

Making Good Decisions In A Recession

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All businesses are affected positively and negatively, by factors beyond their control. Hot tub sales in the UK increased by 1000% during the pandemic as families adapted to spending more time at home. There were periods when none were available.

Research conducted by Direct Line Insurance reveals that 80% of hot tubs have been purchased since 2020. That 55% of owners rarely use them and that they are worth 50% of what was originally paid for them. As I write this e bay is showing 5,247 previously used hot tubs for sale. An example of a sector which capitalised on a pandemic, but is now having to adapt to challenges relating to the energy crisis.

It is widely reported that the UK is in recession and that it could last for 2 years. There have been 4 major recessions since the mid 80's. The banking crash between 2008-2010 and most recently the Covid Pandemic. These relatively short-lived periods of economic challenge have repeatedly tested and proven the strength of consumer appetite for dental health treatment. I find that reassuring and there is nothing to suggest that robustness will not prevail now as long as we continue to make good, informed decisions.

I share these examples simply to contextualise the types of challenges we are all facing and that 'The only constant in life is change' (Heraclitus). It is very rare to find all the indicators in your favour. There will inevitably be head winds at any given time. It is about assessing your options and making decisions which are best for you.

Let's focus on the purchase and sale of dental practices.

Dental Practice buyers come with all sorts of perspectives and objectives. We are seeing more caution from first time buyers. Existing operators and corporate buyers continue to show faith in investing in dental practice businesses.

Practice valuations are always a hot topic. A current valuation can be used to set the asking price of a practice being released to the market. Annual valuations can be used to plan longer term objectives. A valuation of a business is a great benchmark.

Valuations of practices are primarily determined by location, financial performance and revenue streams. Practice values are also linked to funding offers from lenders. As borrowing becomes more expensive we expect to see some less ambitious offers. Delaying selling your practice may be the right thing to do. What we cannot fully predict is if the market is actually better now than it will be in 12 or 24 months. Now could be the best time.

As I always say to clients. Valuations are an educated assessment of what a practice would be worth to the market. Ultimately the selling value of a practice is determined by what the market will pay. It was ever thus. Buyers are motivated to pay the least amount they have to. Brokers that work for vendors



are motivated to leverage the market to get the best possible price and terms. But any deal must work for both parties.

We have inevitably seen advice in the media to delay selling. I think it is important prospective vendors take a broader view on their reasons for selling. It could be linked to debt management, retirement plans, quality of life, family matters or health issues in addition to simply cash.

When the time does come to sell I recommend you engage a trusted broker. They will have their finger on the pulse and be able to advise on what is a good deal and what is not. It is a moving target and every penny counts.

Bank lending underpins the acquisitions market. Lenders will only support proposals which have been fully stress tested. This is to protect the borrower and the lender.

Protecting the profit margins of your business will support the buyer as the amount they can borrow is determined by the profit of the practice.

Low lending rates and stability have become the norm for borrowers. In the period 1971 to 2002, the average base rate was 7.2%. Business owners will have to plan to deliver the revenue needed to service current rates and manage their costs. Any dentist who made a purchase in 1981 will have paid 21% interest on any borrowing. But not forever.

Lenders credit policies have not changed which leads me to believe they are still very supportive of lending to dentists. We do expect bank's underwriters will take a consideration that spend on dental health will become more constrained. Changes in loan to value ratios means deposits of 10%-20% are desirable. Borrowing costs have increased by 16-19% which is likely to deter more risk averse purchasers.

The landscape is changing. History has taught us that we simply must adjust to current circumstances and get the best quality information from sector experts we trust so we can make informed decisions. Companies like ours hold seminars, attend exhibitions and meet 1:1 with clients to discuss this kind of thing. We are pleased to share our intellectual property and invite interested parties to engage with us directly or through our exhibitions and seminars.



Helping dentists exceed their business ambitions

Selling, buying or financing a Dental Practice is a professional milestone. To get the best outcomes you need an expert partner.

Our clients trust us to help them make the right decisions time after time.



We have sold dental practices in every region of the UK.



We have sold single handed dental practices, dental groups and everything in between.



We get to know our clients and listen to what they say.



See our video of Abi Greenhough, *'We know what we do and why we do it'*, and see how...

“we are here to get amazing outcomes for dentists.”

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