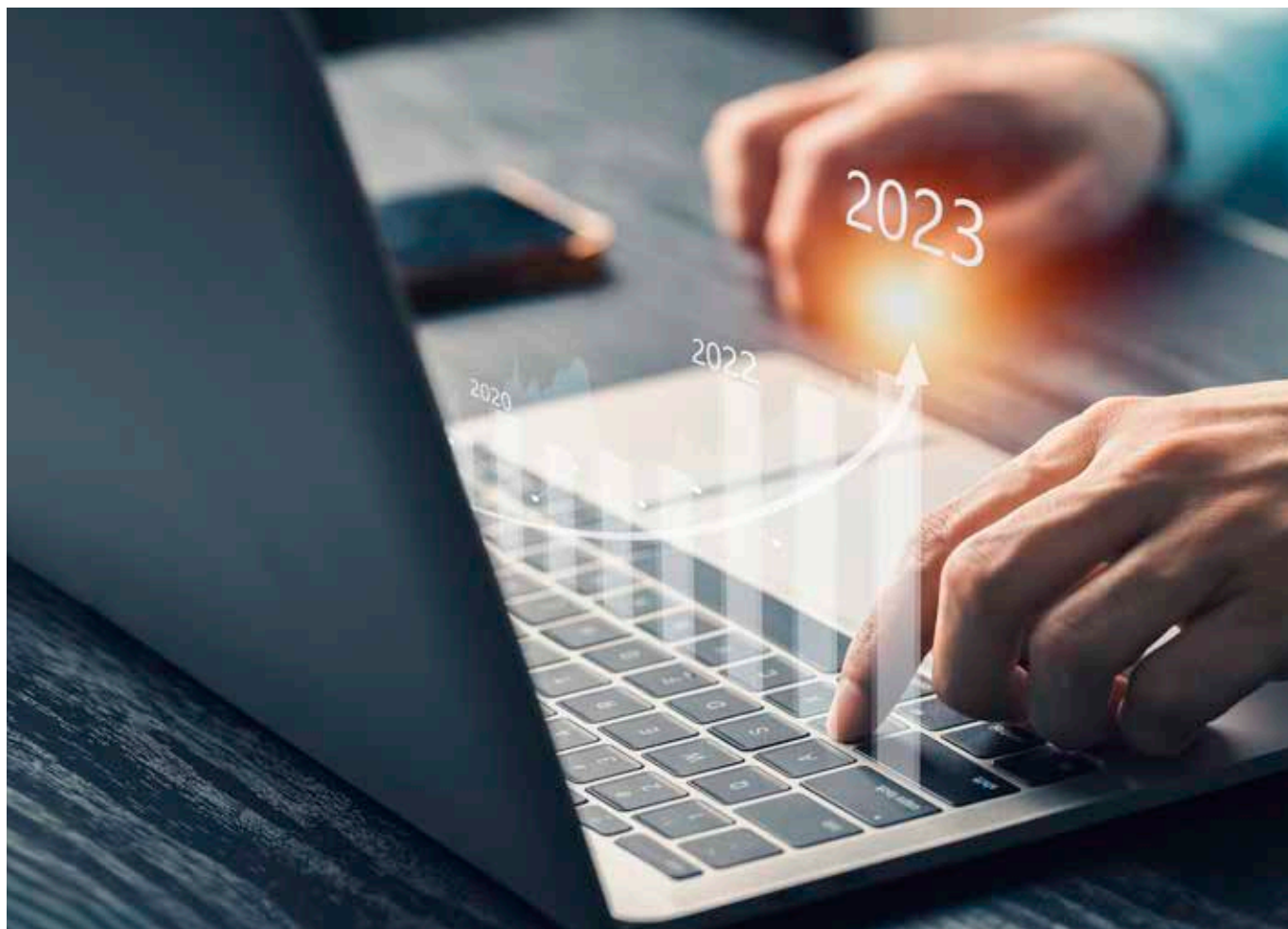


A view of the market

Abi Greenhough considers the acquisitions market in 2023.



If there's one thing the UK and global economy has sorely lacked lately, it's certainty.

