



# DENTAL MARKET REVIEW 2020/21

# INTRODUCTION

## WELCOME TO OUR REVIEW OF THE DENTAL MARKET IN 2020 AND THE OUTLOOK FOR 2021.

The profession adjusted rapidly to the shock of the pandemic and, despite significant operational challenges, recovered very quickly in the second half of 2020.

Considering the enormity of the pandemic and the huge disruption it has caused, the dental market remained remarkably resilient with transactions put on hold rather than abandoned. The dire predictions made by some commentators that prices would crash have proved to be well wide of the mark and most buyers took a long-term view and re-engaged negotiations soon after practices re-opened in June.

Subsequent lockdowns in November 2020 and the New Year have, to date, had little or no negative impact on demand or transaction volumes as dental practices across the UK have remained open, albeit operating within a restricted trading environment.

This confidence was supported by a recent survey for Christie & Co's Business Outlook 2021, the results of which are summarised later in this report.

Alongside our usual market commentary and predictions for 2021, we are delighted to also include an operational review within this report, which includes intelligence gathered from detailed discussions with a wide range of independent and corporate dental operators during the latter part of 2020. We are very grateful to those who gave up their time to participate and hope you find the results both interesting and insightful.

In less certain times, the need for accurate advice backed up by market-leading data is paramount. Please feel free to contact us for an informal chat about your interest in the sector.

**We wish you all the very best for a safe and successful 2021.**

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## CORE SERVICES

ESTABLISHED IN 1935, CHRISTIE & CO IS THE LARGEST SPECIALIST FIRM OF BUSINESS AGENTS IN THE UK DEALING WITH THE VALUATION AND SALE OF DENTAL PRACTICES.

We offer a full range of professional services to clients buying, selling or raising finance in the dental sector including:

- Dental practice sales and acquisitions
- RICS accredited valuations for loan security
- Commercial Due Diligence, Market Studies and Performance Benchmarking
- Lease advisory services and dispute resolution
- Investment brokerage and advice
- Finance raising for acquisition, refinance, unsecured and asset finance
- Research

Dealing across the whole market and all price ranges and practice types, our specialists have in-depth market knowledge of the area in which they live and work.

## HOW WE WORK

- **Regulated by the RICS (Royal Institution of Chartered Surveyors), we work to the highest professional standards. We advised on, valued or sold over 600 dental practices in 2020 across our specialist teams**
- **Our 'whole of market' approach ensures that practices we sell are offered to a range of quality buyers, ensuring value is maximised for our clients**
- **No buyer registration fees or 'preferred' buyers means no conflicts of interest and that our clients receive our best advice**
- **With a network of dental specialists across the UK, we have the market covered locally, regionally and nationally**

It was clear that Christie & Co had extensive knowledge of the UK dental market and a wish to understand what we were seeking to realise from a sale. I was able to call upon their support, advice and insight throughout, always making themselves available and driving the sale forward.

**Andre Van der Merwe, former owner of Hutton Village Dental Practice**

# 14

offices across the UK

# 12

international offices across Europe

# UK DENTAL SECTOR OWNERSHIP AND COMPOSITION

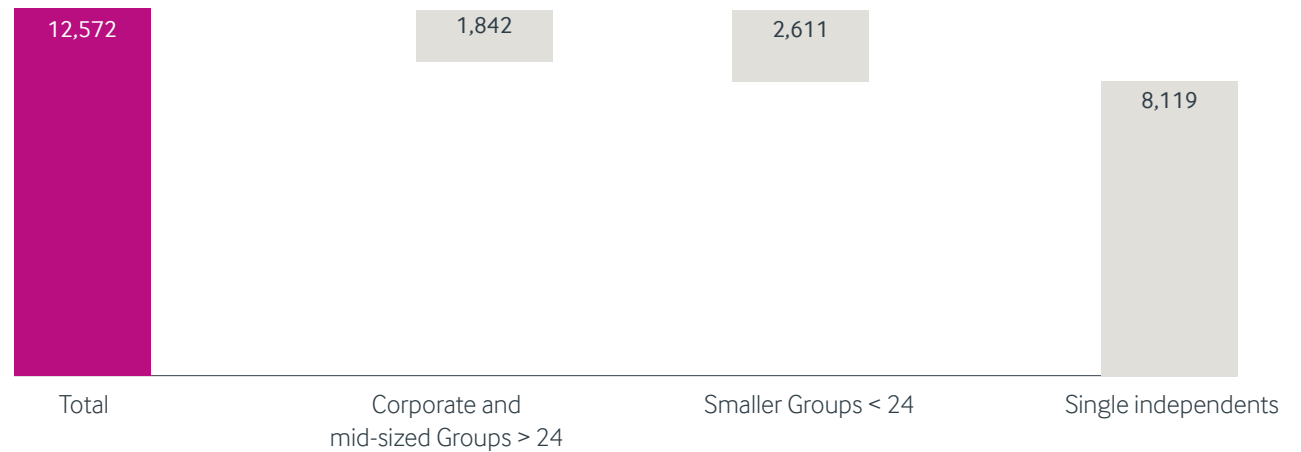
## KEY OBSERVATIONS

Despite the slower pace of M&A activity in the first half of 2020, a number of corporate and group operators accelerated their acquisition strategies from Q3 in 2020 as they made up for lost time. There was impressive portfolio growth in Q4 and this trends has continued into 2021 as more corporate and group buyers come back into the market.

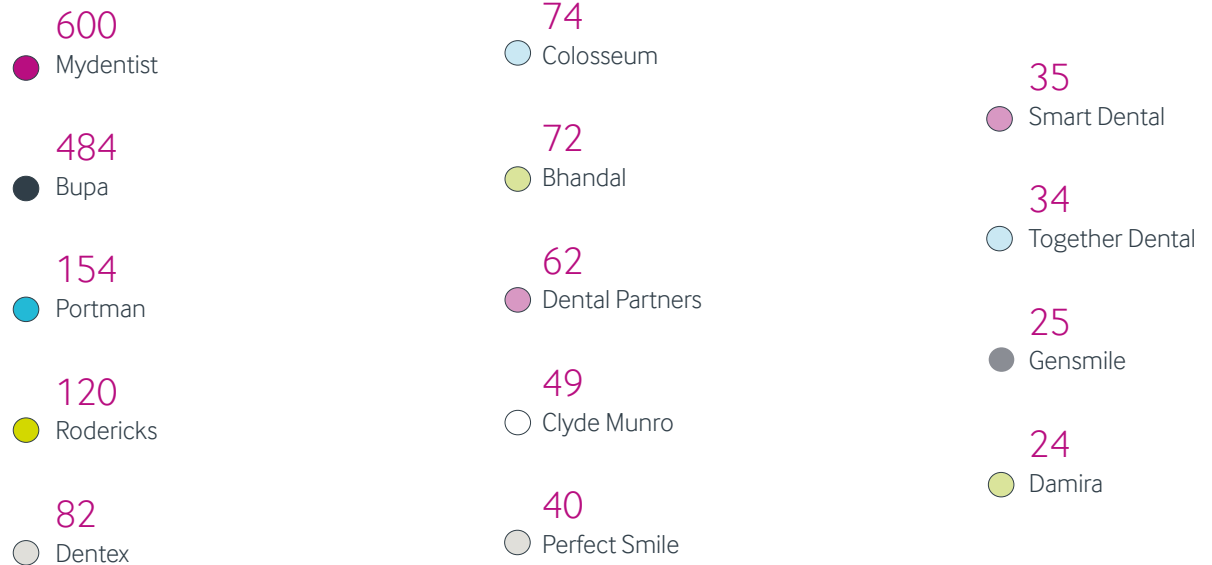
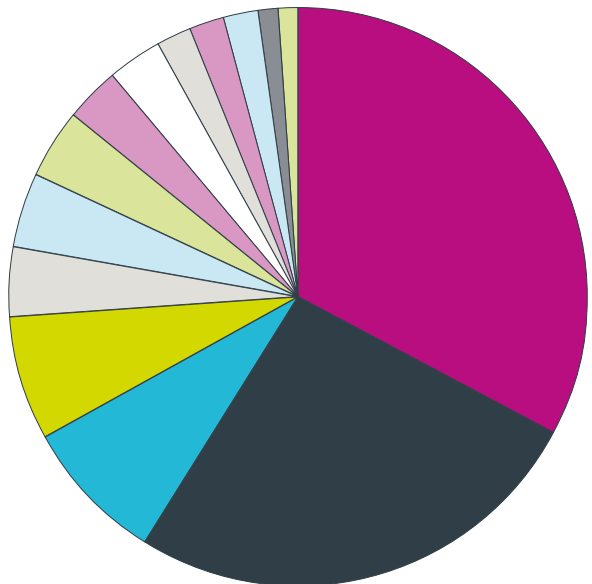
With more new practices opening than closing, the overall number of practices in the UK grew slightly in 2020 although the proportion owned by the largest ten operators was still under 14%.

