

Buying a practice

Priya Kotecha analyses the crucial factors you need to take into account

Making the decision to buy a dental practice is a big one. It will change the way you work, the hours you put in, the holidays you take, your lifestyle and place extra responsibility on your head. But, if you buy the right practice, it should also give you a better standard of living once you settle in, more profit, more freedom in terms of the type of work you do and how you do it, and the satisfaction of owning your own business.

Firstly, establish why you want to buy a practice and why you feel right now is a good time for you. It is necessary to know what your objectives are if you are to achieve them. Use your specialist dental accountant as an on-call helpline – that is what we are for!

Next, make sure the groundwork is in place – think about financing, location, the type of practice (i.e. the mix and any specialisms) etc. Have a chat with your accountant so they can help you formulate a strategy. Have an idea of where you stand financially before you even start looking at practices; if you are not going to be able to afford it, you need to think twice. Financing will also depend on the practice you are buying and whether the banks have sufficient confidence that you running the practice will be a self-contained sustainable venture, so remember, nothing is set in stone. I try to get as involved as possible in this process, recommending good contacts to my clients, as this not only speeds things up, but also ensures that dental specialists are on board. The same goes for later on when you have decided to go for a

purchase and need a solicitor. There can be all kinds of issues here such as leases, NHS contracts, warranties and indemnities and using a good solicitor experienced in such things can be the difference between getting a practice or not.

Due diligence

The next stage is to review practices for sale – a kind of due diligence on the practices you are considering. This is crucial because if the figures in the accounts don't make sense, we need to find out why! It is important to have three years worth of accounts and the more up to date the information, the better. This helps to establish trends and will also give clues to the financial stability and health of the practice. Many people suggest certain percentages you should look for, of expenses in relation to turnover, but this is not always a good idea as every practice is so different. Payments to associates as a percentage of fees will depend on how associates get paid and how much work the principal does. Lab payments will fluctuate wildly between practices that do a lot of specialist work like implants and be almost non-existent for practices providing substantial orthodontic treatment. For this reason, look at the information in the context of the practice. That is why it also makes sense to get as much information about the practice as possible as it all helps us build a picture.

Your accountant should be able to get a rough idea if you will be better worse off at the practice if you buy. Banks often require a profit forecast but, even if they don't, it is always worthwhile evaluating this. The last thing you want is to be consistently worse off as a principal than as an associate, though in the short term of course, a certain amount of stress is bound to be placed on your finances and you could be financially worse off. The figure that your accountant will arrive at for your forecasted profit should take into account factors such as:

1. The costs of borrowing.
2. Changes to the fee earners.
3. Changes to wages (e.g. the principal's wife may have been taking care of much of the practice managerial duties but at a subsidised rate. Whilst her wages will no longer be payable, assuming she wants to leave, you may need to replace her with a practice manager).
4. Lease rental costs (this may be particularly relevant if the principal was paying for these but will clear the debts on the assets as a condition

of sale, before you take over).

5. Repairs and maintenance.

6. Rent – it is increasingly popular for dentists to sell their freehold practices on a leasehold basis. Their accounts, of course, will not include any expenditure for rent – but you will need to take this into account.

Viewings

The more practices you see, the better. It helps establish what you are and are not looking for, and also gives you an appreciation into the way different practices work. Get your accountant to help you review the particulars of the sale and accounts before you view the practice so they can point out potential areas of concerns and help put together a checklist of what you need to establish. However don't fall into the trap of trying to establish everything in that very first viewing. The first viewing is more to see what kind of feel you get about the practice and the principal, and for the principal to see what kind of feel s/he gets about you. Many practice owners are protective of their practices and patients, and would rather sell for a lower price to a dentist they know will look after their patients well than for a higher price to a dentist they don't trust.

It is important to have someone objective throughout the process that you can bounce ideas off. For most dentists this is likely to be your accountant because no one knows your finances as well as them, and no one understands the ins and outs of buying a practice and running it successfully as them (assuming they deal with a lot of dentists of course). Make use of them and keep them in the loop in terms of discussions with the vendor, your finance broker/bank and even your solicitor. It is imperative to have someone you can trust and who will not misguide you. It is also important for there not to be a restriction on how often you call/email/see your accountant. Check beforehand with your accountant to make sure you have this assurance and are not going to receive a huge bill when the deed is done!

Lastly, when everything goes through but before exchange, see your accountant to go through some practical issues relating to take-over to ensure a smooth transition and less time spent on mundane book-keeping so you can be left free to develop your new practice. Good luck!

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