've got too high expectations and will be difficult to negotiate with.

Even if you do find a buyer willing to pay over and above market value, you've still got the risk that banks won't lend that amount. After all, banks will only lend against what they think the practice is worth, so if the independent valuation by the bank determines that the practice is worth less, the buyer will end up having to find the additional cash themselves. If that can't be done you then run the risk that the buyer will have to drop out of the sale, which puts you back at square one.

It is usually because of one of the two following reasons that a valuation is inflated, either the

vendor has a price fixed in their mind and isn't prepared to take any less, or the broker has overvalued to secure the business. If you have a number in your head that you're determined to get, make sure that it tallies with what the current market value is of similar practices, because you might find that you have to lower your expectations. There are plenty of market research and goodwill reports out there that can help you to get to grips on where your practice lies within the wider picture, and a quick search on the internet of similar practices for sale will soon give you an indication of what your practice is worth.

The other thing you can do to make sure that you come away with an accurate valuation is to ask the valuer for the methodology behind the report. You'll find that some agencies do this automatically. For instance, at Dental Elite we always provide a comprehensive report detailing the methodology behind the valuation and reasons behind the multiples applied, as well as comparable data where the information is available – though

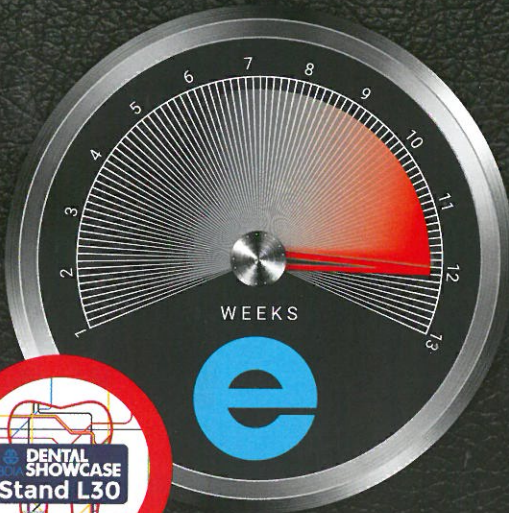
of course this isn't always possible. If they aren't able to back up your valuation with hard evidence you have to ask yourself how they managed to reach that conclusion – and whether they're the best brokers to be leading your sale.

Of course, if you do your homework on an agency well enough beforehand you can usually find out if they provide you with a comprehensive report. Some websites might even tell you what the report content will contain. Still, the best way to learn the truth about an agency's service is to look at customer reviews and testimonials from previous vendors.

The outcome of a practice sale might ultimately be about getting the deal over the line and having an agent that will take an active role, but the more reasonably priced you are the more attention you'll attract from the market. The key is to therefore strike a balance between having an accurate valuation and recruiting the services of a reliable broker to manage the transaction and achieve the optimal results on all aspects of the sale.

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