



# Dental Practice Market Evaluation, Spring 2021.



Denplan  
Expert Network

This article is part of Denplan's Expert Network series.



'Dental Practice Market Evaluation, Spring 2021' is written by one of our partners Lily Head Dental Practice Sales. They offer specialist advice on the sale, purchase and financing of dental practices.

During their day-to-day activity, Lily Head Dental Practice Sales review sets of accounts from dental practices. Their finance colleagues at Lily Head Finance undertake the same exercise for deals they are managing and for practices being marketed by all other brokers.

**All the data referenced in this article derives from Lily Head Dental Practice Sales and Lily Head Finance and was correct at the time of writing. Where the article predicts trends, this is based on Lily Head Dental Practice Sales' expert opinion.**

# Dental Practice Market Evaluation, Spring 2021.

In this article, we set out the meaning of market value. We touch upon the business predictions made back in the eye of the COVID-19 storm and review current activity in the dental practice market to see whether these predictions played out in reality.

We go on to look at how COVID-19 impacted our industry: how we now carry out a valuation, how practice values are holding up and what changes we've seen in dental practice performance.

Then we turn to the future. How is demand holding up from private and corporate buyers? And importantly, are lenders making money available to do deals?

## The meaning of market value

Dental brokers like ourselves at Lily Head Dental Practice Sales influence the dental market by negotiating with buyers - on behalf of sellers. When we undertake a valuation, we are making a sound prediction of what the market might pay based on a variety of criteria including the potential financial performance of the practice.

Our role is to share the facts, and predict future trends. We cannot determine the final price which a buyer will agree to pay, nor how much lenders will loan against a purchase. The price that the market will pay will always be closely linked to profitability and demand.

## COVID-19: Spring 2020 predictions

At the time of the first lockdown in 2020, business experts were predicting a 50% drop in the value of dental practices. There was also the suggestion that fully private fee-per-item practices would be more exposed than those practices operating under the NHS.



As a result of this prediction, industry watchers could understandably expect the impact to be as follows:

- Reduced buyer interest
- Less patient treatments
- Unpredictable profitability
- Banks withdrawing lending
- Depressed market values

Making accurate market predictions one year, three years and ten years out is a key business skill. Happily we can report that those spring 2020 predictions of doom and gloom were way off the mark (albeit made in truly unprecedented times). There is no doubt now that from the dental practice accounts we - and our colleagues at Lily Head Finance - review, that dentists have done an outstanding job of managing their businesses through the recovery phase.

## Recent market activity

In pure transactional terms, we managed a higher gross value in December 2020 than in any previous month. Some of that activity was prompted by predicted changes to the laws around 'Entrepreneurs' Relief'. The corporate buyers were eager to get deals completed to beat the March 2021 budget.

Since the end of 2020, the dental market has become very active, with renewed confidence from vendors, private and corporate buyers and lenders. Supporting the purchase process has been made possible using video footage of the dental practices we represent in order to enable buyers and vendors to agree deals remotely.

## COVID-19: impact on practice valuation

The COVID-19 effect on valuing a dental practice means that we now compare the numbers from before the first lockdown to the most recent practice accounts and monthly run rate. In line with lenders' expectations, we exclude the period from the first lockdown through to the subsequent recovery period in order to determine the financial value of the practice.

## COVID-19: impact on values

***'I think we would all agree the dental market has done very well to maintain values over the last nine months or so!'*** – Dental Finance Consultant, January 2021.

The first lockdown had the most definitive effect on the market. When dental practices were forced to close, deals were put on hold and transactions simply had to stop.

Once practices began to trade again, there was a delayed reaction in the market as lenders and buyers closely monitored the recovery. The key goal set by lenders was for dental practices to get back to pre-lockdown trading levels. A year on, they are now operating somewhere between 80 and 110% of those pre-pandemic revenues.



The deals that were agreed before the first lockdown have been re-valued for lending purposes and the outcome is that values have held across the period. Deals agreed in the last quarter of 2020 and into 2021 have also held very well compared with pre-lockdown values. The evidence from sale prices also shows that values are stable.

## **COVID-19: impact on practice performance**

These are our current findings during practice due diligence for the purposes of valuation:

- Practices are now generating between 80 and 110% of pre-lockdown revenues
- Profitability is equal to - or has improved - compared with pre-lockdown
- Patient fees have been increased
- Many practices have extended clinic times and are making better use of their time and space
- Patients have increased demand for services

## **Current demand for practises**

The impact of the past year may have changed the profile of buyers but we can happily say that there are currently more potential buyers than ever before. Whilst there were some early opportunists hoping for bargains based on depressed values, this picture has quickly reverted because of the reality that the bottom did not fall out of the market.

### **Private buyers**

For every single buyer who registered with us in the last half of 2019, 4.4 buyers registered in the same period in 2020. This is a net gain as those people who have lost their appetite or have bought a practice and therefore de-listed themselves are already taken into account.

Conversations with private buyers show us that the motivation for this increase is due to: more people wishing to take control of their own destiny and increase their earning potential from practice ownership; COVID-19 has meant people are taking a longer-term view and they have adapted to new ways of working.

### **Corporate buyers**

Corporates will pay a premium for practices which have the most appeal in terms of size, scale, location and profile although we don't have so much information on what the corporate buyers will pay when negotiating privately with vendors.

During the period between January and March 2021, average sales were agreed at 7.7 x EBITDA compared to an average of 7.47 pre first lockdown. As a reminder, EBITDA is a measure of profitability before interest, taxes and depreciation.



## Current state of the borrowing market

To assess the effect of the pandemic on the prospect of borrowing for private buyers, Martin How the Managing Director at Lily Head Finance has the following observations:

- The Finance Team at Lily Head is seeing a tripling of new lending proposals from prospective buyers
- Lenders are more demanding about the detail they require and the quality of the financial analysis in the lending proposal from clients
- If a lender declines an approach for a particular practice, they can never re-visit the same practice on your behalf again. So, it is more essential than ever before to ensure every approach to a prospective lender is perfect to have the greatest chance of success. This is more likely to be achieved with the help of a finance broker

## Conclusion

As with every industry, the dental market has witnessed a significant COVID-19 impact. Notwithstanding this, the first quarter of this year has shown signs of gaining ground over both pre-pandemic demand and values, and whilst lenders may currently be showing signs of caution, money is however available.

Within Lily Head Dental Practice Sales and Lily Head Finance, we are in the knowledge business. We share information and predictions with dentists so that they can make informed decisions. As trained sellers, we coach our clients to be savvy when it comes to their sale. It is worth remembering that corporate buyers are trained buyers who should be treated with respect - which is one good reason why we recommend that anyone selling their practice hires a dental broker.

Another key reason is that the return on investment (ROI) of dental brokers like us is significant. Some work we carried out for a client recently showed that for every £1 they had spent with us, we returned £6.77. In addition to the value that we added financially, we also managed the process from inception through to completion.

Any dentist who wishes to further understand the issues raised by this article or the opportunities that exist for them are welcome to **contact us** for an open discussion.



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