

Dental Elite Guides

**Practice Financials:**

# **The Survey Results for Financial Year End 2015-16**



When it comes to dental practices, every practice is different so how do you know whether your practice is financially good, bad or indifferent? How much did the average dental practice sell for last year and how did that reflect as a multiple of their EBITDA / Turnover?

## Overview from Dental Elite's Founders

The purpose of publishing this survey on an annual basis is to provide dental practice owners and prospective owners with an idea of how the average dental practice performs financially based on data we have collated from preparing hundreds of practice valuations over the last financial year.

The unfortunate nature of dentistry is that in comparison to other professions the profession is that of an insular one and as most dental practice ownership falls into the category of Small-Medium Enterprises there is very little information publicly released as to how the average dental practice performs.

What we have found most interesting this year is how the average spend that the dental practices have valued has changed with the average spend as a reflection of turnover in the last year on materials now equating to 6.94% in comparison to 7.17% in our 2014-15 survey. We find this especially intriguing given that in our survey last year, the average practice we valued achieved 46.5% of their turnover from the NHS whereas this year the average practice we have valued is only 39.5% NHS. You may have different feelings but we felt that these two statistics were at odds with one another. We would have expected that if the private percentage went up the average spend on materials would also increase?

The last financial year has been a very interesting year with the average dental practice increasing in value by up to 40% in some areas of the country. Whilst all of the corporates (save for Southern Dental, the 4<sup>th</sup> largest operator of dental practices in the UK) have been very acquisitive in the last year it still often an urban myth that it is these buyers who acquire most of the deals presented to market. In fact the most common purchaser for Dental Elite in the last year has still been the first time purchaser and those buying their second or third practice, making up 73% of the transactions we act on.

This is in a large part down to the ever-flourishing but always loss-making Bank of Mum & Dad that continued to support young dentists in growing their businesses and making dental practice acquisitions. We believe this is because as the value of dental practice goodwill has continued to rise in recent years it has become increasingly challenging for the dental corporate buy, build and sell within five years model to source dental practices to purchase that fit the business model in terms of purchase price.

The last year has continued to be a good year for dental practice owners and we have continued to sell roughly 30% more practices than in the previous year. If you would like more information on your practice specifically remember you may benefit from our Free Practice Healthcheck – a truly no-strings valuation service.

**Luke & Paul**

## The Average Practice in this Survey

NHS	39.53%
Private	60.47%

## An "Average" Dental Practice Set of Accounts

<b>Turnover</b>	<b>£520,173</b>
Materials	£36,100
Lab Fees	£35,579
<b>Gross Profit</b>	<b>£448,494</b>
Staff Costs	£81,355
Other Running Costs incl Associate Fees	£276,680
<b>EBITDA</b>	<b>£90,458</b>

## What is EBITDA?

***EBITDA is an accounting acronym which stands for Earnings Before Interest, Tax, Depreciation and Amortisation. In essence, it represents the true operating profit of a business.***

***Through careful tax-planning, your accountant will have reduced your tax bill, but it is important that we consider these things in our EBITDA calculations. During this process we remove all of the non-cash costs in your accounts such as depreciation or the use of a home as an office etc. We also remove costs that a new practice owner would not continue to incur e.g. spouses' salaries.***

## The Survey Results

Practice	All	Private	Mixed	NHS	NHS Ortho	Commentary
Turnover	£520,173	£488,625	£605,115	£463,805	£247,505	A private practice is a practice where more than 80% of the income is derived from private revenues, NHS is more than 80% of income from NHS and Mixed is everything else in between.
Average NHS Income	39.52%	4.52%	54.79%	90.00%	92.85%	
Materials	6.94%	7.21%	6.71%	6.70%	7.61%	It is fair to say there are no surprises in these statistics with private treatments carrying a higher Material and Lab Fee than other treatments.
Lab Fees	6.84%	7.08%	6.67%	6.50%	10.19%	
Staff Costs	15.64%	15.52%	15.07%	17.16%	8.08%	Many hypothesise as to why it costs more to staff an NHS practice but one would suppose the simplest explanation is that a Private Dentist grosses more per hour than that of an NHS dentist.
EBITDA	17.39%	12.94%	20.91%	20.96%	28.88%	We think this statistic is surprising in that we would have thought predominately NHS practices where greater contribution can be generated from lower associate remuneration as a percentage of income would see NHS practices way ahead of other practices. Instead this evidences the benefit of practices where dentists can offer a range of treatments.
% of Practices Running an LBITDA	6.11%	10.41%	2.19%	3.44%	Nil	An LBITDA is where a practice is running at a loss if you were to build in a fair market cost for the Principal as an associate and a business rent.

