

The value of a prototype practice

Among the many ongoing conversations surrounding dentistry right now is the topic of NHS contract reform. The process was initially introduced as a way of improving access to affordable oral health care and promoting prevention. Those who have participated in the process with pilots, and now the prototype systems, have had mixed experiences. However, for any principals currently operating the prototypes and thinking of selling, there are several benefits to be had.

The system

As you will likely know, there are more than 100 practices testing the prototype, which utilises a combination of capitation and non-capitated activity as part of its remuneration system. One of the latest developments enables practices to exchange units of non-capitated activity for additional patients, designed to help improve 'access' – a key buzzword in the dental politics scene.

On the whole, feedback seems to be positive as the programme evolves, though there are still a few creases that need ironing out. Many practices find the possibility of delivering fewer 'UDAs' (or the equivalent of), while maintaining the same size or even growing their patient base, complements the provision of private services. With a lower activity target there is more opportunity and time to provide patients with a wider choice of treatments and grow the private revenue of the business.

For example, a dentist we came across in the North of England was previously operating with an NHS contract that valued

UDAs at around £22 – for him, this made the contract totally unprofitable. On the new prototype system, the cost of delivering the contract is considerably lower, making it a viable option for businesses. The remuneration model he adopted was similar to that of a salaried dentist, incentivising and providing the opportunity for professionals to offer more private work where they want to. The NHS output is easier to manage with a lower level of activity. This frees up the dentist's time to provide more white fillings or crowns for patients seeking such treatment – before, they would have had to concentrate on delivering UDAs to hit the NHS contract target.

In addition, meeting patients' expectations by offering treatments beyond essential NHS services will enhance patient satisfaction. The resulting word-of-mouth promotion can help to bring more patients into the practice, whether on a NHS or private basis, and the circle is complete.

Impact on practice value

The ability to provide more private services and increase revenue also boosts profits and, consequently, the value of the practice. The lower cost of delivery in these examples further improves the numbers and benefits any principals who consider selling.

For example, the costs of delivering private dentistry involve only materials, lab bills and paying the dentists. Say a practice increases its private revenue by £50k. That would give a 33.8p increase per £1 in EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) for the average dental practice beyond the fixed cost base. When

you do the maths, that equates to £16,900 in addition to EBITDA. Using the average EBITDA multiple from our recent goodwill survey of 7.60p this provides an increase of £128,440 in the valuation of the practice.

This is clearly a significant rise in value, demonstrating a potential benefit of the latest prototype system for practices. It also shows what might be possible for individuals and businesses when they are less pressurised by the NHS contract. They have more time to promote preventive measures and to offer greater treatment choice with the potential for more private work.

A desirable trait

As a result of the potential we are currently seeing in prototype practices, they are becoming desirable businesses for many buyers. Particularly for those who are more politically aware, we have seen a growth in appetite for prototype practices among individual buyers and groups. Many are willing to pay a premium to acquire these businesses.

Further fuelling demand is a general sense that the prototypes are here to stay, which is hugely positive from an acquisitions point of view. If the current system or something similar is to become the reality for all, those practices already set up to operate the programme will be one step ahead. Think back to 2006 – practices that piloted the PDS system had fantastic UDA values of up to £28/29, while those not involved with the pilots didn't receive the same benefits. This makes practices with the prototype very attractive business perspectives as they are likely to do very well from any unilateral

contract variation.

For anyone thinking about buying a prototype practice, it's crucial to make sure that your bank manager understands the new contract. If they don't, they might calculate their valuation based on the old contract and this could make it very difficult to secure finances. By working with experts who know how to liaise with the banks, such as the team at Dental Elite, you can avoid this and many other possible complications.

Only time will tell

The current prototype system seems promising in terms of what NHS dentistry might look like for practice owners in the years to come. For many, it offers new opportunities to both deliver better patient care and maximise on business potential. Only time will tell how closely the final new contract resembles the existing programme.

For more information on Dental Elite visit www.dentalelite.co.uk, email info@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.



Should you get Private Medical Insurance?