The number of multiple dental practice owners in the UK marginally increased to over 525 in 2020, a slower rate than in previous years. This is likely to accelerate in 2021 as transactional activity returns to normal levels.

## MARKET COMPOSITION - TOTAL NUMBER OF PRACTICES OWNED BY OPERATOR TYPE



## CORPORATE AND MID-SIZED GROUP OWNERSHIP



## A YEAR IN REVIEW

1

### JANUARY/FEBRUARY 2020

The year begins with strong demand and activity in both the corporate and independent sectors.

2

### MARCH 2020

CDOs instruct NHS practices to cease routine dentistry including orthodontics. Urgent dental care centres were set up throughout the UK. National lockdown effectively suspends the dental market as stakeholders come to terms with the enormity and speed of events.

3

### APRIL – JUNE 2020

Dental practices move rapidly to secure their businesses, taking advantage of the various government schemes. New standard operating procedures are developed in conjunction with regulators to enable dental treatments to resume. Transaction volumes were a fraction of pre-lockdown levels although a number of advanced NHS deals did complete during lockdown.

4

### JUNE 2020

Dental practices in England were asked to reopen on 8 June for face-to-face care, and Scotland and Wales from 22 June. Buyers re-engage although the pick up of transactions is slow as the trajectory of revenue recovery for the private sector is uncertain. Buyer demand is focussed on the NHS sector.

5

### SEPTEMBER 2020

Falling rates of new infections and continued lobbying from the profession leads to staged relaxation of fallow times. Demand for practices notably stronger with a number of deals agreed pre-lockdown completing.

6

### OCTOBER 2020

Patient demand for private dentistry surpasses expectations with most operators reporting rapid turnover recovery where surgery capacity allows. This fuels buyer confidence leading to an increase in completions and normalised levels of demand across all price ranges against a backdrop of increased COVID-19 infection rates.

8

### DECEMBER 2020

The new variant of COVID-19 leads to a formal national lockdown although dental practices remain open. Demand for new practices remains strong, although the strength of the government message reduced patient flow more than when the tier system was in operation. The UK vaccination programme begins which supports demand with a record month for offers received for dental practices.

7

### NOVEMBER 2020

Tiered restrictions stepped up across the UK, but dentistry remains open with only marginally reduced patient flows reported in most areas. Banks and other lenders re-engaged in new lending, confidence supported by continued improvement in the recovery of private income streams.



## FIRST QUARTER

## ACTIVITY CARRIED FORWARD FROM 2019 INTO A NEW WORLD FROM MARCH

## STRONG DEMAND CARRIED FORWARD INTO 2020

2020 picked up where 2019 had finished with strong levels of demand across all practice types and price ranges. In early 2020 it became apparent that Bupa had suspended new acquisitions to focus on its core portfolio and whilst this sent ripples across the market, the supply/demand imbalance meant that multiple offers were still generated for most larger, quality practices.

**Corporate consolidation continued** from the previous year as private equity backed dental platforms and established corporates competed for quality practices with frenetic bidding for the larger businesses and premium prices achieved. In the lower price ranges the independents were equally active as small groups and single independents expanded rapidly, buoyed by strong trading conditions and the availability of quick, cheap finance.

**Demand for private practices was extremely strong.** Corporates and smaller dental groups sought to balance the risk of NHS portfolios by acquiring general and specialist practices either as stand alone sites or to merge into existing nearby businesses. Retaining

specialist referrals 'in house' became a key area of organic growth which fuelled this demand, pushing prices for larger private practices higher than their NHS counterparts.

## MARKET IMPACT OF COVID-19

Towards the end of February the market mood changed as COVID-19 surged into view and by the middle of March most dental transactions had been put on hold as buyers and sellers tried to come to terms with what effect the impending lockdown would have on their businesses.

## OUR ACTIVITY

Our dental team completed a number of sales in the first quarter including Bourne End Dental Practice near Marlow in Buckinghamshire. This landmark fully private practice was sold to Dentex which fended off competition from a number of other bidders to secure the business. In a busy first quarter we also sold Emsworth Specialist Practice to Gensmile and a variety of other practices across the UK.


**BOURNE END DENTAL,  
BUCKINGHAMSHIRE**

Sold in January 2020 to Dentex


**JONATHAN TAN DENTISTRY,  
LONDON**

Sold to an independent London dentist


**STEPHEN SHORT & ASSOCIATES,  
ALLOA**

Sold to a Scottish multi-site operator


**SOUTH PARK DENTAL PRACTICE,  
HARROGATE**

Sold to mid-size group operator



### SHOCK, ADJUSTMENT BUT THE EARLY SIGNS OF STABILITY

The first national lockdown led to an instant and dramatic reduction in market activity. Both buyers and sellers retrenched to focus on their own businesses and virtually all new M&A activity was put on hold.

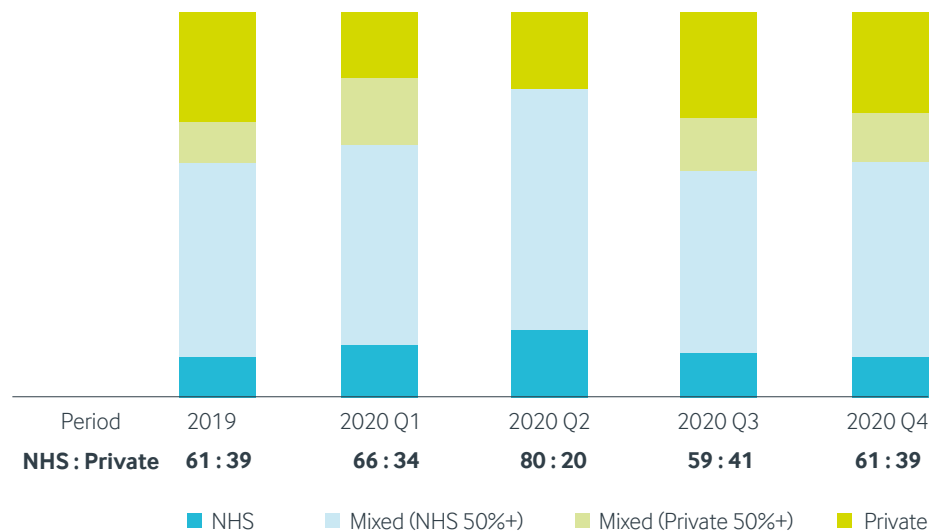
As the profession began to come to terms with the pandemic and the path to the reopening of dental practices became clearer, buyers re-engaged, albeit tentatively. Negotiations were reopened and it became apparent that the majority of buyers were taking a long-term view and that the market was in hiatus rather than decline.

NHS providers continued to be paid the full value of the NHS contracts in England, and in Scotland, Practitioner Services paid support based on the patient numbers as at March 2020

and the activity levels over the year to March 2020. Caps and cons were paid in full based on a frozen March 2020 level, as were allowances, with the average items of service over the last year being paid at 80%. A further 5% enhancement was added post lockdown to cover additional overheads. Across the UK, new demand reduced for fully private practices, although existing deals held together as buyers waited to see how quickly patient demand would recover.

Deferred consideration, a common feature of private practice sales, increased to reflect the uncertain future trading environment and additional risk. This was advantageous to both buyer and seller as pricing continued to be based on pre-lockdown trading performance. Vendor 'tie-ins' were also a sensitive part of the negotiation, especially where the selling principal was a specialist and/or generating high levels of income personally.

### A SHIFT IN PRACTICE VIEWINGS TOWARDS NHS DURING THE FIRST LOCKDOWN



Note: Q2 represents 01 April - 07 June: 'lockdown' to practices 're-opening', Q3 represents 07 June - 30 Sept: post practice 're-opening'



During the lockdown and period of practice closure, Christie & Co completed over **£8,250,000** of dental practice sales, all of which had a significant NHS element.



