Finance

Reasons to be cheerful

Abi Greenhough discusses the positive aspects of the current dental practice market.

It was in late 2022 that I was writing about how to navigate the dental practice sales market in a recession. At that time, interest rates for buyers were rising, energy prices were increasing, buyers were being more cautious, lenders were becoming more cautious. In effect the market was rebalancing and becoming more of a buyer's market than it had been in the past.

There was plenty of advice in the market from some respected quarters that vendors should delay in taking their practice to the market until these headwinds had subsided. That advice was fine for vendors who had time on their side. By that I mean vendors who were not affected by the need to manage their debt, who are not near retirement age and who do not have health or family matters demanding an injection of cash.

In March 2023 I wrote about how vendors could have more empathy with buyers in order to help them secure deals when buyers in the market were more cautious than they had been before. This was good advice and we saw vendors really changing their approaches and becoming much more collaborative in their approach to selling their practice.

All these factors combined, along with seeing valuations coming down lead vendors to be cautious about bringing their practice(s) to market.

The key message I want to share with entrepreneurial dentists is that we are seeing the market pivot. We are seeing more investors willing to step in and buy the stock of practices we have for sale. Many of these investors are new to the market.

At a macro level, supply and demand always impacts a market, inflation coming down to two per cent and the bank rates being stable at 5.25 per cent since July 2023 are

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all combining to change the mood of investors.

There is also a noticeable increase in activity from entrepreneurial micro corporates and startup investors. They are searching for sustainable practices that they can transform to great practices through organic growth and developing a healthy culture. These investors are not buying indiscriminately simply to build EBITDA where the end goal is to sell to a body corporate.

I have observed more buyers entering the market with an entrepreneurial mindset. Recent headwinds have forced buyers into looking at ways of creating additional value in the practices they are targeting. These investor buyers are planning to stay in the market longer to build that value.

What we are seeing at a micro level is an increase in enquiries, viewings and offers on practices.

As just one example. We marketed and agreed a deal on a dental practice in March 2023. There were seven viewings and three offers. The deal never got to completion due to buyer caution.

We remarketed the same practice in early 2024. The practice was performing at the same level it was the previous year. Only this time there were 10 viewings and five competitive offers. These numbers may sound small but when you contextualise them you can see we have seen an uplift in viewings of 62.5 per cent and an uplift in the number of competitive offers of 60 per cent. This gives the vendor way more options, not just to get the best price with the best terms but also more choice of prospective purchasers to work with post sale.

There are seasonal trends in the market. The market does pick up in the spring of each year when the financial and NHS year end have concluded. However, the uptick in investor activity compared to last year is not simply down to that.

We have seen a 70 per cent increase in buyer activity resulting in more sales being agreed that in 2023. Anyone who pays attention to our website will see that our stock of practices for sale has gone down since its peak of 67 practices in July 2023.

Despite some of the negative press around NHS contracts, predominantly NHS practices in busy conurbations are still of real interest to the group buyers. Those investor buyers are offering between 6.5-7.0 x EBITDA.

The fact remains that NHS practices in rural and coastal locations have not seen renewed interest from investors. These practices can often be unattractive to investors because of workforce recruitment issues or the cost of retaining associate dentists is high.

For owner operated practices where the transaction is dentist to dentist, multiples have remained stable over the last three years at 3.5 x adjusted net profit.

What we are seeing is much more buyer confidence as well as different buyer profiles entering the market. Investors are confident their purchases will increase in value. Whilst I am cautious about predicting the future we are optimistic. I invite you to get your practice valued in order to get a handle on whether you share my optimism.