Despite working to improve people's wellbeing, dentists are prone to a number of occupational health hazards. As such, it's definitely worth considering whether Private Medical Insurance (PMI) is a sensible option to explore and whether taking out one of these policies will benefit you in the long run.

The stresses and strains of your career

Dentistry is a high-risk profession. Indeed, the very nature of working closely with infectious bodily fluids such as blood and saliva means that dental professionals are courting the risk of contracting infectious diseases on a daily basis. The act of providing dental treatment is likely to result in contact with a mix of blood and saliva, and there are further risks to consider like needlestick injuries. These are particularly worrying as they can result in the direct transfer of dangerous diseases such as HIV and Hepatitis.

It's not just infections that dentists have to worry about; another highly common health complaint among dentists is musculoskeletal problems caused by a constantly stooped posture and prolonged standing up. Over time, these can develop into serious problems and have a heavy detriment on a professional's quality of life.

We also can't forget the mental impact that dentistry can have. Stress affects a huge proportion of dental professionals – in fact, it's thought that over half of dentists believe that stress is affecting their practice. Prolonged feelings of stress can be really

dangerous to people's wellbeing, and have been linked to all sorts of negative mental and physical health consequences including depression, anxiety, cardiovascular disorders and increased chances of stroke.

Although arguably less of a concern than the aforementioned threats, there are also health hazards attributed to radiation from X-rays, chemicals used in anaesthetic and mercury vapour, which can be produced from materials such as amalgam. In modern dentistry it is unlikely that any of these reasons are going to cause lasting health concerns, but it is something to consider as they are still risky parts of the profession.

What is Private Medical Insurance?

With so many potential threats in your line of work, it begs to reason that seeking medical insurance can be a beneficial move. PMI gives people the option to seek private medical care in addition to the services offered by the National Health Service (NHS). With PMI you will likely be able to have much shorter waiting times for treatment, have access to a much wider variety of specialist treatments and be able to benefit from increased medical resources.

When you take out a PMI policy, you will have to pay annual or monthly premiums much like any other insurance policy. These are always determined by your personal circumstances, and most will take into account your age, sex and medical history. They will also differ depending on the amount or type of cover you choose. These areas will

be reviewed on a yearly basis, meaning that the amount you pay for cover may change.

What does this type of insurance cover?

The first thing to remember about PMI is that it doesn't cover the same medical situations as NHS care. Medical emergencies are exempt, as are long-term conditions. The aim of this type of insurance is to help with straightforward, treatable conditions.

What health concerns are covered by your PMI insurance is heavily dependent on what type of policy you take out. For example, Standard PMI is the most comprehensive type of policy, and will cover the vast majority of treatable health conditions. Budget PMI is a cheaper alternative, but this does come with certain caveats. Cover can exclude treatment for certain conditions, limit payouts to a certain amount even if treatment would cost more and only cover a condition if the NHS cannot treat you within six weeks.

If you do have a pre-existing medical condition, this can hugely impact whether you will be accepted for this type of policy or not. Some insurance companies may offer a

'moratorium' type policy, which means that if you remain symptom-free of your condition for two years, you will be able to benefit from PMI.

Therefore, when you are choosing your policy, it's important to bear these in mind and avoid any policies that you think are not suitable for your needs.

Get advice

As with all insurance policies, it's vital that you only go ahead with PMI once you are comfortable that you know exactly what you are signing up for and that it is best for your individual circumstances.

Independent Financial Advisers such as the award-winning team at money4dentists will be able to steer you in the right direction and give you the advice you need to find a policy that suits your needs. As the team have years of experience helping dental professionals with this exact sort of enquiry, they can help you find the policy that is best for you.

For more information please call 0845 345 5060, email info@money4dentists.com or visit www.money4dentists.com ■

About the author

Richard Lishman co-founded money4dentists in the 90's – a multi award winning firm widely recognised as the leading specialist IFA to dentists. The professional services group offers dentists advice on legal, tax, consultancy, practice sales & acquisitions, recruitment, insurance and training.

As Group Managing Director and member of the Association of Specialist Providers to Dentists (ASPD), Richard lectures around the world, as well as contributing regularly to the dental press.

