

FUNDING FOR DENTAL PRACTICE ACQUISITIONS – Q&A

Written by David Brewer



David Brewer of FTA Finance Ltd shares his views and thoughts on the state of the current dental market and provides some top tips on the best way to secure funding for a dental practice purchase

Q: The UK has seen many changes over the past year or so - not least the fact we will be leaving the EU! There have been talks about the impact this will have on the banking world but have you seen any immediate evidence of changes in the lenders stance when it comes to dentists seeking funding to buy a dental practice following the announcement on 23rd June last year? What do you think the long-term impact will be on dentists seeking funding to acquire a dental practice as a result of Brexit?

DB: 2016 was an exceptional year with monumental and mostly unexpected changes both here in the UK and across the pond in the USA. The long term effects of both are almost impossible to predict however short to medium term it remains very much business as usual.

DAVID BREWER

Experienced healthcare business advisor David Brewer has a long established reputation of funding in the healthcare sector and has been involved in the sales and purchases of dental practices for over 20 years. As director of FTA Finance, David's advice and knowledge can and will make all the difference when applying for healthcare finance.

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The UK banks who specialise in lending to the dental profession have all issued statements to the effect their lending policy and stance remains unchanged and that dental remains a 'Green Light' sector. Cost of borrowing has actually reduced following Bank of England base rate reduction to record low of 0.25%.

A number of the banks have used this as an opportunity to try to increase their pricing, however, most have kept their interest margins at pre-Brexit levels. This does show the benefit of working with an independent broker to help arrange your funding. An FCA-registered broker should have access to all banks, be aware of the expected pricing and keep the bank on the 'straight and narrow'

to ensure their client secures competitive terms.

Q: There are lots of commercial mortgage brokers out there. What are the key benefits of using a specialist dental mortgage broker as opposed to a general commercial mortgage broker?

DB: If you are looking to arrange finance - be it a commercial loan for practice purchase or indeed a residential mortgage - best advice is always to use an FCA-registered independent broker who will have access to the whole

of market rather than just the opinion of one bank if you adopt the DIY approach. Generalist mortgage brokers certainly do a good job (indeed many of my friends work in the generalist market), however, most generalist brokers will have their own established panel of lenders who are adept at working on property purchase proposals but might struggle with any form of goodwill lending.

Goodwill of course is a sizable element in most dental practice purchases and as such essential you are working with a broker who understands the intricacies of not only goodwill but also the NHS contract transfer and CQC registration process - as your broker should be working with you not just to



obtain approval to the borrowing but to see your purchase through to when you actually own the business.

Your dental broker should also help you produce an outline business plan and forecasts not just for the bank but also increasingly now for the CQC.

Q: What trends have you seen over the past year or so?

DB: We have certainly seen an increase in dental clients seeking funding to help start up new practices. Some are being put off by the high goodwill values for established businesses and have a clear vision that they want to develop a new practice in their own style.

There has also been uplift in recently qualified dentists seeking funding for a practice purchase - this does though present certain funding challenges as most banks would require the applicant to have worked as an associate for a minimum of two years.

The length of time a dental purchase transaction takes to complete remains a continued source of frustration - now on average six months from beginning to end. We have calculated there are 24 separate 'influences' which could affect a purchase completing ranging from the CQC to third party landlords. The most straightforward

part of our job is securing the finance - most of our time is spent working with lawyers, accountants, valuers, sales agent and the bank to keep our client's purchase on track.

Q: Has anything surprised you this year when it comes to providing funding for dentists buying a practice?

DB: The wide range of responses we get from the banks when considering funding proposals continues to surprise. Once we have compiled the business proposal and forecasts on behalf of our client we will approach on average four banks based on our knowledge of their lending criteria.

As an example, we recently had a range of responses for a case from loan margin of 2.1% up to 5.2% which makes a huge difference when it comes to monthly repayments.

We also know that we will obtain different lending responses and terms from the same bank depending on which manager at that bank we approach - so rest assured we work with the proactive ones! This shows how difficult it is for clients who endeavour the DIY approach - you really have no way of knowing you are approaching the right bank or indeed the right manager. The benefits of working with an independent specialist broker are clear.

Q: If you could give three tips to help dentists improve their chances of being granted funding what would they be?

- 1) Ensure you are financially pre-assessed by an independent dental broker - this will provide you with a whole of market overview of how much you could potentially borrow (rather than just the opinion of one bank) which should then steer you towards suitably sized practices
- 2) Ensure your CV is up to date and that it expands on your managerial experience. This is one of the most important documents which banks consider when assessing loan proposals
- 3) Build up your savings - whilst it is sometimes possible to secure 95% or even 100% funding, for best terms you really do need a minimum 10% cash contribution. ●

MORE INFORMATION

FTA Finance assists dental professionals with obtaining finance for practice purchases. Get in touch to speak to a member of the team directly.
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