



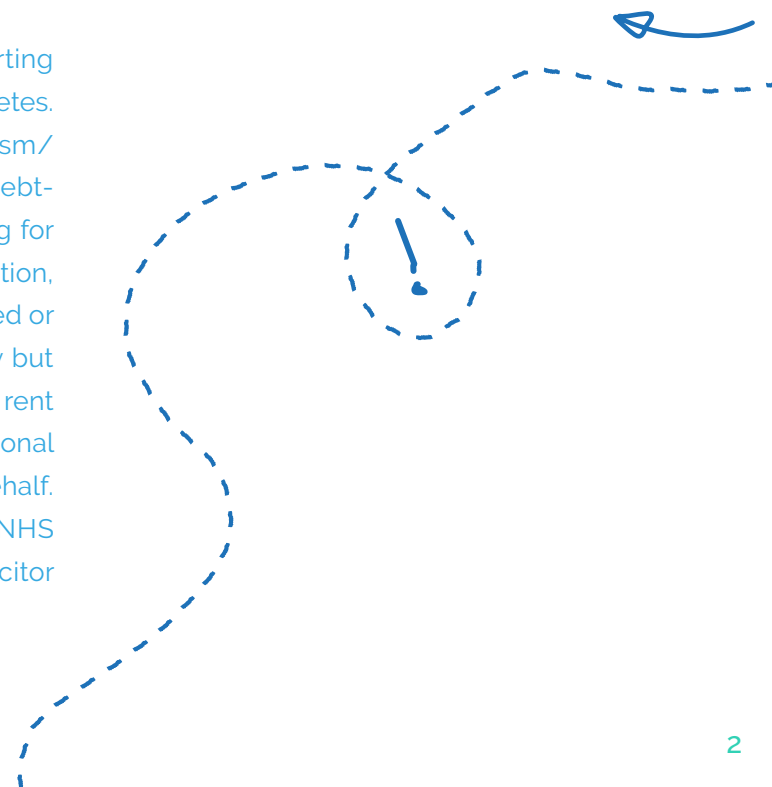
Practice Sales Guide

Types of Consideration

Additional Consideration, Deferred Consideration, Equity, Loan Notes and Retentions—what is the difference?

When selling your practice you may get an offer which gives you all of the consideration (purchase price) at the point of completion. However, if you have a larger practice where you are a major contributor to business income or you do a lot of the private work, then it is quite probable that you might not. With so many terms flying around, it's important to know the difference between them all, because they can all have very different outcomes.

Firstly, there is Initial Consideration and this is your starting point for what you will be paid on the day your sale completes. Even this will likely be subject to a completion mechanism/accounts, as nearly all dental practices are sold on a debt-free/cash-free basis. Therefore, if we say you are selling for £1,000,000 and you are being paid all of this on completion, then there will still be adjustments for items like rent owed or pre-paid. It may be that you pay your landlord quarterly but you complete one month into the quarter—assuming a rent of £6,000 a quarter, the purchaser will owe you an additional £4,000 to allow for the rent that you have paid on their behalf. Other adjustments could be made for under or over NHS delivery, patient pre-payments, insurance policies, solicitor fees or for a specific retention (see later in this guide).

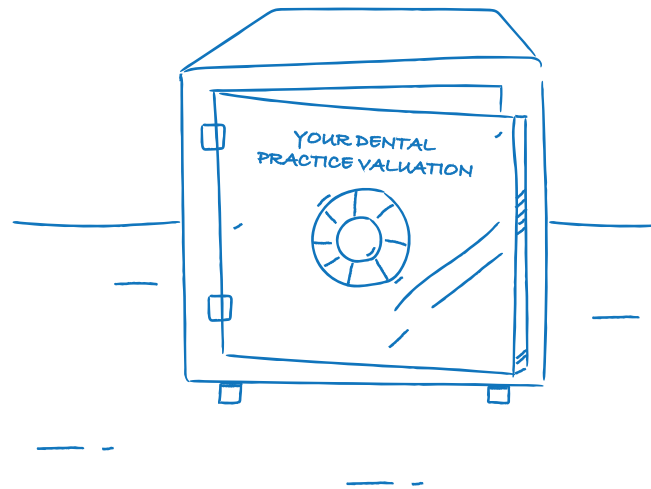


Additional / Deferred Consideration

These two terms are often used inter-changeably as they are broadly the same thing. Normally this is a pre-agreed sum or calculation for if you are to receive any additional payments linked to the sale of your practice beyond the initial completion date. These are often performance-linked and in dental practice sales they are most likely to be associated with the maintenance of the revenue or to the maintenance of the revenue plus adjustment for Inflation e.g. RPI. In the event that the target is missed, the sum paid is reduced, normally on a tapered basis, until it is agreed that you will not receive any of your deferred consideration.

Sometimes this may be worded as Additional Consideration but it actually follows the principles of deferred consideration as set out above. Sometimes we can negotiate an Additional Consideration if the practice's revenue or profits increase beyond completion (sometimes referred to as a ratchet offer). This is increasingly common in this sector, where some of the dental groups seek to water down their acquisition multiple by incentivising a principal to continue to grow the business post-completion by paying an additional multiple of increased profits at a later date. This can often work really well for dentists who want to lose the hassle of running the practice, but still want to benefit from the up-side of any business growth.

