

Perception vs reality

David Brewer uncovers the realities when considering buying a private practice

I am approached on a regular basis by potential purchasers, both first-time buyers and existing practice owners, who have heard that it is still difficult to secure the necessary funding to purchase a private practice.

There really is a sizable difference between market perception and market reality.

Contrary to popular belief, the banks are actively lending to the dental profession and are perfectly happy lending on private practice purchases. In the past 12 months alone, FT&A Finance submitted more than 246 individual dental lending proposals to the banks with overall combined borrowing of £140 million – over half of which related to practices with predominantly private income. Of these cases, more than 94% of them were approved by at least one of the banks. These statistics clearly show the banks are lending for practice purchases.

Freehold and leasehold

Both freehold and leasehold practices are viewed in the same positive manner by the banks – although with leasehold the length of the remaining lease is key as the loan term is normally structured over the length of the lease, and as such, a short five-year lease would be particularly tricky to secure funding for.

Ideally the residual lease term should be a minimum of 10 to 15 years or indeed longer.

Third party landlords can be particularly tricky and it is not unheard of for them to request 'incentives' to extend the lease if they know a sale is proposed. The key here is for the existing practice owner to have ideally spoken with the landlord in advance of any sale to seek extension – this will maximise the value of their practice and avoid any last minute costly issues and delays arising.

Talking to the banks

The UK banks have an active edict from the government to lend and view the dental industry as one of very few 'green light' sectors. Indeed, there are now 14 high street banks (together with numerous other smaller 'niche' lenders) that understand and will lend against dental goodwill for a new practice purchase be it leasehold or freehold.

However, no one bank is the same. Each has different credit criteria and their own preference as to the type of client and practice they wish to fund. And, even within individual banks, you need to make sure you have the 'right' manager considering your application, as not all managers will understand the dental profession and as a result may provide a negative response.

Even if the bank in question says 'no' it does not necessarily mean there is anything wrong with your proposal – it may simply mean your proposal does not fit their lending guidelines – and remember there are still at least 13 other banks who could still say 'yes'.

Furthermore, if you own a practice already and wish to purchase another you may also receive a negative response from your current lender – or indeed they may look to 're-price' your whole borrowing. Again, there may be nothing wrong with your proposal and there still remain 13 other banking options open to you.

Going independent

However, this does highlight the importance of working with an independent adviser when looking to arrange funding for a practice purchase. Your adviser should have access to the whole of the market and know the lending criteria of each individual bank, and indeed, the best individual bank managers to approach. They'll be able to tailor your application to ensure you have the best chance of obtaining a positive lending decision, often at much better terms compared to you approaching the bank direct.

Below is a good example of the successful work undertaken from FT&A Finance on behalf of a client:

'Approached by a first time buyer currently working as an associate. Client in process of purchasing predominantly private practice in East Midlands with purchase price at £850,000 – was seeking bank loan at £765,000 (90% of value). Client approached the bank she has been with since university only to be told by them they could not help and to find a smaller practice. Client approached FT&A Finance for a second opinion and a meeting was arranged the next day to discuss at length the proposal. A business plan was outlined then prepared together with forecasts in readiness for formal bank submission. Two separate funding proposals now on the table from alternative banks with purchase now progressing apace. If client had only listened to the first bank she would be continuing in her associate position for the foreseeable future.'

This is a fantastic example of how working with the right, proactive business adviser who understands exactly what the banks are looking for and can tailor the proposal accordingly can really make all the difference.

Seeking advice

So before you speak with your bank make contact with a specialist dental adviser who can undertake an assessment of your proposal, provide guidance as to how to best shape your application and give you an idea of the pricing involved.

Remember the banks will look to maximise their returns (ie, charge as high as they feel they can get away with). However, by using an independent adviser they will need to offer the most attractive terms if they are to secure your business due to the element of competition involved – coupled with the fact the adviser will of course package the case in a way that would make it much easier for the bank to say 'yes'. ■

David Brewer has a long established reputation of funding in the healthcare sector and has been involved in the sale and purchase of dental practices for more than 20 years. Now managing director of FT&A Finance, David has acted for thousands of healthcare professionals providing guidance and advice and has developed a strong reputation for delivering a reliable, pro-active and friendly hassle free service. Contact David on 0330 088 11 57 or 07817 758 548 or email david.bewer@ft-associates.com. Follow David on Twitter @FTAFinance.