Preparing for sale

James Fry explains how to maximise the investment you have made when selling your practice.

A specialist dental sales agent will use their experience to help you sell your practice, but there are a number of things you can consider and prepare for prior to selecting an agent.

When to sell depends on you and your reasons for selling. For the majority of practice owners selling will be linked to retirement, a date which can be planned towards. Selling your practice can be the opportunity to fully realise the value of your lifetime's investment, so you can never start planning too early. The sales process can generally take at least six months to complete, so maximising your return for the sleepless nights and long working hours put into your practice should serve as a motivation during what can be a stressful time.

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The assets and business structure of your practice have an impact on the valuation of your business.

If you own the property from which the practice trades, you may wish not to sell the property and instead rent the property to the buyer. This clearly would reduce your income at sale, but would provide ongoing income into your retirement. Keeping the property may also make for a more attractive purchase price due to the purchaser not having to raise funds to also buy the property. If you currently lease the property the practice trades from, if the length of the contract left to run is less than 10 years, this may deter banks from lending to potential buyers. Discussing a contract extension with your landlord prior to putting the practice on the market, would make for a more attractive proposition for those requiring bank funding to purchase.

Specialist legal advice for selling a dental practice should always be sought, and if your practice includes an NHS contract, then experience of dealing with the transfer of the contract and the conditions to be met under contract delivery to the point of sale and any liability post sale is essential. Engaging a specialist, experienced legal practitioner, will provide clarity to both seller and purchaser and will reduce the risk of any complications post sale.

If the practice trades as a limited company, a decision will be required as to whether you are selling the shares of the company or the trade and assets. These two different types of sale can end up with different tax liabilities.➲

➲Asset sales tend to be popular with buyers as they acquire the assets of the company and not its 'warts and all' history. The profit from the sale is recognised in the company, with corporation tax payable, and then the owner of the company can be subject to income tax when they draw the funds out. With good tax planning this double charge can be minimised. A share sale is often preferred by sellers as only one lower tax charge (capital gains tax) is incurred. The type of sale can have an impact on the valuation, so speaking to your accountant about the tax implications of the business structure and planning beforehand will help lessen your tax burden and help with your negotiation strategy by understanding the implications on the buyer. Again, if an NHS contract is involved in the deal, it is crucial for both parties to understand who the owner of the contract is to make sure the transfer is completed correctly.

Depending on whether the practice is fully NHS, fully private or a mix of both, the goodwill valuation can vary. It has been reported that, despite uncertainty surrounding NHS contracts, goodwill valuations are unaffected and continue to rise.

The practice sales agent will require up to date financial information to assess practice performance to value the practice. Similarly, the buyer will request up to date financial information to perform due diligence over the valuation and what they are purchasing.

Well before the sales process is entered, keeping on top of your financial information will allow you to review the performance of your practice. Starting early to discuss your practice's financial performance with your accountant and reviewing where you can improve, will allow for more years' (ideally three) maximised profitability of your practice and goodwill valuation. Preparing accounts on an annual basis doesn't allow you to react quickly enough to any inefficiencies highlighted in the figures. There are many affordable cloud based accounting packages available that allow you to review your businesses performance on a real time basis. They also allow you to work collaboratively with your accountant; you can view the same information which facilitates a meaningful conversation over the phone or video call on your practices' performance.

Another way of increasing your practice value is to know the true number of patients you have on the books at any time. You may wish review your patient records and contact patients who have not had an appointment recently to re-engage them with the practice or remove them from your database. Patient feedback is also a useful guide as to the performance of the practice, so keeping a regular record of patient feedback and satisfaction ratings will show that patients have a strong tie to the practice.

A buyer will consider the ease at which they can enter the business. Are staff procedures/processes/handbooks up to date and available for a buyer to review? This will assure them that any change in ownership will not impact on the day to day running of the practice.

Make sure you know your local market for competition and recent sales valuations in your area as any buyer will know this information. Who will your buyer be? Is one of your associates able to purchase the practice from you? While banks still have an appetite to lending the majority of the funding required to purchase, due to the increase in goodwill valuations, family money is increasingly required to help. Corporate dental groups may be able to access funds more quickly to finance a deal, but may also have as a condition that you continue to work at the practice as handover post transaction, pushing back your planned retirement date. Part of the negotiations will cover a schedule of when you will be paid. Planning these payment dates can also minimise your tax exposure.

With careful planning you can maximise the return you receive on selling your practice. Prior to receiving the cash you will want to speak to a financial adviser as to how to best invest the funds to maximise any incomes going forward. Finally, once the sale has gone through and you have received the cash, don't forget to put some aside to pay your minimised tax bill.