Alternatively, an Additional Consideration can be paid by means of an 'Embarrassment Clause'. This deals with where a practice may be sold at a lower price than the market rate, or where a buyer agrees a purchase but has full intention of re-selling the business in a relatively short space of time. This clause ensures that if a re-sale occurs within the negotiated timeframe, then an additional sum is paid.



Top Tip



Avoid cliff-edge structures when agreeing deferred consideration.



Despite previous practice sales, this was the first time I had experienced a bidding process—which was surprisingly interesting! For me as the seller, it was good as I achieved a much higher bidding price than the original valuation.

Dental Elite has a very good team—they were very helpful and supportive, and I am happy with the service I received. Considering the challenges of working with so many people, I think they did everything they could to influence the relationships and facilitate communications between all parties involved.



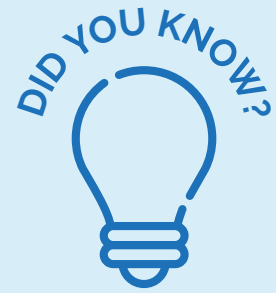
Dr. Ali Dargahi

Equity

Equity is different to deferred consideration because you still have 'skin in the game' and accordingly the value of your investment could go up or down. This can occur even if the performance of the practice maintains a good position, as it will depend on any number of outside factors and potentially the ability of the group to whom you are selling to run their business successfully. Similarly, there might be a mechanism written into the sale contract, as with deferred consideration, that reduces the value of your equity if your practice under-performs beyond completion.

This does potentially mean that if you agree to sell for £1million overall, but 20% of your £1million (£200,000) is retained as equity, you could increase your take home amount if the value of your interest grows in the years beyond sale. With deferred consideration, your payout would often be capped at the £200,000.

You should be aware of the likely sell and drag clauses that will be written into these kind of agreements, though. There will probably come a point where you can sell your equity back to the group or a third party at say five years, but if the Board of Directors seek a sale before or after this, then you may be able to withhold consent. This could have an impact not only on your perceived value of the investment, but also in your tax planning.



Additional Consideration is sometimes referred to as a ratchet offer, if the practice's revenue or profits increase beyond completion.

How do I get the best deal for my practice?



- ▶ A free Practice Healthcheck provides a full report on value, likely deal terms and potential areas of improvement
- ▶ You might not need an agent to sell your practice but you will to get the best price

We'll help you unlock the true value of your practice

Luke Moore
Specialist Practice Valuer

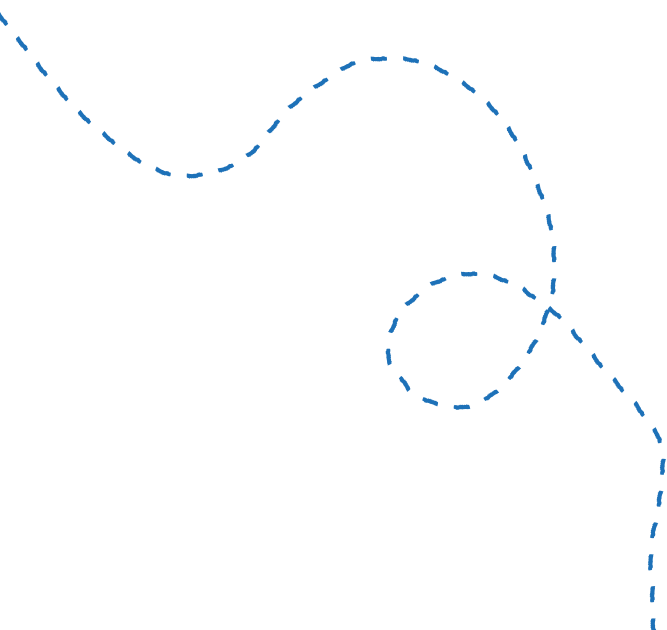
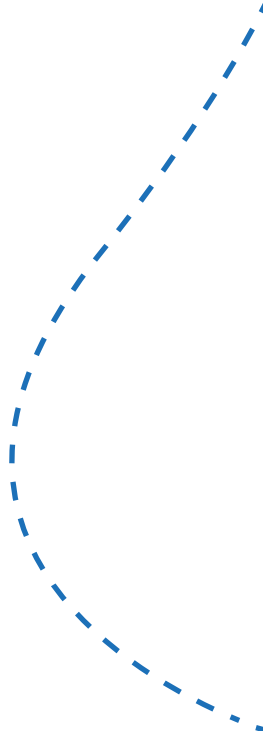


Retentions

In this context we refer to a retention that has arisen due to a specific risk, or a cost that the purchaser may incur after completion as a result of something that has been discovered during the diligence phase of the transaction. An example of this could be an NHS Investigation into over-claiming or a tax investigation. It may be agreed that a specific sum that will likely reflect the potential cost of this risk (or perceived impairment of goodwill) is held back from the completion funds (sometimes by the solicitors) and is not released until an agreed date in the event that the risk / cost didn't come to fruition, or until the matter has been closed, dealt with and the cost or impairment is quantifiable. At this point, the retention is split between buyer and seller using the previously agreed computation.

It should be noted that in dental practice deals, general retentions are very rare and should be resisted as they are not the market norm. A retention should only be used where there is a real risk that the vendor could not repay the purchaser due to the sum of money involved or where the specific risk highlighted is likely to reach an outcome in a short-time frame beyond completion.

For more bespoke advice on the types of consideration, please contact us on 01788 545900.



Whatever your goal, we can help you achieve your ambition with an easy, simplified journey, to get where you want to be, with the results to show for it.

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