

Things are looking up for the dental market

Despite obvious challenges for UK businesses right now, there is good news for the dental market. Neither stresses on the exchange rate or dental recruitment seem to have slowed the selling and buying of practices, protecting and maintaining goodwill values. If anything, the Dental Elite Benchmarking Survey 'Financial Year End March 2020: Interim Update', shows a tangible rise in practice values.

Why the uplift?

Firstly, we have seen several bolt-on completions following new private equity platform acquisitions of Dental Care Group, Portman Dental and Riverdale Healthcare. The extended acquisition footprints of these and other groups are starting to impact both the regional and national figures. Indeed, we have seen the likes of Mydentist and Colosseum Dental return to the acquisitions market in the past few months and quietly acquisitive groups are growing too.

Another contributing factor is that most groups have now finished disposing of underperforming practices at lower values. The return to 'normal' practice prices has therefore given the numbers a bit of a boost as there are far fewer transactions going through to unduly



deflate results in some areas of the UK.

All in all, constant movement in the market is proving beneficial for all. Goodwill values are holding strong with demand for businesses in the sector remaining high.

Crunching the numbers

Before we summarise the interim figures for the current financial year so far, a word of caution. These only take into account six months of completions, rather than the full 12 months. As such, the number of practice sales included in the results is proportionately smaller and so may

demonstrate greater fluctuation in the market than would be apparent with more data.

That said, the numbers are encouraging. On average, the completion price for all practices sold through Dental Elite between March and September 2019 increased by more than 28.31 percentiles, which in real world terms is over £250,000. The driving force behind this massive rise has been a significant jump in goodwill values among private practices of more than 50 percentiles. In fact, this is the first time that the value of private practices has surpassed that of NHS practices.

Sale price alone is, of course, only one side of the story. However, the Adjusted EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) figures show a similarly positive situation. Overall, the Average Adjusted EBITDA values rose by 0.39x, which is staggering in what is an increasingly mature market. Across NHS, mixed and private practices, this accounts for a rise of approximately £60,000 in goodwill value. NHS practices saw a leap of 0.89x for Adjusted EBITDA, confirming a strong position for these businesses despite the figures for percentage of turnover suggesting otherwise. EBITDA per pence of revenue is generally higher in

NHS practices than private, as it is driven by a lower remuneration percentage for associates.

Looking good

When the final figures are collected at the end of the current financial year, we will have a more accurate picture of the dental market landscape. However, the numbers so far suggest a positive outlook for the months to come.

Contact Dental Elite today to request your copy of the latest Benchmarking Survey. Or for more information on Dental Elite visit www.dentalelite.co.uk, email info@dentalelite.co.uk or call 01788 545 900. ■

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. With over 11 years working in the dental industry, Luke has extensive knowledge in both dental practice transfers and recruitment, and understands the complexities of NHS and Private practices.



Deals can be achieved in short timescales

Often to say to clients, whether they are buying or selling, that dental practice acquisitions can take an average of around nine months from instructing lawyers to transaction completion. For some, those nine months can stretch out to over 12 months and when asked why, there tends to be more than one reason. This could be funding, school holidays, taking months to answer any simple enquiries, a landlord who has no interest in the sale or the purchase, the DBS checks taking three months to be processed, the CQC application being submitted late, the property survey highlighting areas of repair that need to be addressed – the list goes on.

However, for those buyers and sellers who are keen to proceed, and will do everything in their control and power to reach completion, then deals can be achieved much more quickly. This requires dedication from both sides of a transaction and a drive to hit a two to four-month completion date. There is a caveat and that tends to be for practice

acquisitions that require the purchasing dentist to raise finance with a bank. Banks are keen to hit shorter completion timescales, but the very process of raising finance takes time for various reasons.

For instance, a buyer will tend to seek out a number of offers from different banks. Once the buyer has decided on the bank they want go for, they will need to carry out a valuation, which then triggers the bank's formal offer. In some cases – depending on the purchase price and nature of the practice – the bank will appoint its own independent solicitor. However, where you have a cash buyer – like many of the corporate dental providers – this isn't an issue.

Corporate dental providers tend to be able to proceed with a deal from heads of terms being agreed to completion, within a much shorter timescale – even more so when the seller is actively involved and the property is owned by that seller. This means that, in effect, there are only two parties involved in the sale and purchase: the buyer and the seller.

On a recent transaction, Goodman Grant acted for Rodericks Dental Limited. From heads of terms to completion, the sale and purchase in this case was carried out in just over two months. How was this possible? Well, Rodericks Dental Limited have an in-house team that carries out due diligence directly with the seller. As such, they are able to collect and collate that information, and make quick decisions on whether there are any issues as a result. They handle the CQC process with the help and guidance of the sellers, ensuring that the DBS checks are applied for in good time.

Rodericks Dental Limited also use a template agreement for the purchase of the goodwill (structured the same way for every purchase) and a standard lease for the rental of the property. Rental valuations and schedules of condition of the properties are carried out early in the transaction. However, no matter how quickly they are able to proceed, it relies on an actively engaged seller who – in this instance – enabled easy and early access to the practice and the property, provided replies and information as quickly as possible, and was able to instruct a specialist dental lawyer in quick time.

Alison Middleton, Head of Legal Services at Rodericks Dental Limited, said: "Once a dental practice owner has made the difficult decision to sell their practice, we aim to make the process as smooth and painless as possible. It makes sense for all parties who are involved in this transaction to reach completion within 12 weeks, if not sooner. This is possible for us through our collaboration with Goodman Grant, who understand our aim at Rodericks Dental Limited, as well as the complex legal matters associated

with practice acquisitions. We are always delighted to be able to work with Goodman Grant to quickly reach a deal that satisfies all parties involved."

The key to hitting shorter timescales isn't just about the lawyers. It is about the parties involved in the sale and the purchase of a dental practice, and being in a position to meet and discuss matters early on. Being actively involved in this process is fundamental. We all know of dentists who, when selling their practice, would provide replies to the buyer's enquiries three or four months after they were asked for – often skewed on the photocopier and with a coat of toothpaste down one side. We also know of buyers who don't apply for the correct DBS check and, as a result, delay a CQC application being submitted. Compare this to the seller who provides an indexed bundle of documents over a weekend.

Deals can be achieved quickly if both seller and buyer are actively involved in reaching that shorter timescale. ■

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