Deal structures adjusted during this period for some practice sales.



During the lockdown and period of practice closure, Christie & Co completed over £8,250,000 of dental practice sales, all of which had a significant NHS element. These included the sale of Royd House in Rotherham to an expanding private dental operator. We also sold Hardhorn Road Dental Practice in Lancashire and our Scottish team remained active with the sale of practices in Perthshire and central Edinburgh.

Whilst none of the corporate operators were actively acquiring until they had visibility on their own trading performance, a small number were highly active in negotiating new opportunities. They took advantage of the reduced competition in the market to boost pipelines in anticipation of more normalised trading later in the year.

One of the more surprising trends during this period was an increase in enquiries from first-time buyers and that their average age was noticeably higher than normal. A possible explanation for this is that this group of self-employed, mainly private Associates had been disproportionately hit financially during the period that practices were closed and viewed practice ownership as offering greater security.

Dental practices in the UK reopened on different dates throughout the month of June under strict new operating procedures which severely restricted patient flow due to social distancing measures and fallow time regulations. Nevertheless, this gave fresh impetus to both buyers and sellers.



One of the more surprising trends during this period was an increase in enquiries from first-time buyers of a wider age profile.



### ROYD HOUSE DENTAL PRACTICE, ROTHERHAM

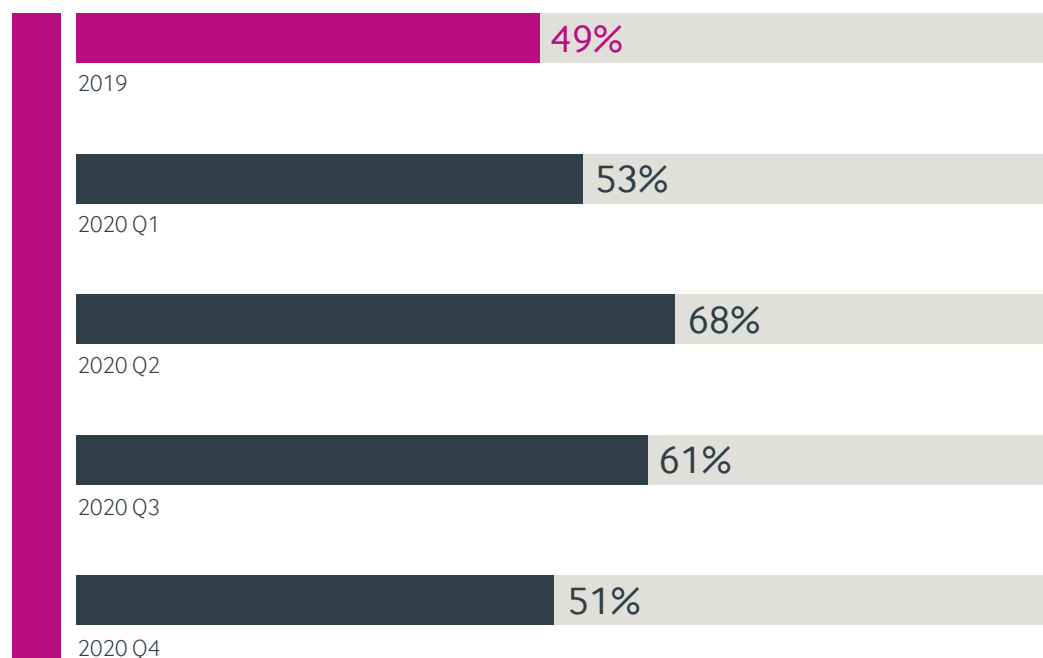
Sold to a regional operator



### GORGIE ROAD DENTAL PRACTICE, EDINBURGH

Sold to an expanding independent operator

### THE PROPORTION OF ENQUIRIES FROM FIRST-TIME BUYERS INCREASED DURING THE INITIAL LOCKDOWN PERIOD







### STABILITY MOVES TO RECOVERY AS DEMAND INCREASES. DEAL PIPELINES GROW BUT COMPLETION VOLUMES STILL REDUCED

Market activity continued to improve during the summer months with both the aggregate offer value and number of offers well ahead of Q1.

The supply of new practices to the market was limited and this led to multiple offers being generated on most new businesses offered for sale.

The increase in new buyers, particularly for small to medium practices, together with the relatively low supply of opportunities reduced the average time that it took from launch to sale terms being agreed with a buyer. This was also helped by motivated vendors recognising the market sentiment.

The increased activity was not however at the sacrifice of price. Measured as a percentage of asking price achieved, deals were struck at an average of 103% in the post-lockdown period with no significant adjustment, compared to an average of 105% in Q1.

During the lockdown period and over the summer, the banks had focussed almost exclusively on CBILS (Coronavirus Business Interruption Loan Scheme) to existing customers and relatively little new lending was sanctioned. Liquidity began to improve during the latter part of Q3. Some loans, especially to first-time buyers, included performance clauses which required the target business to achieve its pre-lockdown revenue before drawdown.

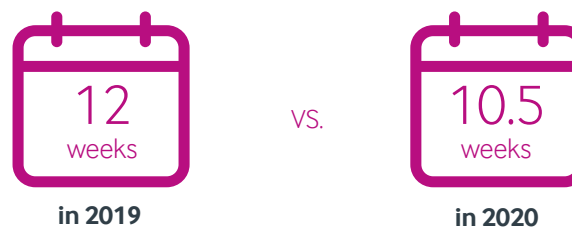
The orthodontic sector recovered quickly as it was less impacted by the new standard operating procedures and introduction of fallow times. Demand from independent orthodontists, groups and corporates was strong and the new 7+3 NHS contracts (England) attracted good levels of interest with little or no impact on pricing as a result of practice closures.

### AVERAGE OF ASKING PRICE ACHIEVED



Average sale price held up well when measured as a percentage of asking price.

### AVERAGE TIME FROM INSTRUCTION TO OFFER ACCEPTED



The orthodontic sector recovered quickly as it was less impacted by the new standard operating procedures and introduction of fallow times.



#### PRESTBURY DENTAL PRACTICE, CHESHIRE

Sold to a local expanding operator



#### EMSWORTH SPECIALIST PRACTICE, HAMPSHIRE

Sold to an expanding corporate group



#### SANDGATE DENTISTRY, AYR

Sold to a Scottish multi-site operator



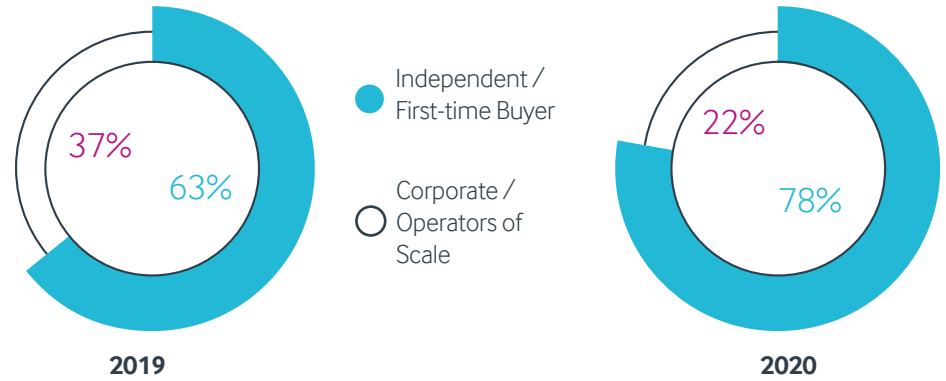
### CONFIDENCE RETURNS AND DESPITE TIERED LOCKDOWNS ACROSS THE UK, MARKET RECOVERY CONTINUES

Towards the end of September it became apparent that private dental revenue, particularly in fully private practices, had bounced back much quicker than had been anticipated, and this led to a raft of completions on deals that had been agreed earlier in the year.

The rapid recovery of private dental revenues was maintained as appointment books filled and patients returned in droves. As fallow times were reduced incrementally, patient volumes were able to increase, and those practices which had capacity saw revenues return to at least pre-lockdown levels.

