

25 years of practice management

25

Ups, downs, and turnarounds

Lis Hughes takes us on a tour through 25 years of dental practice valuations

SOME FACTS AND a myth: back in 1995, John Major was the prime minister, the average UK house price was £51,334, 1% of the population had internet access, and all dental practices were worth 33% of their turnover.

Much has changed over the past 25 years, along with the common misconception that all dental practices were valued the same. It never made any sense that differing practices would be all valued the same, but the open market for the valuation and sale of dental practices was still in its embryonic years.

Where we were then

The dental practice open market was created by Frank Taylor & Associates back in the late 1980s. By the mid-1990s there was a growing acceptance across the profession that the demand for practices was starting to rise across the country. Even so, back at this time a predominantly NHS practice (at this time exclusively private practices were a rare breed) in the south east of England would be worth in the region of 45-65% of turnover. Remember, back then EBITDA, which is a familiar

direct between principals and a resident associate.

Throughout the early 2000s, the market started to mature, and values started to better acknowledge the location, speciality of income and underlying profitability. The banding of values started to open up, and the banks started to offer preferential terms to dentists. This period provided the foundations for the explosion about to hit dentistry.

Market turnaround

In 2006, the conventional payment system for delivering NHS



Lis Hughes
Managing director of
Frank Taylor & Associates

could earn via the NHS.

For a principal to improve their profitability they either had to increase their private fees or cut their costs. The major cost in a practice is the associate fees, and this made thousands of associates feel incredibly vulnerable. Over an 18-month period, Frank Taylor & Associates went from 810 to nearly 3,000 potential buyers on its books.

The fear of being marginalised as an associated was driving this dramatic change. As simple economics dictates, where demand increases with limited supply, prices increase. From 2006 to late 2008, price increases across the whole country were moving upwards month by month.

Then on 15 September 2008, Lehman Brothers filed for bankruptcy – the largest company to do so in US history. In the following months, buyer confidence collapsed, banks tightened their lending criteria and the world turned in slow-motion for a period.

'Safe haven'

Once the tremors of the global finance crash calmed

Once the tremors of the global finance crash calmed down, the demand for NHS practices rocketed

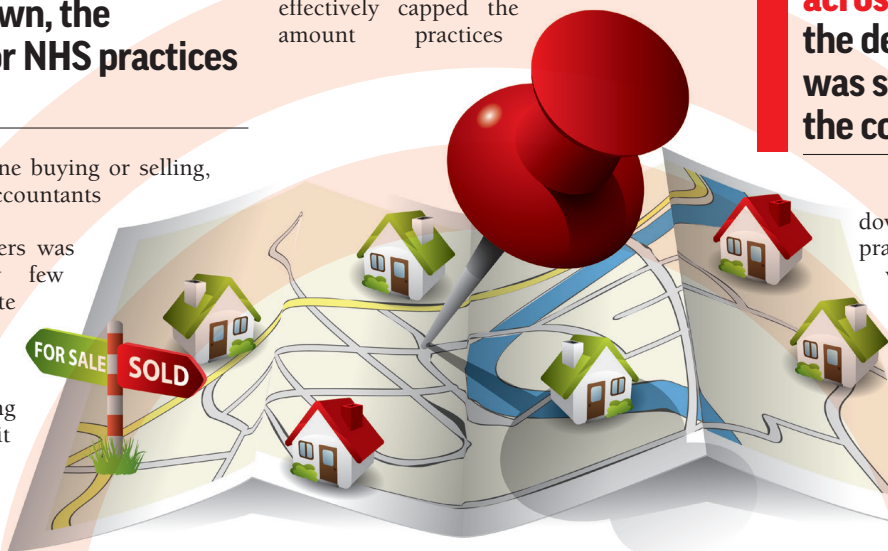
dentistry – commonly known as 'items of service' – was replaced by the new GDS contract with a fixed contract; fixed in value and for a set number of UDAs. This seismic change effectively capped the amount practices

By the mid-1990s there was a growing acceptance across the profession that the demand for practices was starting to rise across the country

term today to anyone buying or selling, was only used by accountants and bankers.

The pool of buyers was small, with very few looking to relocate to buy a practice, and the banks had yet to recognise the profession as being an excellent credit risk and create dedicated lending policies. Many transactions were

down, the demand for NHS practices rocketed. The market was seen as a 'safe haven', with funding coming directly from the Department of Health. Private practices got hit with a double-whammy of reducing income (for many), plus reduced demand, and thus were seen a much higher investment risk on the tail of a severe economic recession. ▶



25 years of practice management

25

The demand for NHS practices outstripped private practices by 10:1 for the next few years, and only in 2014/15 was there the widespread confidence to acquire a private practice again. At this time there were some excellent opportunities, and with practices owned for an average of 12 years, a view was being taken as to the longer-term funding structure for UK dentistry. This was a golden few years for sellers, with both NHS



acquisition funding to enable deals to happen.

However, we stand at the edge of a significant period of change. The funding system for NHS dentistry will be changing in the next few years; there are widespread recruitment issues and early signs that the banks are taking a slightly more cautious stance.

The next round of changes to the NHS funding could well impact on goodwill values, and depending on the changes this could create challenges for lending banks too. That said, we do know that dentistry as a profession has been rated as low risk for the

past 25 years and I expect this to continue, perhaps for the next 25. ²⁵

From 2006 to late 2008, price increases across the whole country were moving upwards month by month

and private practices being in high demand and many practices selling for in excess of the valuation price.

At about the same time there was an explosion of small groups being created, some with private equity, others with family money. The objective was to 'buy and build' through acquiring practices based on set criteria, and exit five to seven years later at a higher

multiple. This was a calculated business strategy and for many one that is still ongoing.

The lay of the land

Today, the market is relatively stable, with a good mix of buyers and sellers and importantly a generous selection of banks providing

