

# PROFESSIONAL DENTISTRY

Uniting the Profession

## Possible pitfalls of a practice sale

There is a huge number of possible pitfalls that could delay or otherwise inhibit the sale or acquisition of a dental practice. The entire list of possibilities cannot be properly explored in a single article, but here is an overview of the most common challenges buyers and sellers should be aware of...



### Accounts

A key aspect of any practice sale or acquisition is the money. If the accounts are in disarray, difficult to read or incomplete, then purchasers may – quite rightly – be apprehensive about proceeding. Similarly, if the accounts have to be restated at any point during a transaction, without a well-explained reason, this could suggest poor management and might also be a cause for concern. In addition, this could affect the value of the practice, as any significant changes in profit margin would influence the EBITDA and therefore the asking price.

Other areas that need to be thoroughly prepared by vendors and carefully looked into by purchasers are remuneration trusts with the potential to be investigated for tax avoidance in the future; on-going liabilities with regards to limited companies; and appropriate entities named on relevant contracts. All accounts should be up-to-date and well managed, and marketing activities should be continued in order to maintain a healthy patient base and steady income.

### Process

The process of transferring a dental practice between owners can be a long and tedious one, so organisation is once again key on behalf of the vendor. Commencing communications with third party landlords about lease extensions is necessary well ahead of time – as is contacting the LAT with any queries and starting the CQC

application – as none of these parties are likely to do anything in a rush. It is also important that both buyer and vendor work with professionals who have expert knowledge of the dental industry – this is especially true of solicitors and accountants, who need to understand the NHS contract, amongst other dental elements, to facilitate a smooth transaction. You then need an agent you can trust to follow up with all solicitors involved (including the banks) to ensure that everything is processed in a timely fashion. Anecdotally, we find that beyond the 6-9 month mark, a deal can become fatigued and far more likely to fail.

## **Valuations**

One of the most important aspects of a valuation is the justification behind it. So often a vendor is simply given a figure, but – when questioned by a potential buyer or bank – it does not stand up against scrutiny. At Dental Elite, we will always provide the reasoning and calculations used to reach the valuation provided, which can be used to support bank valuations later on in the process.

It's also crucial for the vendor to really understand their business and their books, as any significant change in income during the sale process could have a detrimental impact on a transaction. For example, principals may wish to slow down in the run-up to their retirement, but this could affect the business' profitability and consequently its valuation price, creating opportunities for the purchaser to negotiate.

## **The NHS**

Existing NHS contract breach notices or underperformance could both affect the value of the practice. Equally, open investigations could delay the transaction significantly and LAT disputes could make the sale process very awkward. It's vital to make sure that the correct entities are being dealt with and the NHS contract is owned by the business being sold / bought and not an individual within the practice. Plus, any upcoming end dates in the NHS contract could affect the appeal of a practice to a buyer and should be checked.

## **Property**

Once again, the property itself can throw up all sorts of issues during a practice sale. A short lease length, property defects and risk of asbestos can all influence a purchaser's ability to secure funding. Where the EPC (Energy Performance Certificate) rates below the 'E' grade threshold, the building legally needs to be modified prior to a sale. It is also necessary to check that the Land Registry reflects reality and that any land used to access the property is included within the official lease to avoid any future access disputes.

Another major aspect related to property is the dilaps / schedules of condition. When working with a third party landlord, there is usually a clause that states the property must be left in a similar condition once eventually vacated. More common among corporate buyers but available to all, the building may be surveyed prior to purchase so either defects can be addressed or agreement can be reached regarding the current state of the property. This can protect the purchaser from incurring additional costs if and when they leave the building in the future, as they could otherwise be required to make good in areas that were not their doing in the first place.

## **Staff**

The life and soul of any dental practice, members of staff leaving mid transaction can be a concern. Generally, as long as the changes are managed effectively with like-for-like replacements, the sale can continue smoothly. It is essential to check contracts are present and up-to-date for all members of staff – including both clinical and supportive. These should include appropriate binding out clauses that could be effectively enforced and make clear the individual's employment status. It's also important to ensure that the number of staff working and their wages reflect the market averages for the area.

## **Post completion**

Even once you've got through all of the above, there are still a few areas that can come unstuck during the very final stages. In the run up to completion, it's crucial to make sure that the past and new principal can actually work together, if that is the arrangement. Everything should be put in writing so that neither party has an opportunity to move the goalposts post-completion and both are protected.

Ultimately, though, the importance of working with professionals who really understand the dental profession and who work in very transparent ways, cannot be stressed enough for a smooth transaction! Only with expert support and careful preparations will a practice change hands successfully.

**For more information on Dental Elite visit [www.dentalelite.co.uk](http://www.dentalelite.co.uk), email [info@dentalelite.co.uk](mailto:info@dentalelite.co.uk) or call 01788 545 900**