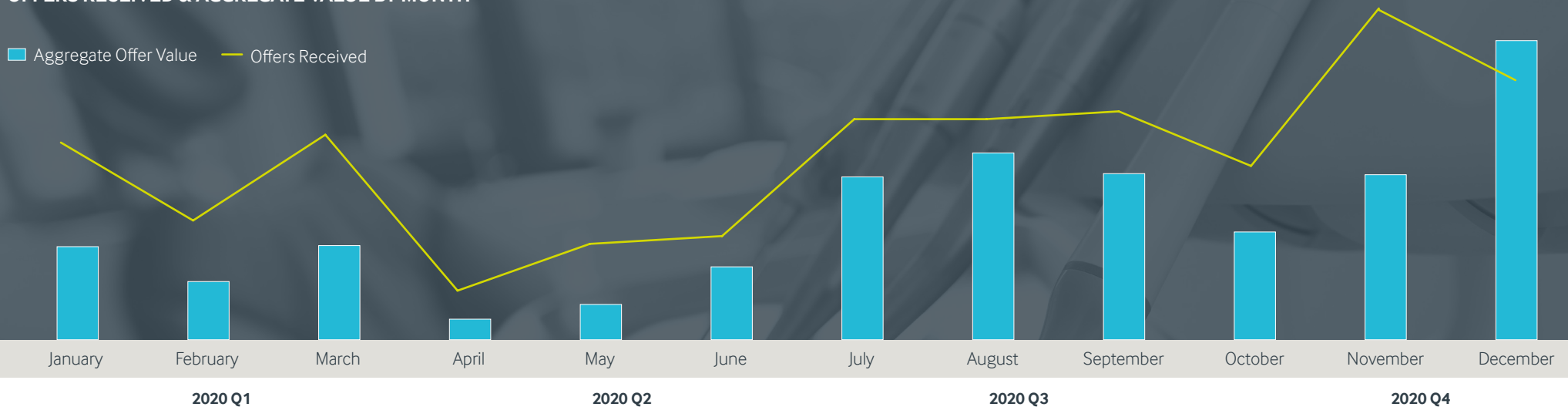
Our dental team enjoyed its best quarter by far with the completed sales of numerous practices across the UK.

### DEALS AGREED & COMPLETIONS BY BUYER TYPE



### OFFERS RECEIVED & AGGREGATE VALUE BY MONTH

Aggregate Offer Value (Blue bars) | Offers Received (Yellow line)





### **COLINDALE DENTAL CARE CENTRE AND 218 DENTAL, LONDON**

Sold to an expanding regional operator



### **KEITH DENTAL PRACTICE, MORAYSHIRE**

Sold to a multi-site operator



### **56 KNIGHTSBRIDGE COURT, LONDON**

Sold to an alternative medical practitioner



### **PRIVATE DENTAL PRACTICE, HERTFORDSHIRE**

Sold to an expanding corporate operator



The commencement of the UK's vaccination programme provided optimism that, whilst patient numbers might reduce in the short-term, prospects for dental operators were broadly positive looking towards 2021.

In London, we sold 218 Dental and Colindale Dental Practice to Smile Clinic, an established and expanding group, and also 56 Knightsbridge, a long leasehold medical building for alternative medical use.

Colosseum Dental acquired a high quality fully private practice in Hertfordshire, and further north we reported a raft of completions including the significant sale of Huntington Dental and South Park Dental in North Yorkshire.

The Scottish market also continued its recovery with sales of a number of practices including Keith Dental in Morayshire, Bluewater Dental in Renfrewshire and further completions in central Edinburgh and Glasgow.

In a year of muted corporate M&A, one of the most noteworthy events was the announcement by IDH Group in October that it had appointed advisors to explore strategic options for the business which could lead to a sale of its 600 practices across the UK.

## **RECOVERY**

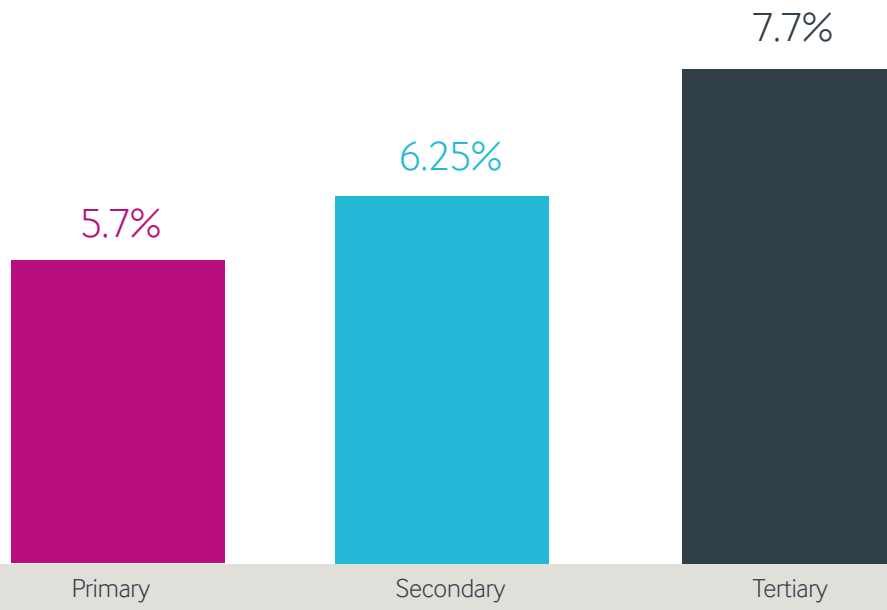
Dentistry is proving to be one of the most resilient sectors to the effects of COVID-19. This bodes well for 2021 and beyond.

The journey to recovery and reinvention was a significant focus, and a lot of progress has been made since the reopening of practices in June. The sector has turned massive challenges into meaningful change – it is evident that COVID-19 has placed a heightened emphasis on oral health and, despite lockdown 2.0, practices remain open this time round.

As the year ended and reports of the new variant of the virus led us into a further lockdown, the commencement of the UK's vaccination programme provided optimism that, whilst patient numbers might reduce in the short-term, prospects for dental operators were broadly positive looking towards 2021. As we reflected on 2020 activity, it was interesting to note the change to the profile of buyer activity during the year which reflects the surge in demand from independent buyers but also the pause of corporates and larger groups buying practices for effectively a third of the year.

## A BURGEONING DENTAL PROPERTY INVESTMENT MARKET

### AVERAGE YIELDS: CURRENT MARKET SENTIMENT Q1 2021



### DENTAL PROPERTY INVESTMENTS RECENTLY SOLD



#### PRIME DENTAL INVESTMENT IN YORKSHIRE TOWN CENTRE

- Leased to national dental corporate provider
- Sold to an independent dental investor
- Net initial yield 6.11% after purchaser's costs



#### TRADITIONAL DENTAL PROPERTY LEASED TO GROUP DENTAL OPERATOR

- 15 year term
- Sold to an independent investor
- Net initial yield 6.91%

The upheaval across all property classes has led to a marked increase in demand for dental property as freehold and long leasehold investments. Both private and institutional investors have become attracted to the resilience of dentistry and in particular, those occupiers whose businesses have significant NHS income streams.

To reflect the low risk profile of dental investments, yields have marginally reduced during the COVID-19 crisis as money is moved from higher risk property classes. Values are driven by a number of factors including the quality and type of asset, the balance sheet of the tenant

and the lease terms. The high proportion of dental practices occupying converted residential property gives investors additional security and makes this type of asset highly collectable as longer term safe investments.

5.25% - 8%

Market evidence demonstrates yields from 5.25% - 8% for prime to independent covenants.

## OPERATIONAL REVIEW AND SENTIMENT

To reflect the huge challenges faced by the dental profession in 2020, we interviewed a cross-section of corporate and independent operators at the end of the year to hear how their businesses have adapted, and their sentiment for the year ahead. The following is a summary of their comments and observations.