## And For Goodwill....

Practice	All	Private	Mixed	NHS	NHS Ortho	Commentary
Average Sale Value excl Freehold	£952,663	£674,733	£1,217,572	£1,019,444	£1,060,000	All Practices which were sold as Mergers of Equipment Only sales have been excluded from this data so as not to skew.
% of Turnover	140.54%	97.26%	155.52%	167.51%	180.88%	
EBITDA	6.80	6.11	7.52	6.71	6.83	
Adjusted Net Profit	3.32	2.45	3.76	3.56	3.83	Adjusted Net Profit is a measure of the business' performance if it was worked by a full-time principal before allowing for a drawings for their work.

Hopefully the table above will serve to demonstrate that the market is strong across all sectors and in particular for private practices. We actually feel that upon reviewing the data, the private percentage of turnover figure does not do justice to the strength of the market for private practices because we feel that there should almost be two classes of practice for private practice, those of smaller practice generating under £400,000 which are more often operated single-handed with hygienist support and those bigger private practices because the percentage of gross figures for bigger private practices tends to be considerably higher than those small practices where generating strong EBITDA is a struggle.

For NHS and Mixed practices the market is still very strong across all turnover levels. However, practices generating between £300,000 and £500,000 tend to capture the most interest because more often they present a more easily affordable valuation for those who do not have access to the same cash resources as those who also bid on the practices with higher turnovers. Although, continued support from banks including Santander, HSBC, Metro Bank and Lloyds Bank do allow a large number of buyers to be active at acquisitions up to £2,000,000 in price.

## Broken Down by Region

Region	All	Private	Mixed	NHS	NHS Ortho	Counties Included
Scotland	£952,663	£674,733	£1,217,572	£1,019,444	£1,060,000	All Scottish Counties
North-East & Yorkshire	177.13%	137.72%	176.95%	187.01%	No Data	Cleveland, Northumberland, Teeside, Tyne & Wear, North Yorkshire, South Yorkshire & West Yorkshire
North-West	140.62%	75.91%	162.39%	147.71%	No Data	Cheshire, Cumbria, Greater Manchester, Lancashire and Merseyside
Midlands	139.66%	90.14%	141.4%	187.55%	136.13%	Derbyshire, Herefordshire, Leicestershire, Northamptonshire, Nottinghamshire, Staffordshire, Shropshire, Warwickshire, West Midlands and Worcestershire
Central	167.17%	104.02%	132.66%	206.38%	225.63%	Bedfordshire, Berkshire, Buckinghamshire, Gloucestershire, Hertfordshire, Oxfordshire and Wiltshire.
East	156.11%	121.8%	158.28%	164.92%	No Data	Cambridgeshire, Essex, Norfolk and Suffolk
London & SE	128.25%	87.59%	169.34%	166.00%	No Data	All London Boroughs, East Sussex, Kent, Surrey, West Sussex
South-West & Wales	128.90%	100.49%	No Data	147.85%	No Data	All Welsh Counties, Avon, Bristol (City of), Cornwall, Devon, Dorset and Somerset

## Looking for further insight into the practice sales process?

Dental Elite have written a whole bunch of guides to a range of aspects of buying and selling a dental practice. They're all available to download for free at:

[www.dentalelite.co.uk/free-practice-sales-guides](http://www.dentalelite.co.uk/free-practice-sales-guides)



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