

Dental Elite on the latest goodwill results

Luke Moore considers Dental Elite's latest goodwill findings for financial year 2018...

BACK in September when our mid-year goodwill results were released, we noted some interesting changes in regard to buying behaviours and interest for certain aspects of the market. Having monitored these evolving trends over the rest of the financial year, there is still considerable interest from private equity buyers who feel that there is money to be made in acquiring practices in a currently fragmented market by grouping them and selling them on. This is evidenced by the news in late June that Portman has completed its latest re-financing with another Private Equity House.

There has also been considerable movement in the lower consolidator market as a result of a number of smaller mass operators, including Midland Smile Centres in the West Midlands and Avsan Holdings, having cashed in their chips in the last year.

What is interesting about the Empire Builders – in other words the buyers acquiring 3-20 practices – is that they are quickly establishing themselves as the largest group of acquirers for the NHS and mixed practices that are heavily NHS focused. The most likely reason for this is

that they see NHS as a safer investment, but they are also no doubt focused on EBITDA multiples (earnings before interest, taxes, depreciation and amortisation), as we've found that most tend to have one eye on an exit strategy to a larger operator.

As there are a number of newer players coming to the fore in this sector in addition to the established names, this is unlikely to change over the coming financial year. What we will be anticipating instead is the possibility of increasing competition between these buyers. Often these groups tend to operate within their own geographical preferences, but we have noticed significant crossover in purchasing territories – particularly around Yorkshire and the North West.

It is worth noting, however, that it's not all about the consolidators – which some might disagree with, but we feel the statistics speak for themselves. We sold 10 practices last year to the most well known corporates, and the average multiple they paid for practices was the lowest out of all the groups of purchasers we represent, sitting at an average of 6.25x. Naturally, there were variables, as private practices had an average of 7.18x. This suggests

that where the retail banks are struggling to finance some of the bigger private practice acquisitions, the corporates are competing against each other in this space, perhaps leading to a higher multiple. Interestingly, the average deal value from a corporate sale was £2.22m – over double the typical deal of £1.075m in this year's goodwill survey. However, as they represent less than 10 per cent of the practices sold by Dental Elite and for 90 per cent of owners a big name corporate will not be the best deal, we recommend that vendors explore all the options.

On a more general note, the Multiple of Adjusted Net Profit (or in layman's terms, the profit figure which allows for a full-time principal) rose to 3.79x up from 3.27x last year, but there have been more defined regional differences. London and the South East, for instance, achieved over 4x, while the South West only reached 3.06x – a difference of over 25 per cent. Similarly, Percentage of Gross Fees is up from 149.78 per cent of turnover last year to 159.96 per cent. This demonstrates that there was significant competition in the market 9-12 months ago (we say that because that's on average how long it

takes for market data to feed through into the comparable data).

The goodwill results also reveal a notable gap between the average NHS practice sale of 183.88 per cent of turnover with 7.2x EBITDA, and typical private practice, which was 118.79 per cent of turnover, though interestingly at an average of 8.37x EBITDA. Though it must be pointed out that the main reason for this is the difference in practice appraisal, as usually a private deal is much smaller at £822,069 compared to NHS practices in which the average deal value is £1,040,402.

Looking ahead, we expect to see a number of new buyers entering the market, especially as banks are still keen to lend money into the dental sector. Furthermore, we believe that some of the smaller operators will continue to flip to bigger operators over the next few years, though will likely be replaced by others who are establishing their field. For the full report, or for help with buying or selling a practice, contact Dental Elite. ■

www.dentalelite.co.uk

About the author

Luke Moore is one of the Founders and Directors of Dental Elite and has overseen well in excess of 750 practice sales and valuations.



Patient and community focused dentistry

SMILE:Together is a social enterprise – it is staff-owned. There are two aspects to what we do – one is running a small chain of high street general dental practices and the other is community dentistry, which we offer from a series of locations. The latter includes emergency dentistry for patients who don't have their own dentist and special needs dentistry for adults and children who are unable to receive care in a high street practice. Our ethos is therefore about combining these two areas of dentistry so that we can serve the entire population.

It can be challenging to establish environments that meet the complex needs of our patients, which is why many dental services of this nature operate out of hospitals or other existing healthcare settings. We are currently embarking on an exciting investment programme across Cornwall whereby we will be creating bespoke practices designed to meet the demands of both community and general dental services. We hope to launch our first facility of this kind within the year, which will offer all dental services from one site and therefore embody all that Smile:Together stands for.

We are currently two years old with 15 locations in Cornwall and the Isles of Scilly, and we are proud to have continued providing community dentistry within the local vicinity. Our general dental practices were also opened in areas with limited NHS practices, maintaining our ethos to offer services where there is most need. Being a staff-owned company, all our professionals are very much on board with the direction we have been going in. We have a staff-elected Director who sits on the Board and this keeps us very rooted in patient care and community services. This is also what has led to our new investment project for bespoke locations – our staff have driven the business in this direction and this is what has made it such a success so far.

Looking ahead

Looking to the future, we hope to continue investing in the bespoke facilities for special needs and general dental environments. We are also trying to address the issue of poor child oral health in the area. Tooth decay is the



number one reason for hospital children's admission in Cornwall, with around 1,000 children admitted annually. From among our specialist services, our professionals visit the hospital to perform the treatment and surgery needed.

We also run a children's prevention and education programme, which is constantly expanding. We work with the local public health team and we find supporters for local schools, where our dental nurses offer oral health education and fluoride varnish applications. On average, we see about 2,000 children each year from approximately 30 schools.

In addition to the children we see through NHS contracts across our general practices, we also offer free appointments to children from our private practices. The idea is to upstream care and help children avoid developing the serious problems that could lead to hospital admission in the future. We're definitely at the sharp end of children's oral health and the only reason we can do this is because we are a social enterprise.

We are, of course, still a business and we do have a lot of ambition in terms of growth. But the social enterprise arrangement ensures we remain focused on patient care. We are obliged to reinvest our profits back into our community for the purpose of dentistry and this is what drives our passion for building a successful business.

Professional opportunities

With a range of dental settings and various different

treatments provided, there is a huge scope for professionals to diversify their own skills and experience. We are able to offer staff a portfolio career, with the chance to combine general practice, emergency care and special needs dentistry for broad professional development, if they so desire.

We also provide a significant amount of training for all members of the team, which as a staff-owned company, is all paid for. Training is organised group-wide or among groups of individuals with similar interests, so we have much to offer those professionals who choose to come and work with us.

Part of something bigger

We joined the Association of Dental Groups (ADG) for two reasons. The first was that we wanted to share and better understand some of the issues we face by working with peers in similar business structures to ourselves. Two heads are always better than one when seeking solutions to industry-wide challenges that affect our patients and the ADG provides a source of shared knowledge. The second reason was that we wanted to be part of an organisation that had an influential voice on these matters. In a care profession like dentistry where political or operational decisions are being made about your sector, it's useful to be able to contribute and we now have a far greater influence on the outcome than we would as a stand-alone group in a rural part of the country.

Going forward, it's important to Smile:Together that dental professionals realise dental groups have a real patient- and community-focus. It's not just about running the treadmill and generating money – it is about being the caring profession that dentistry should be.

www.dentalgroups.co.uk

Note: The views presented in this article and those of the author and not necessarily the ADG as a whole.

About the author

Paul Critchley is Managing Director of Smile:Together, a member of the ADG