### HOW IS PRIVATE DENTAL REVENUE RECOVERING IN THE MONTHS SINCE PRACTICES RE-OPENED?

OVERWHELMINGLY, OPERATORS WERE PLEASANTLY SURPRISED AT THE SPEED OF THE RECOVERY OF PRIVATE DENTAL REVENUE. A NUMBER OF COMMON THEMES EMERGED AS THE KEY DRIVERS FOR THIS:

- A higher awareness of personal appearance and changing spending priorities has enhanced the profile of dentistry
- This has driven demand for treatment and in particular, cosmetic and aesthetic dentistry, social orthodontics and implants
- For some operators, a shift to private dentistry from NHS patients who are unwilling to wait for an NHS appointment
- Multiple treatment acceptance – patients choosing not to defer elective dental treatments over a longer term
- Patients are willing to travel further for high end or specialist treatments
- Demand for higher value treatments has increased with less pricing resistance
- Smart scheduling of AGPs to minimise downtime

### PERCENTAGE OF PRIVATE REVENUE RECOVERED COMPARED TO BEFORE MARCH 2020 LOCKDOWN



# OPERATIONAL REVIEW AND SENTIMENT

## HOWEVER, THERE WERE OBSTACLES IN THE WAY FOR SOME:

- The standard operating procedures (even having been relaxed by Q4) still continued to impact patient volumes and surgery yield
- Smaller practices with less surgery capacity and physical room made diary management more difficult and restricted patient flow. In contrast, those that had larger practices and/or had increased surgery capacity before the pandemic fared much better
- For NHS providers, the requirement to focus on NHS patients had curtailed their ability to re-grow private revenue and whilst the balance on upselling private treatments was delicate, patients were willingly taking it when offered
- Some noted that staff and clinicians were reluctant to return to work and in some cases unable to do so due to infection
- The true economic impact of the pandemic has not yet been felt and some queried whether the current recovery is sustainable longer term



**35%** of practice owners have higher private revenue than before COVID-19.



**85%** of practice owners believe revenue will have fully recovered by the end of Q2 2021.



**Less than 2%** of plan patients on average suspended payments during lockdown.



# OPERATIONAL REVIEW AND SENTIMENT

## HOW DOES THIS COMPARE WITH HYGIENE?

Most operators felt that the delivery of hygiene had been extremely challenging, with over 80% stating that hygiene revenue was less than 50% of where it had been before the March lockdown.

Most had reverted to manual hygiene but some commented that not all patients wanted this. The revised standard operating procedures increased costs considerably which, when extended appointment times were factored in, made the provision of hygiene less economical than other treatments.

A number of operators felt that the reduced surgery capacity had forced them to prioritise more profitable treatments. Others were able to increase the cost of a private Hygiene appointment by a significant enough margin to maintain profitability.



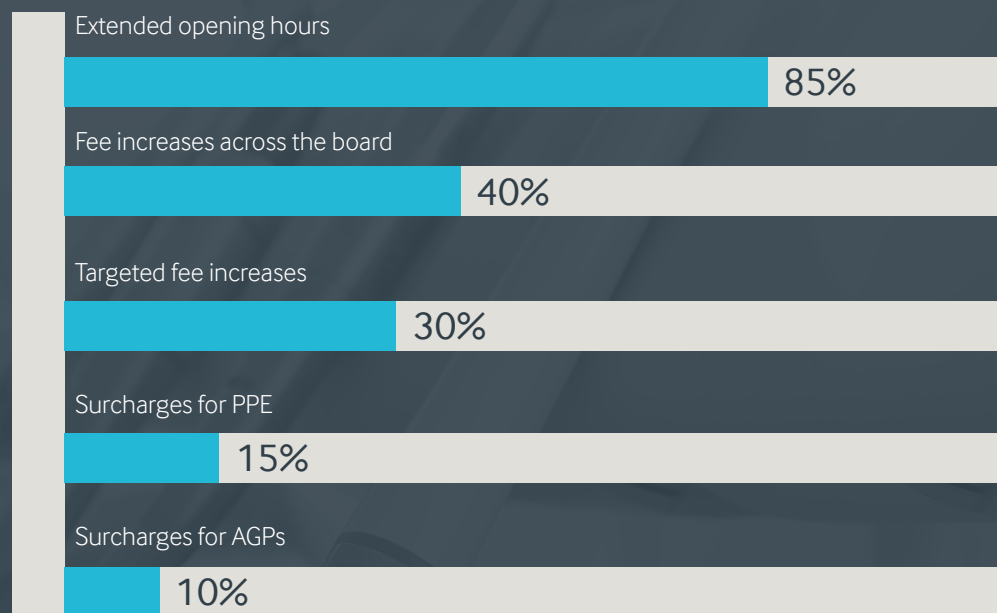
## ARE THERE ANY DEMOGRAPHIC OR GEOGRAPHICAL TRENDS EMERGING IN TERMS OF PATIENT BEHAVIOUR?

National operators commented that there were no discernible geographical differences when it came to the pace of revenue recovery, but that older patients had initially been more reluctant to attend appointments. This trend may well be reversed however as the phased vaccination programme continues and the older age groups receive vaccinations first.


An increase in new patient registrations was also noted from commuters who previously attended a practice close to work, reflecting the shift from office to home working. Only time will tell whether these patients will return to their original dentist once offices are re-occupied.

## DENTAL BUSINESSES GENERALLY ADAPTED QUICKLY TO THE NEW OPERATING ENVIRONMENT BY INTRODUCING A RANGE OF MEASURES TO DIRECTLY INCREASE REVENUE.

### Common strategies included (% of respondents)



The provision of PPE early in the pandemic was a huge challenge which led to some dramatic increases in the cost of basic items. Now that the supply chain has adjusted to demand, costs have generally returned to pre-COVID-19 levels. However, as the requirement for PPE is now greater, most operators expect the overall cost to increase in 2021, but not by a significant amount.

 Only 15% of operators questioned were concerned about a long term cost increase in PPE.

## OPERATIONAL REVIEW AND SENTIMENT

### HAS THE PANDEMIC INCREASED THE USE OF TECHNOLOGY IN DENTISTRY?

All operators agreed that video consultations had been useful in the early stages of the pandemic to prioritise essential treatments and improve productivity.

Some felt that remote consultations are here to stay and that patients appreciate the enhanced efficiencies that they can bring. Others were more neutral on remote consultations with patients, but felt enthusiastic about technology modernising other areas of the dental business including centralised online appointment booking and finance applications. Dental corporate and group operators were generally more enthusiastic about investing in new technologies.

All agreed that video technology proved to be invaluable during lockdown and dental business owners and operators were able to use the time productively for internal and external use.

Competition between dental companies was put aside as a number shared their intelligence and resources in the early days of the pandemic to ensure a consistent approach to operating. The larger companies seemed to fare better than others as they had the scale and multi-skilled resource in-house compared to colleagues in the independent sector.

Video technology was also invaluable for internal engagement with clinical and non-clinical teams as companies adapted and readied themselves for re-opening in June 2020.



Competition between dental companies was put aside as a number shared their intelligence and resources in the early days of the pandemic to ensure a consistent approach to operating was agreed.



80% of CEOs believe that video technology will be used permanently for internal communications.

### WHAT, IF ANY, CHANGES TO THE WORKFORCE HAVE BEEN EXPERIENCED AS A RESULT OF THE PANDEMIC?

The shortage of quality Associates has been a key challenge in recent years, and led to a highly competitive recruitment environment and increase in Associate costs.

The closure of dental practices in late March 2020 led to an instant shift in this supply and demand dynamic as many Associates in private practices sought the security of the NHS, in competition with Associates already in mixed practices. The use of locums to fulfil NHS contracts (England) reduced. The vast majority of corporate and group operators took a long-term view and there were very few examples of Associate rates being cut for the existing workforce.

However, a proportion of independent practice owners moved swiftly to cut costs by reducing Associates' and Hygienists' rates through a direct reduction or an increase in shared costs. Others introduced structured scales or 'ratchets' with an increasing percentage paid based on performance.

It may also be that new roles are advertised at lower rates in both the private and NHS sectors leading to an overall, if small, reduction in costs of delivery for 2021. As dentistry returns to normal levels of activity and now that the UK has left the EU, it is likely that inflation will return, so any savings are likely to be short term.

10%

OF CORPORATE OR GROUP PRACTICE OWNERS HAVE REDUCED ASSOCIATE RATES.

35%

OF INDEPENDENT PRACTICE OWNERS HAVE REDUCED ASSOCIATE RATES.

65%

WOULD ADVERTISE A NEW ROLE AT A LOWER RATE THAN THE LEAVER WAS PAID.

35%

ARE MORE CONCERNED ABOUT A SHORTAGE OF NURSES THAN ASSOCIATES IN 2021.



# OPERATIONAL REVIEW AND SENTIMENT

## NHS CONTRACT AND REFORMS (ENGLAND)

The payment of 100% of contract values in 2020 (less abatement) was received very positively by practice owners and in some instances actually enhanced the profitability of practices.

The revised standard operating procedures which restrict patient volumes seemed to some to be a pre-cursor to a move to a part capitation/part activity based system of delivery which has been mooted in England for so long.

