

LETTER

Seeing the value

Sir, Paul Mc Crory raises an interesting point in relation to NHS practice valuations. Whilst not being a dental practice 'Valuer', I am a dental specialist chartered accountant with a statistics degree, a member of the NASDAL technical committee, and prepare the quarterly NASDAL goodwill survey he refers to.

I'm not aware of anyone who has approached the subject in the way he outlines, and therefore cannot provide a detailed and specific reply. However, I am happy to provide my thoughts on the matter.

Firstly, EBITDA – unfortunately EBITDA in owner managed dental practices isn't defined tightly. Mr Mc Crory's definition does not adjust for the labour cost of work performed by the principal/practice owner. I think it is essential to make this adjustment in order to compare like with like.

If you do not make this adjustment, then different profits and hence goodwill values arise depending on the amount of clinical work carried out by the principal. Somewhat confusingly, if you do make this adjustment, then the EBITDA multiple basis of valuation produces very low values for smaller, owner operated, practices.

For example, using the latest NASDAL survey of practice revenues, costs and profits, the average NHS practice, adjusted as above, will have gross fees of approximately £400k, and an EBITDA of approximately £30k.

Goodwill multiples of EBITDA are usually in the range of 5 to 7, which would produce a goodwill amount for our average

practice above of approximately £200k – clearly way beneath the usual, current market value. Sales agents amend this figure by using an 'Owner/Manager's Adjustment' which increases the goodwill amount to market value!

I prefer to conclude that the EBITDA multiple basis isn't appropriate for smaller practices where the principal does all or part of the clinical work. In these cases, I prefer the percentage of gross fee basis of valuation.

The other very good point which Paul raises is with regard to the impact of membership of the NHS Pension Scheme on practice valuations – why isn't the hidden benefit of scheme membership taken into account?

I suspect the answer is that, without it being scientifically calculated, it is actually taken into account where relevant. For smaller practices where the EBITDA valuation basis isn't appropriate, the basis used is generally a percentage of gross fee income.

Historically, the NHS goodwill as a percentage of gross fee income has been higher than the corresponding Private practice percentage (although I have to admit that this was not the case in the January 2019 quarter NASDAL survey, but perhaps this is a blip).

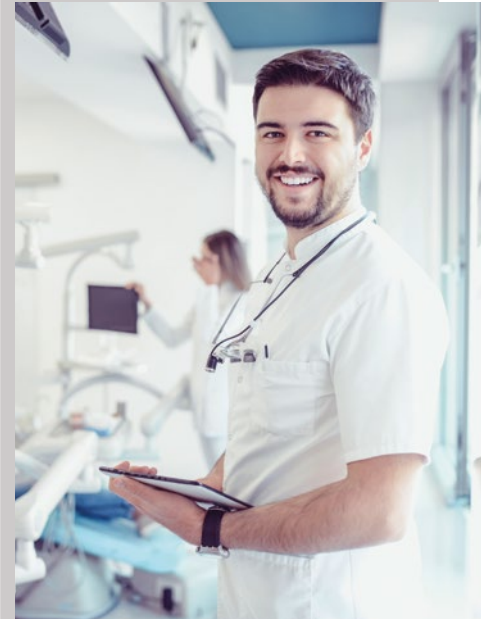
There is no scientific logic behind this, but NHS Pension benefits logically would support smaller NHS practices being worth more than their Private equivalents.

I hope that this helps move the topic forward.

Alan Suggett, via email.

NEWS

Dentistry most optimistic primary care profession for eighth year running



According to The Lloyds Bank Commercial Banking Healthcare Confidence Index, dentists remain the most confident of all primary healthcare professionals.

While dentists' confidence has dipped slightly this year, the decline is only by a single point to -3. This means that dentistry remains the most optimistic primary healthcare profession and continues to outperform the primary care sector as a whole, which gave a reading of -16.

Respondents were asked to rate their confidence in both short and long-term business prospects, with short-term confidence unchanged from the previous year at +40. However, long-term confidence dipped slightly, from -44 to -46, meaning that dentists' overall confidence score fell by one point compared with last year's score of -2.

Looking to the rest of the sector, pharmacists' overall confidence registered at -17, while GPs were the least optimistic of all primary care professionals with a confidence reading of -28.

