THE PROBE

Selling your dental practice? Know your terms

FEATURED PRODUCTS PROMOTIONAL FEATURES

Posted by: The Probe 6th September 2020

Your dental practice has been up for sale, and you've received an offer. So far, so good. But be careful not to be tripped up by jargon which describes the offer, as different terms can lead to different outcomes. Here's a guide to some of the terms you might encounter.

Initial Consideration

Consideration is essentially the purchase price, so Initial Consideration will give you an 'initial' idea of what you will receive at the point of completion. See it as a starting point, as there will be adjustments, due to a number of reasons. For example, if you pay your landlord quarterly, but you're a month or so into that quarter when you complete, the purchaser will have to allow for rent that you have paid on their behalf.

In the UK, the majority of dental practices are sold on a debt/cash-free basis, hence the need for adjustments to Initial Consideration.

Additional/Deferred Consideration

These terms mean, broadly, the same thing. They refer to the pre-agreed sum or calculation for when you are going to receive additional payments linked to your practice sale, but *beyond* the completion date.

This sum is often associated with the maintenance of the revenue for the dental practice, or to the maintenance of the revenue plus any adjustment for inflation. So, it's performance linked. If a revenue target is missed, the sum will be reduced, and it is most commonly paid on a tapered basis.

You might find the terms Additional and Deferred Consideration used interchangeably; something called an Additional Consideration might actually be following the rules for Deferred Consideration. What is becoming increasing common is that Additional Consideration are successfully negotiated if profits/revenue increase post completion. Often, dental groups will water down the acquisition and therefore incentivise the principal to grow the business post-transaction, by agreeing to pay an extra multiple of the increased profits at a later date.

There's also something called an Embarrassment Clause. This is when the dental practice is sold for a lower price than its market rate, or when the buyer intends to re-sell quickly. The Embarrassment Clause ensures that, if re-sale occurs within the timeframe negotiated at a higher price then an additional sum is paid to the original vendor.

Equity

Not the same as Deferred Consideration, because you'll still have an investment in the practice, which – of course – could go down as well as up in value. You might have something written into the sales contract which stipulates if the practice under-performs post-completion, the value of your equity will be reduced.

But you could also increase your take-home amount, if you've got a percentage of the sale retained as equity and the value of this interest grows after the sale. With Deferred Consideration, this pay-out would often be capped. Be aware of any "sell and drag" clause that might be written into this kind of agreement. If the majority of shareholders seek a sale, as a minority shareholder you may be prevented from withholding your consent, which could have an impact on when your gain on the same in crystallised and the associated tax impact

Loan Notes

Loan or Vendor notes aren't particularly common, while borrowing money is cheap. But if your buyer can't quite afford your practice because it will exceed their bank debt capacity, you might decide to lend them the rest of the money. This **must** be declared to the bank, however. This money is not performance linked and it can be interest-free, or not.

If a group is in the early growth stage, is having trouble accessing debt funding, or doesn't want to, this might be the path they choose. Their core debt can then be used for other things. This is a loan that will have to be repaid by a certain time, regardless of how successfully the practice has performed.

Retentions

In dental practice deals, these aren't really the norm and should be resisted, if possible. They are a retention that has arisen due to a specific risk, or a cost that the purchaser has incurred post-completion, as a result of something uncovered during the diligence phase. One example is a tax investigation. What might be agreed is that a sum that reflects the potential cost of the risk, or impairment of goodwill, is held back from the completion funds and is not released until the matter is closed. The retention will then be split between buyer and seller, using computation that has been agreed previously.

For more advice on terms, work with a specialist consultancy that has experience with dental practice sales. Dental Elite has an expert team who will guide you through the process and will help you secure the best deal for you.

It's good preparation to have knowledge of the difference between key terms when you're embarking on a practice sale. You might not get all the consideration – in certain circumstances, such as if you do a lot of private work, it's likely you won't. So, get informed and secure the support of the experts too.

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.