However, although the political will seems to be behind changing the current system the challenge remains one of patient access.

Respondents were split on the subject with **diametrically opposite views** on whether the pandemic is likely to hasten NHS contract reform although a small majority felt that it was more than less likely.



We will never return to a system of UDA's  
**one dental CEO**

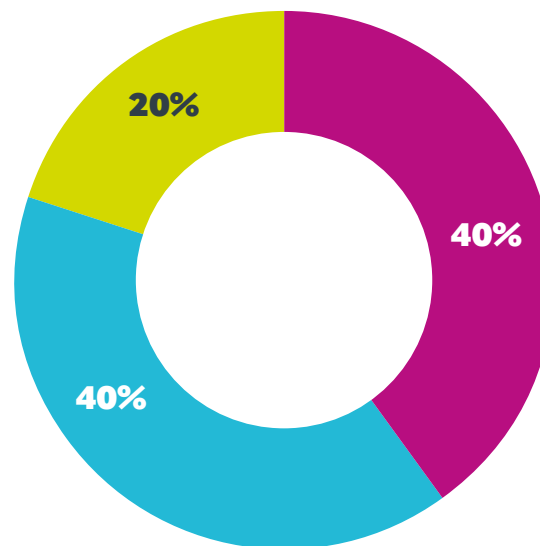


An activity based system is here to stay -  
you can't give proper access any other way  
**another dental CEO**

## WHAT WILL THE EFFECTS BE ON RUNNING COSTS AND EBITDA IN DENTAL BUSINESSES IN 2021?

Despite a sharp increase in the cost of PPE and materials at the beginning of the pandemic due to supply chain disruption, most operators appear confident that the forward running costs of dentistry are relatively unaffected.

**Most report levels of EBITDA at or even slightly ahead of pre-lockdown in March 2020.**



**20%**  
OF OPERATORS BELIEVE EBITDA  
WILL BE LOWER IN 2021 THAN 2019.

**40%**  
BELIEVE IT WILL BE THE SAME.

**40%**  
BELIEVE WILL BE HIGHER  
(LIKE FOR LIKE).



80% of respondents felt that EBITDA margins  
will be the same or higher in 2021 than in 2019.

# OPERATIONAL REVIEW AND SENTIMENT

## WILL DENTAL GROUPS ACTIVELY RETURN TO PRACTICE ACQUISITION STRATEGIES IN 2021?

Following a fallow period for new acquisitions in the first half of 2020, a number of corporate and group operators went into 2021 with large pipelines carried forward from last year.

- So far in Q1 there has been a significant increase in completions as sellers try to beat the deadline for predicted changes to the tax regime.
- We believe demand will remain strong for larger general private and mixed practices, particularly those in suburban locations with a strong and loyal patient bases. These will still attract strong competition amongst corporate and group buyers.
- Specialist practices will continue to be in demand, although buyers may be sensitive to the effects of any economic downturn on high end treatments and adjust deal terms accordingly.
- Buyers will be more discerning when it comes to the physical size and flow within the practice environment and 'COVID-19 compliance' will add a new element to practice purchases.
- The supply of new practices to the market should improve as sellers who held off in 2020 have the confidence that prices have recovered broadly to pre-pandemic levels.



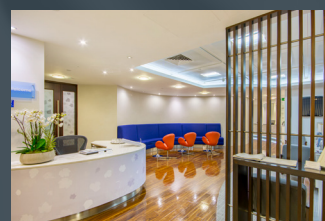
**80%** of operators questioned expect to make new acquisitions in 2021.

## KEY DENTAL SALES ALREADY COMPLETED IN 2021



### THE ESSEX SMILE CENTRE, RAYLEIGH

- Award-winning dental practice
- Seven well fitted surgeries
- Same family ownership for 55 years
- Multiple offers received



### THE DENTAL SURGERY, CITY OF LONDON

- Landmark dental practice in City of London
- 15 surgeries generating high turnover and profits
- Confidentially marketed, multiple offers generated
- Completed in less than nine weeks from terms agreed



### HUTTON VILLAGE DENTAL PRACTICE, BRENTWOOD, ESSEX

- Dual site dental practice
- 11 fully equipped surgeries
- Providing NHS and private care for 20 years
- Multiple viewings and offers received



### PORTFOLIO OF THREE DENTAL PRACTICES, NORTH EAST

- 12 fully equipped surgeries
- Attractive trading locations
- Offering NHS and private patient care
- Premium offer and terms negotiated



### WEYBRIDGE ORTHODONTICS, WEYBRIDGE, SURREY

- Six surgery orthodontic practice of the highest quality
- Predominantly private with a dual-site hub and spoke NHS provision
- Principal remaining in a clinical capacity post-sale
- Multiple viewings and offers received

## PRICE TRENDS IN 2020

Despite the huge market upheaval in 2020, multiples of EBITDA and sale prices held up well with pre-COVID levels of demand returning for quality practices.

**ON THESE PAGES WE ILLUSTRATE THE AVERAGE MULTIPLE OF EBITDA (EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION) THAT WAS ACHIEVED IN 2020 FROM A SAMPLE OF 125+ TRANSACTIONS – BOTH COMPLETIONS AND NEW DEALS AGREED.**

### KEY HIGHLIGHTS

- Multiples have moved forward significantly in recent years as the dental sector matured and corporate consolidation drove increased demand, particularly for larger and higher quality dental businesses. Despite the challenges of 2020 we noted a marginal increase in the average multiple paid for Associate led practices. The average multiple paid for Owner/Principal led practices reduced slightly (3.66 in 2020 vs 4.20 in 2019).
- In late 2019, there were the early signs that the rate at which multiples were increasing was beginning to plateau meaning that valuation increases were more likely to be driven through enhanced profit conversion rather than market movement.
- In Q1 2020, demand for larger private practices surged but as we entered lockdown in March this completely reversed as private transactions were put on hold.
- Corporate and group buyers factored increased deferred consideration into deals in 2020. This reflected market uncertainty but also hedged against the revenue of a target practice not recovering to its pre-lockdown level.



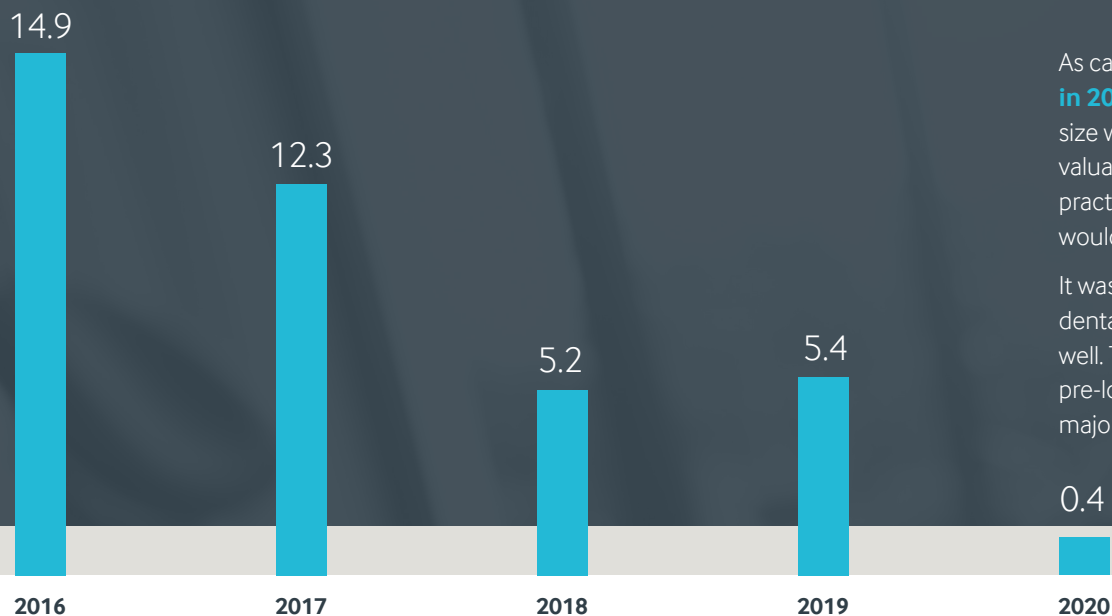
Despite the challenges of 2020 we noted a marginal increase in the average multiple paid for Associate led practices.

