

# Could a FD Contract affect practice funding?

Here, co-founder of Dental Elite, Luke Moore, considers the impact that a Foundation Dentist Training (FD) contract can have on securing funding when buying a practice, and explains why using a specialist broker is essential to ensuring a successful outcome.

For those of you who are looking to buy your very own practice, you will no doubt be aware of both the many considerations that you must give thought to and the potential pitfalls that can occur. One element that you may not be aware of, however, is that if a practice holds or has a pending FD contract, securing the necessary funding from a lending bank will be much harder to obtain. Here's why:

When teaching practices receive a FD contract most only do so for a two-year period, during which it could be revoked if the trainer leaves or the principal might choose to terminate the agreement. As such, FD contracts are invariably considered to be an unstable source of income and cannot be regarded as guaranteed profit by lending banks – even if from a practice sales and acquisitions point of view there is clear value, which there usually is. It is worth pointing out, however, that the value of FD income is often somewhat less than regular business (i.e. the NHS contract) as a lower blended multiple is usually applied

(for instance, x3 rather than x7). Still, what's most important here is that whilst individual bank managers might agree that there is value and benefit in being a training practice, all banks will instruct their independent valuer to disregard this income when valuing on their behalf.

What you're left with is a valuation that looks massively overinflated, because a chunk of the turnover has been removed. Worse still, you'll often find that inexperienced bank valuers do not allow for some of the costs to reduce as a result of this loss of income which further impacts valuation.

This would be the case for all FD practices, regardless of whether or not you were a foundation trainer and could take over the contract. So if you were thinking of taking on a practice with a FD contract you would need to consider the financial ramifications. Mainly that you would possibly struggle to secure the same level of funding from a lender as there's a huge chunk of profit not included in their analysis.

That's no reason to be put off by FD practices though, because with the right steps it is possible to arrange the necessary finance and pass the bank's stress test for loan (a series of tests designed to ensure you could sustain your repayments). You just need the support of a broker that has a deep understanding of the minutiae of the practice finance and valuation processes, and extensive knowledge of working within the dental sector. At DE Finance we carry

out comprehensive affordability testing to assess your debt capacity and what you could feasibly afford, using our many years of experience to provide accurate, trustworthy calculations.

As part of this, the analysis of the practice is carried out in the same way a bank valuer would approach it – excluding the FD income. This provides a 'true' depiction of the practice's worth and helps to establish whether you could financially cover the loss of value from the practice's valuation once the FD income has been deducted. That way we can determine for certain whether it is a viable venture. Though obviously when we present the valuation to the banks the FD income is included, but in the knowledge that they will remove the value immediately.

This preparedness means that there are fewer surprises when the bank provides their results and decision regarding whether they will approve the funding. It also saves you valuable time and effort in bidding for practices that are beyond your affordability, allowing you to focus your energy on more viable ventures. Just remember, that if you do plan on purchasing a practice with a FD contract, be prepared to potentially have to either put down a much bigger deposit or ascertain more security against the business to bridge the gap on the difference. Still, at least you get the profits from the FD contract at the end of it!

Buying a practice and securing finance can be complex at the best of times, let



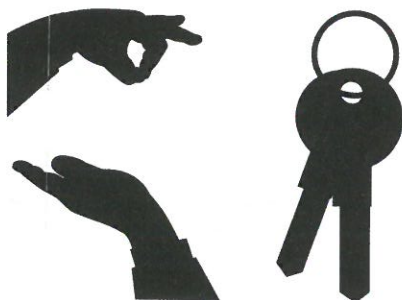
alone when there's a FD contract involved. To make sure you're fully informed and prepared for the challenges, be sure to contact an experienced specialist broker like DE Finance who will be able to navigate you through the process from beginning to end.

For more information contact DE Finance. Visit [www.dentalelite.co.uk](http://www.dentalelite.co.uk), email [finance@dentalelite.co.uk](mailto:finance@dentalelite.co.uk) or call 01788 545 900.

## About the author

**Luke Moore is one of the Founders and Directors of Dental Elite and has overseen well in excess of 750 practice sales and valuations.**

**With over 11 years working in the dental industry, Luke has extensive knowledge in both dental practice transfers and recruitment and understands the complexities of NHS and Private practices.**



## January

22

**The Probe Webinars: Harry Singh - What can a Level 7 qualification in aesthetic medicine do for you?**

19:00 - 20:00

[www.the-probe.co.uk/webinars](http://www.the-probe.co.uk/webinars)

Free

For more info, contact Michelle on 07961 026682

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**Handling complaints and managing difficult patients**

10:00-16.30

64 Wimpole Street, LONDON

Dental Care Professional: £95.00

Essential Member: £150.00

Expert Member: £150.00

Extra Member: £150.00

Senior member: £150.00

Non member: £195.00

Student member: £150.00

<https://bda.org/events/handling-complaints-and-managing-difficult-patients>

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**NHS Dental Procurement Conference**

9:00-16:00

Shendish Manor, HERTFORDSHIRE

Members rate: £150+VAT per person

Non-Members rate: £200+VAT per person

<https://www.eventbrite.com/e/nhs-dental-procurement-conference-tickets-53724131323>

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**The Probe Webinars: Harry Singh - What can a Level 7 qualification in aesthetic medicine do for you?**

19:00 - 20:00

[www.the-probe.co.uk/webinars](http://www.the-probe.co.uk/webinars)

Free

For more info, contact Michelle on 07961 026682

## February

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**Hospital Dental Services Study Day**

10:15-16:15

64 Wimpole Street, LONDON

Free

<https://bda.org/events/national/Pages/hospital-dental-services-study-day-wednesday-6-february-2019.aspx>

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**The Probe Webinars: Harry Singh - What can a Level 7 qualification in aesthetic medicine do for you?**

13:00- 14:00

[www.the-probe.co.uk/webinars](http://www.the-probe.co.uk/webinars)

Free

For more info, contact Michelle on 07961 026682

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**How do I get into dentistry?**

09:30 to 16:00

64 Wimpole Street, LONDON

Price: £95

<https://www.eventbrite.co.uk/e/how-do-i-get-into-dentistry-tickets-489470218607a?aff=ebdssbdstsearch>

22

**Compromised teeth and failing restorations**

09:00 - 16:40

64 Wimpole Street, LONDON

Dental Care Professional: £145.00

Essential member: £245.00

Expert member: £245.00

Extra member: £245.00

Senior member: £245.00

Non member: £335.00

Student member: £245.00

For more info, call Merete Ficken on 020 7563 4590

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