Finance

Profit isn't a dirty word

Chris Major discusses one of the important principles for sellers.

How things have changed… prior to the pandemic dental practice deals between vendors and their preferred buyers' were taking six months to complete and the official bank rate was 0.75 per cent.

Fast forward to 2024 and deals are taking up to nine months to complete and the official bank rate is 5.25 per cent (seven times higher).

It was usual for the main negotiating points between the parties to be on the final valuation, length of time the vendor stays on in the practice and payment terms. There are often other points for discussion which might include property, patient base, HR and competency which came from the due diligence process which would require resolution.

The vendor experience now compared to five years ago is not so different in terms of the milestones on the way to completion, but we can safely say the experience is enhanced. By that I mean parties are likely to be more detailed in their review of the information they receive, more risk averse, less willing to compromise and ultimately more likely to pull away from a deal if they cannot get the reassurances they and their lenders need. Also, the average time from agreeing a deal to completion has increased.

In a previous article I discussed the type of attitude sellers should adopt in order to not get distracted by the noise around a deal or the length of time it takes to complete. Transaction fatigue is a real thing and it is essential vendors keep their head in the game and remember that in the words of Bill Shankly "It's a 90 minute game for sure".

In this article I want to put some focus on the importance of maintaining practice profitability and revenue right up to the point➲

Chris Major
is is the commercial director at Lily Head Dental Practice Sales.

of completion.

When you agree to sell your business to your preferred buyer then you are implicitly saying that based upon how my business is set up and performing today that a deal (£) is agreed.

In order to ensure that in nine months' time the buyer is still willing to pay that amount of money the vendor must ensure the practice is still performing at or better than it was when the deal was agreed. To get the maximum amount of value the vendor must still continue to work the business and not fall into the trap of thinking they have one foot out the door and can afford to take their eye off the ball.

The fact is that when you agree a deal with your chosen buyer you are likely to be vested in the performance for at least another three to five years.

In the majority of cases the main driver of dental practice value is a multiple of EBITDA. Simply put if you were selling an associate lead practice you could expect it to be seven times the EBITDA. If during the sales process profit drops by £20k then you will find your buyer wants a £140k (£20k x seven) reduction in the price before agreeing to complete. Or worst case, the practice is no longer being financially viable to the buying party and their lenders.

A reputable dental broker will always be negotiating on your behalf (unless the buyer is paying their fees) to negate the impact of a fall in a revenue, but ultimately the numbers don't lie. If you see the practice is declining then it is essential you share that news with your broker so they can help you. It is a bit like the advice your bank give you if you think you are going to default on a loan. Give them some notice and they may be able to help.

The key is to keep your foot on the gas during the sale and transaction process. This will ensure that the financial due diligence and the bank valuations stack up to meet the initial valuation and sale price applied. I recommend you adopt the mindset of a business leader who is expecting to spend another 15 years in the business.

If the practice overperforms then there are opportunities to ask the purchasers for more money. I always advise my clients that they should consider any money that they spend above and beyond the normal day to day activities of keeping the business going is effectively not their money. They are spending the buyers money and if the buyer does not see the value in the investment they are making or had no knowledge of it then they may decline to pay. Or they may decide to recoup that money from the agreed purchase price. This would include decisions around staff pay reviews, supplier choices, clinical remuneration and inflationary pressures.