- Demand shifted instantly to NHS or mixed practices, encouraged by the interim contractual arrangements and uncertainty as to when private dentistry would recover. The rapidly improving trading environment from August however boosted buyer confidence. As dentistry adapted to the new operating environment, profit margins recovered and buyers had more visibility on future trading performance.
- Pricing in 2020 was typically based on pre-lockdown trading performance and generally only discounted when there were compelling reasons. There was no wholesale reduction in multiples or prices paid across the sector.
- As 2020 drew to a close, demand appeared very similar to before lockdown with multiple offers received on most realistically priced practices.



There was no wholesale reduction in multiples or prices paid across the sector.

## PRICE TRENDS IN 2020



As can be seen from the graphic, **we reported a marginal increase in average sale prices in 2020** which continued the theme of previous years, albeit at a fraction of the rate. The sample size was however smaller than in recent years and comprised all dental practice sales and formal valuations for sale purposes undertaken by Christie & Co, across all geographical regions and practice types. The analysis excludes any group valuation or disposals where an enhanced multiple would normally be achieved to reflect the benefits of scale.

It was positive to note, that despite the huge disruption caused by the first lockdown in March 2020, dental practice transactions were put on hold rather than abandoned and prices held up remarkably well. There has been some adjustment in terms to reflect the risk of revenues not returning to pre-lockdown levels and this is reflected in a higher proportion of deferred consideration where the majority of income is from fee per item private patients.

## ANALYSIS OF EBITDA MULTIPLES

	Owner Operator EBITDA Multiple		Range	Associate Led EBITDA Multiple		Range
<b>Fully Private</b>	3.22	3.49 Average	2.11 - 5.64	8.41	7.88 Average	6.34 - 9.83
<b>Mixed with private income &gt; 50%</b>	3.75			7.36		
<b>Mixed with NHS income &gt; 50%</b>	3.84	3.83 Average	2.02 - 5.78	6.89	7.29 Average	5.44 - 8.30
<b>NHS income &gt;95%</b>	3.82			7.70		

### EXPLANATION OF EBITDA MODELS

**Owner/Principal driven practices** are those where there is a working principal directly generating revenue and taking personal drawings as a sole trader, partnership or as a dividend from a Limited Company. As such the cost of the income they deliver is not reflected in the trading accounts and this results in a higher EBITDA % and lower valuation multiple. The sample of owner/principal practices used for this analysis includes a variety of practice types and locations and this is reflected in the wide range of multiples achieved.

**Associate led practices** are where there is no clinically dominant working principal or the practice is large enough to support a full team of associates. The dental income is fully costed to reflect this, resulting in a lower EBITDA as a percentage of revenue and a higher multiple of earnings to achieved price.

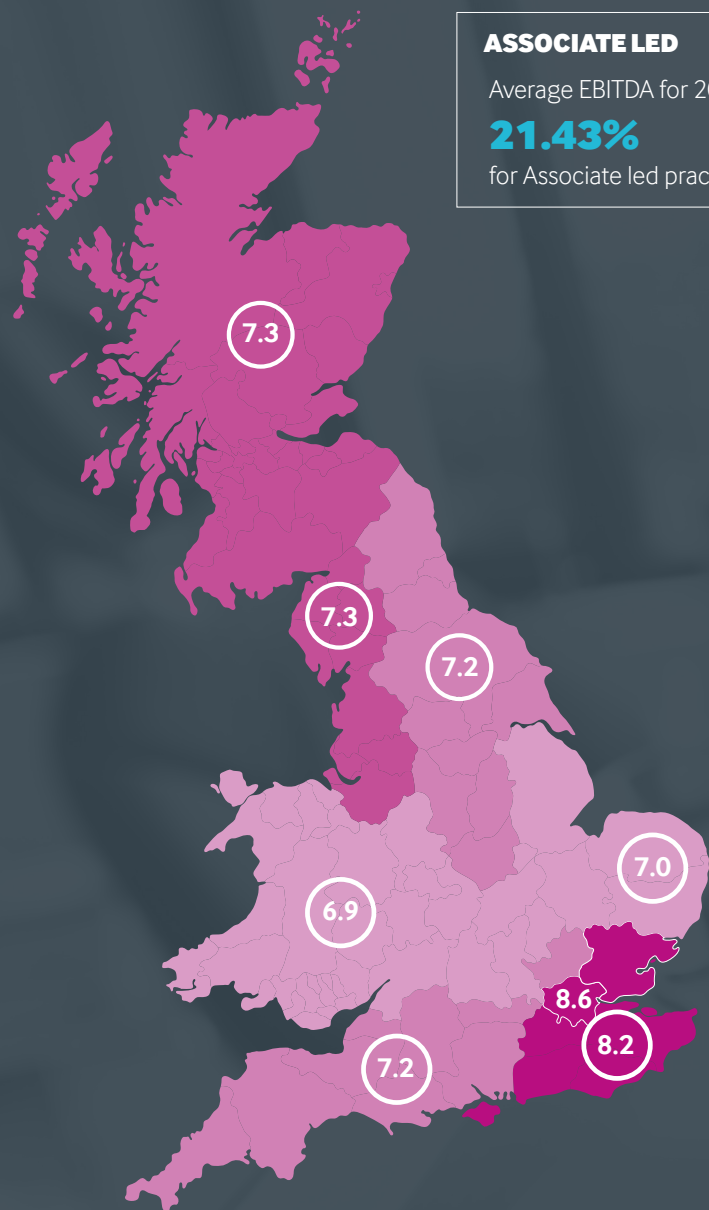
The above tables show the average multiples of EBITDA achieved for different types and size of dental practice.

### ASSOCIATE LED

Average EBITDA for 2020

**21.43%**

for Associate led practices

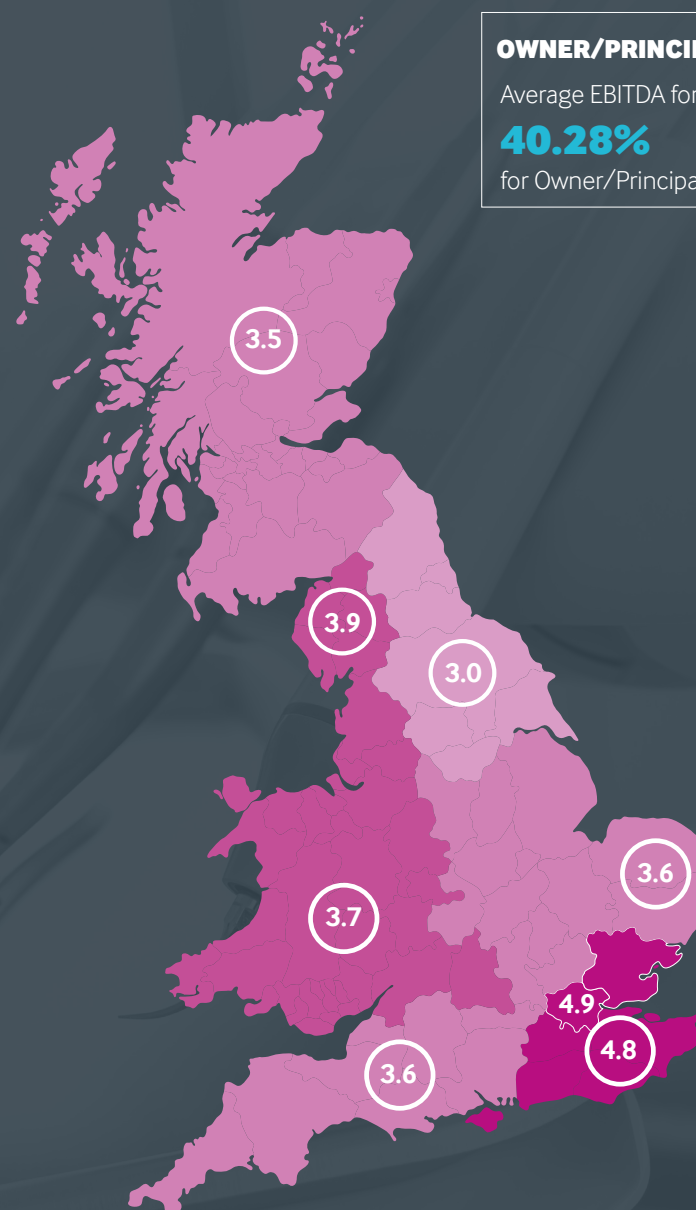


### OWNER/PRINCIPAL LED

Average EBITDA for 2020

**40.28%**

for Owner/Principal led practices



**DESPITE THE MARKET INTERRUPTION IN 2020, THE AVERAGE MULTIPLE OF EBITDA FOR LARGER, ASSOCIATE LED PRACTICES INCREASED MARGINALLY FROM 2019. THE AVERAGE ACHIEVED FOR OWNER/PRINCIPAL LED PRACTICES REDUCED FRACTIONALLY.**

## PURCHASE AND REFINANCE

### HOW DID COVID-19 AFFECT FINANCE OF DENTAL PRACTICES?

With a worldwide pandemic, long lockdowns causing dental practices to temporarily close and subsequently make some drastic changes to their working practices, you would be forgiven for thinking that lenders would have merged into the shadows and taken their phones off the hook until the UK was given a clean bill of health. However, although some lenders revised their lending policies in 2020 which meant that clients would need to find a higher cash deposit and despite all lenders prioritising (understandably) their own customers to help them through the crisis, most banks in the dental arena took a pragmatic approach and continued lending to the sector.

