



DENTAL NEWSLETTER

May 2017

The Grapevine

Reliable sources indicate that Carl Burroughs, whom we once noted had a company liquidated, is whispering about a vague practice opportunity being worked up by ex-UK Bartercard manager, Mike Timoney, a moving figure in the initial and subsequent iterations of Dental Partners. Dental Partners were subsequently taken over by New Zealand company Abano. Subsequent to that Mike Timoney had a legal stoush with Abano; which was presumably settled with a legal confidentiality agreement.

Trojan Horses – Dental Practices

Proposals to buy 49% of practices and take over back office management may leave dentists powerless when they wish to sell their remaining 51%. Small business law protects minority shareholders. It's quite different from rules governing control over large companies – dentists beware.

Smile Inc.

We've heard reports that a company called Smile Inc. (foreign) or similar name is proposing to buy part of practices to take over administration and marketing. We advise Synstrat clients to avoid these types of schemes. We'd be interested to know of approaches to dentists.

Broker Financials - Beware

Those seeking to buy dental practices via brokers need to be aware that the financials presented to them are often sanitized to remove some expenses. This is done on the basis that they are claimed to be private, but this may not be wholly true on close examination. We'd prefer that brokers adopt a standard whereby the full profit and loss figures are provided for the past 3 years, with add back remarks at the bottom.

Why 3 Years?

Three years gives a good indication as to whether there has been a significant upward or downward trend in the figures and in some expenses. It enables us to view expenses, such as purchases, over a sufficient length of time to be confident as to the level that they normally run at and compare this with nationwide practice benchmark figures.

It's also important to know who produced the fees. Were they mainly produced by the outgoing proprietor? Or by

employed dentists and if by employed dentists, has there been a change in dental employment?

It's also critical to be provided with a thorough inspection of the practice. This includes supervised access to patient bookings on practice computers, particularly bookings in the recent and coming weeks. Recent past bookings should be supported by evidence of recent practice banking. Beware if this information is denied.

In some cases brokers are facilitating sales at high prices based on incomplete or suspect information.

Misleading a Practice Buyer

A buyer sought advice from an accountant who should've known better. However, the vendors had only owned the practice for a brief time having purchased it, following the death of the previous principal, and ran it with hired staff. Shortly after the sale the employed dentist doing most of the work left. There was no dentist in the practice with whom patients had a substantial relationship and practice fees halved. The buyers are now working hard to turn the practice around. They are having some success but are stuck with a big debt having paid a lot more than the practice is worth. The message is be careful who you get advice from.

Accountants who don't have experience with a number of dental practices don't know the right questions to ask.

Asking Too Many Questions?

A broker is prone to telling dentists seeking to buy a practice that "you're asking too many questions!" The broker is playing a dangerous game of hinting that if you ask too many questions you may not be the one that he arranges the sale of the practice to. That can be misconstrued as being a party to misleading buyers. Buyers are entitled to seek complete financials, inspect practice records, view recent and upcoming patient bookings and inspect equipment. If this is denied to them, and buyers subsequently find out that they have been misled, it can lead to awkward legal questions.

House Prices

There is little doubt that Melbourne and Sydney house prices have increased substantially; but the statistics substantially exaggerate the degree of the rise because much of the increase in established suburbs is actually

caused by capital insertion in the form of major extensions, major modernisations and knock downs/rebuilds. All the statistics are measuring is the price at which titles transfer. There is no measure of the proportion of capital insertion in the percentage rise. This is at a zenith where a knock down and rebuild occurs because the stamp duty office, which records the price transfer, has no knowledge that a new dwelling has been put on the block.

High Rise Apartments

Ever tried to do an extension in an apartment? The reality is that it is land content which contributes most to property price appreciation. Where there's no land content such as in a high rise apartment, and therefore no extension and very little rebuild possible, the main driver of price appreciation is missing. In actual fact, a host of high rise apartments are destined to deteriorate into slums and their prices won't keep pace with inflation. Attending property seminars given by experienced property spruikers is a serious wealth trap for the unwary.

Health Fund Cover Falling Short on Extras

According to a report in the Herald Sun an analysis of 10 years of extra's payouts indicates health funds today are paying back a lower proportion of claims made in more than two thirds of categories. The article was promoting One Big Switch in which the newspapers publisher News Corporation is a shareholder, nevertheless there is truth in what it says.

Small Health Insurers Pay More; Ombudsman

Quoted in The Age, 31 March 2017, The Private Health Insurance Ombudsman State of the Health Funds Report 2015/16 confirms what's long been suspected – members of not for profit health funds get more bang for their buck. It shows that not for profit health fund members receive an average of 88.9 cents back for every premium dollar paid, compared to 85.7 cents for those in the for profit funds. The amount drops to 84.8 cents for members of Australia's top three for profit funds – Medibank, Bupa & NIB, which together hold two thirds of the market.

Since we know that administrative costs are about 8% across the board the big three for profit funds, which payout on average 84.8 cents, are making about 7.2 cents in the dollar profit after administrative costs.

This doesn't tell the whole story as payouts on extras cover are about 78 cents in the dollar of premium and payout in hospital cover, which is impossible to ration, is much higher. The inevitable conclusion is that it is dumb to maintain extras cover with Bupa, NIB or Medibank Private.

Interest Rates are Rising

The Reserve Bank and the Australian Prudential Regulation Authority (RPR) are quietly encouraging banks to increase interest rates a few basic points at a time, to take some of the heat out of the real estate market. Banks are paying more for funding sourced overseas as interest rates in the USA and elsewhere are rising. Expect rates to be higher in 18 months and this may kill off the housing boom.

Negotiating Associate/Partnership Agreements

If you are preparing to purchase part of a dental practice and would like guidance on these matters, please contact Graham Middleton on 03 9843 7777.

Business Lessons for Dentists

This story is on page 112-121 of **Synstrat Dental Stories**. It is a must read for dentists. It details a series of good and bad practice experiences but names and some details have been changed to preserve identities. It contains valuable insights for practice owners and intending buyers as to what works best and what doesn't. To obtain a copy of this publication, make a tax deductible donation of at least \$30 to the **Delany Foundation**, a charity which brings hope and opportunity into the lives of young people deprived of education in Australia, Papua New Guinea, Kenya and Ghana. Once you have made your donation, please email confirmation of your donation along with your postal address to natasha@synstrat.com.au and a copy will be sent to you. Donations can be made by mail to:

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Should you have any difficulties, contact Matthew Mahoney on 0419 202 787 or 02 9600 8184.

Practice Accounting & Valuation Services

Synstrat is the only accounting group in Australia which maintains an active, continuously updating database of dental practice benchmarking performance. This is essential in assessing and advising performance of a practice and in valuing practices. Telephone David Collins or Graham Middleton on 03 9843 7777.

Independent Financial Planning and Life Insurance for Dentists

Synstrat is experienced at providing financial plans for dentists. These take into account dental practice profitability and benchmarks, as well as ownership of premises and other family assets and financial issues. Telephone Graham Middleton, Cameron Darnley or Roger Armitage, each of whom are experienced financial planners, on 03 9843 7777. Cameron can also assist with life insurance. Synstrat Management Pty Ltd holds its own licence. It is not obliged to recommend the products of a particular bank or insurance company.

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