Certainty governs much of what we do. It is the catalyst that turns attitudes into action. With so many unknown factors having an influence, how can

we bring some certainty back?

It starts with understanding that certainty is closely aligned to the confidence people have in the information they have access to. Does a person believe they have complete and accurate information? Does all the information hang together in a coherent way? Does a person have direct experience in the field they are thinking about? If so, they are likely to feel more certain.

One of my motivations in sharing Lily Head's market data is to provide dentists who are considering buying or selling a dental practice accurate information on this subject. Information which they can take, cross reference against other sources in order to identify the consensus in the market.

It is hard to look back over an extended period in order to predict the future, simply because there have been too many disruptors to the market in the recent past.

Even as I look back over dental practice sales completed and agreed in 2022 I have considered the annual picture, the January to August period and separately the September to December period.

This is to acknowledge the economic consequences of the September 2022 mini budget. In 2022 Lily Head clients achieved an average sale price of 3.8 x EBITDA when selling to independent buyers. The range of values was 1.8 – 5.07 x EBITDA.

In 2022 Lily Head clients achieved an average sale price of 8.47 x EBITDA



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when selling to a corporate buyer. The range in values was 7.63-9.08 x EBITDA.

Please note that corporate buyers are very focused on specific criteria. Practices with, high turnover and profitability, scope to grow that are associate-led and ones that share their culture are most appealing.

In the last four months of 2022 Lily Head clients have seen a three per cent increase in corporate deal prices, and a 14 per cent fall in values on practices being sold to independent dentists. During this period the company has seen an 33 per cent increase in principals wanting to go to market. We have seen the following trends in the market for buyers and sellers.

Corporate buyers are expected to:

- Maintain or have even improved their offers in the last part of the year. What they are doing is flexing the payment terms by deferring more of the purchase price to mitigate any risk of falling profits within the business.
- Extend the tie ins for principals. Historically tie ins were four to five years. More recently we have been able to negotiate shorter exit plans, but we are seeing a desire to return to longer tie ins.
- Switch away from the UK to focus on their interests in Europe and in joint ventures.
- Examine their acquisition pipeline to strength test deals and make sure they still fit their objectives, are viable and

can weather today's uncertainty.

Multi-site operators are expected to:

- Look towards acquisitions to expand on their portfolio and in turn, increase future sale value (£) through a more sizeable group of practices.
- Instil tried and tested operating models – rolling their experience of what works into newly acquired practices and to gain the benefit of shared resources across closely located sites.
- Use the financial security of their existing portfolio to strengthen their lending position.

First-time buyers are expected to:

- Continue their ownership ambitions, looking towards best suited opportunities which fulfil their broader acquisition and ownership objectives.
- Look towards practices that can prove their sustainable turnover and profit which support any stress-tested lending.

Inflation is expected to have peaked at 11 per cent at the end of 2022 and could fall to five per cent by the end of 2023, and finally drop below the Bank of England's target to 1.5 per cent by the end of 2024. We should note that prices will likely stabilise at a high level.

The forecast for the Bank of England's interest rate has changed since the mini budget of September 2022. The rate is now expected to increase to

5.25 per cent by the end of 2023. The impact of energy and raw material costs on inflation is likely to reduce in 2023, but there remains a likelihood of upward wage pressures.

It is worth noting that during times of uncertainty and during recessions, high street banks tend to retrench and focus on a prime customer base – typically, established businesses with healthy and defensible positive operating cash flows. For the most part dentistry fits this profile perfectly and we continue to see a positive response from lenders. Banks have not increased the margins or pricing and are keen to lend in the sector – where there is lending availability there is a strong market.

Dental principals continue to consider their position and ultimately want to secure an exit. Existing operators we speak to are keen to expand their portfolios.

First time buyers are still showing strong interest. They want to invest in a practice of their own which they can develop over their career. What we are expecting to see is that budgets may be more constrained by 10-15 per cent.

Business sales are different to residential mortgages, it is the business profits which service repayments. Furthermore, the lender will stress test to ensure repayments are affordable even with increasing interest rates. The key for owners is to focus on their business performance and profitability so the business can support the buyers' repayments and provide the buyer with more debt capacity.