### LENDERS ARE A LITTLE MORE CAUTIOUS

The crisis has certainly encouraged lenders to look even more carefully at finance proposals for dental finance. Questions such as: How has trade been impacted? Is the practice more-or-less back to pre-COVID levels? What experience does the client have in managing a practice? This is on top of the usual questions about the make-up of the practice itself, how it is going to be operated and its potential.

Presenting a full and robust case to lenders is therefore essential – especially as you usually only get one opportunity with each lender.

### PATIENTS? PATIENCE!

The demand for finance has not abated and lenders are working all hours to clear backlogs. Add to this the pressures on solicitors and sellers, who need to provide the historic information whilst working additional hours to fulfil their responsibilities to their patients, and you see transactions taking a little longer than usual.

However, we have witnessed that when dentists surrounded themselves with dental-specialist advisors – broker, accountant, and solicitor – the process was shortened by weeks or even months.

## JUST SOME OF THE DENTAL PRACTICES FUNDED BY CHRISTIE FINANCE IN 2020:



### DENTAL CARE CENTRE, LONDON AND THE SMILE STUDIOS, MIDDLESEX

- Busy mixed practices
- Large NHS contract
- Purchased by an expanding independent group



### HARDHORN ROAD DENTAL PRACTICE, LANCASHIRE

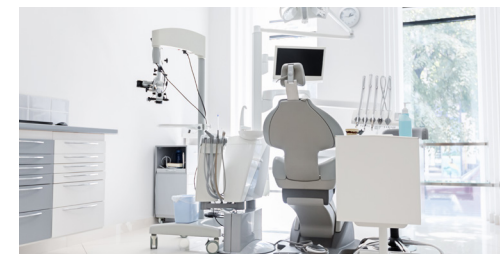
- Large mixed practice
- Six surgeries with growth potential
- Sold to two of the practice Associates

**Christie Finance obtained  
£12,000,000 worth of  
offers for dentists in 2020**



### IRBY DENTAL SURGERY, MERSEYSIDE

- Quality private practice
- Two surgeries with growth potential
- Purchased by a first-time buyer



### CANBERRA DENTAL PRACTICE, LONDON

- Two-surgery NHS contract
- Refinance for a better rate
- Working on behalf of experienced dentists



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## UNSECURED AND ASSET FINANCE

Strong cash flow is key to staying ahead of the curve within an evolving UK dental market. Fast and flexible access to competitive finance solutions can help you keep prepared and focus on providing the highest standard of dental care to your patients.

The pandemic has seriously impacted the operational capacity of practices, in many cases leading to cash flow pressures. Dentistry Online\* published data which revealed that **52% of practices** had utilised either the CIBLS (Coronavirus Business Interruption Loan Scheme) or BBLS (Bounce Back Loan Scheme) in 2020. With further findings indicating that:

### Around 11%

of practices took out a CBILS loan (mainly private practices) \*

### £105,000

is the average CBILS loan size (12% of fee income) \*

### 41%

of practices took out BBLS loans, covering all types of practices\*

### £49,000

is the average BBLS loan is (7% of fee income) \*

**Christie Finance has provided c. £4,000,000 of unsecured loans and asset finance to our dental clients over the last 12 months, with a mean average deal size of £160,000.**

## BREAKDOWN OF UNSECURED BORROWING PURPOSES COMPLETED DURING 2020:



- Acquisition
- Equipment
- Refurbishment
- CBILS
- Tax or Cashflow

Asset finance has always been an attractive facility when looking to upgrade or acquire new equipment, with numerous clients feeling the benefit of utilising the unique 'VAT inclusive hire purchase facility' enabling operators to realise the benefits of hire purchase whilst also benefiting from their VAT element of the purchase cost being spread across the term rather than being required to pay in full upfront which is very common with hire purchase agreements.

There has never been a better time to acquire new equipment with The Annual Investment Allowance (AIA) increase of up to £1,000,000 now being extended to January 2022. The AIA is a form of tax relief for British businesses that is designated for the purchase of business equipment.

### JUST SOME OF THE DEALS FUNDED BY CHRISTIE FINANCE UNSECURED IN 2020:

**EQUIPMENT FINANCE** secured for a specialist orthodontic practice in Dorset, with equipment provided from more than one supplier with varying payment terms. We managed the project on behalf of our client ensuring payment and delivery all took place in line with expected timescales.

**UNSECURED LOAN** secured for the refurbishment of a dental practice in Greater Manchester consisting of an additional surgery fit out, new air conditions system, upgraded reception area and new external signage.

**UNSECURED WORKING CAPITAL LOAN** secured to support a dental practice in Loughborough during a period of expansion, maintaining a positive cash flow position and ensuring all outgoings were managed without affecting the development project.

**SEVEN FIGURE REVOLVING FACTORING FACILITY** secured and used to accelerate NHS revenue, enabling our client to meet a tight deadline and successfully complete on a handful of problematic acquisitions.



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RCC Business Mortgages plc, trading as Christie Finance, is authorised and regulated by the Financial Conduct Authority. Our Firm Reference number is 709982. Not all types of business we undertake is authorised and regulated by the Financial Conduct Authority. Christie Finance operate as an intermediary and are not a principal lender.

# CONTACTS

## OUR DENTAL TEAM

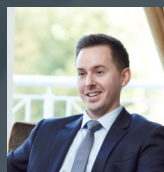
Our specialist dental team offers a full range of services aimed at independent dental practice owners, multiples and corporate operators.

### These include:

- Dental practice sales and acquisitions
- RICS accredited valuations for loan security
- Commercial Due Diligence, Market Studies and Performance Benchmarking
- Lease advisory services and dispute resolution
- Investment brokerage and advice
- Finance raising for acquisition, refinance, unsecured and asset finance
- Research



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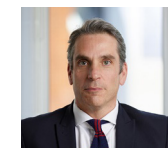
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## OUR VALUATION TEAM

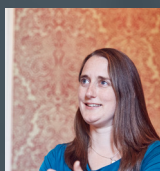
We have a team of **Chartered Surveyors and RICS Registered Valuers** dedicated to the dental sector. Working closely with our transactional colleagues we are able to draw on current market sentiment and comparable evidence.

With access to comprehensive market data, we are in a unique position to benchmark both the business performance and practice value, ensuring reports and professional advice is always well researched and well informed.

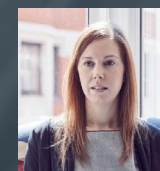
We are recognised as leading valuers by all the high street banks, as well as most of the other specialist lending institutions. Much of the work we undertake is for loan security, accounts and balance sheet, acquisition, disposal, dispute resolution, statutory compensation and taxation purposes.



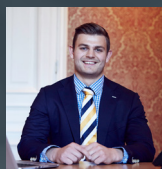
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## OUR FINANCE TEAM

**Christie Finance** is a specialist commercial finance broker, helping dental practice operators to develop and grow their business for over 45 years. As an independent broker, we are not tied to any particular lender, knowing which ones to approach to source you the commercial finance you require.

As a member of the Christie & Co Network, we are known and respected throughout the dental sector, meaning our clients are taken seriously by lenders. Whether you are a first-time buyer, an existing operator, or looking to release capital for a new venture, we can guide you through the process to secure competitive funding.

Our Christie Finance Unsecured division can work with you to secure fast and flexible finance, offering a straightforward solution to covering costs of key dental practice investment.

**All funding is subject to status.**



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