

Mid Financial Year End 2023

Interim Goodwill Report

Introduction

This interim report covers any sales which completed between 1st April 2022 and 30th September 2022; the first six months of the financial year. There are two things to note in this analysis. Firstly, by nature of it only covering six months as opposed to a whole year the sample size is smaller than the full survey, which is released at the end of the fiscal year. This is typically about 40% of the deal volume as the end of the year is typically busier in deal volume than the beginning of the year. Secondly, in order to make the data more meaningful we have changed the way some of the data is reported. In this report, any practices which sold to a buyer who already owned more than two practices do not feature in the computation for Average Adjusted Net Profit Multiplier and similarly those practices which sold to a first time or second time buyer do not feature in the math for the Adjusted EBITDA Multiple. Whilst there are a number of practices sold which are very attractive to both buyer pools this method creates a smaller degree of error without any element of subjectivity than the method adopted previously.

A diverging market?

This survey starts to paint two different pictures and it will be interesting to see whether the early indications prove correct at year end. Specifically, there is a small fall in the average multiple paid by those buying their first or second practice albeit the reduction is 0.12x Adjusted Net Profit, which in value terms at this level is a drop in average price paid of £20,906. A level of change, which is barely worth reporting albeit anecdotally there, is certainly more caution amongst this group of buyers than a year ago, especially with the current conversations around interest rates.

Conversely the average adjusted EBITDA multiplier was 7.28x in the last survey (see note in the introduction. This figure has been re-computed to allow for a direct comparison). This figure has jumped to 8.05x. In value terms this is £156,151 – certainly not a figure to be sniffed at. This is compounded yet further if

you look at the regional breakdown. The North-West and North have overtaken London & the South-East in terms of multiple paid! This also has two explanations, the independent market in London and the South-East is much hotter and a lot of consolidators are nervous of London itself due to rising costs so this statistic is likely to be misleading to an extent, merely an indicator that in London and the South-East the best prices are still more often than not paid by independent buyers. The second explanation is that the North-West in particular has some very active and aggressive micro-consolidators who are prepared to pay very competitive multiples to 'lock out' some of the independent market. It is also an area where some of the bigger groups have made some strong acquisitions – most recently Dentex acquiring Clinic 334; the specialist referral clinic in Wilmslow.

An area where sales continue to lag a little is Central & Eastern England where recruitment is notoriously tough. As can be seen from the table, the impact is 2-3x EBITDA in comparison to areas seen as easier. On the independent side, the most urban areas continue to triumph with the general rule being where there are more dentists residing e.g. London and Birmingham the greater the value of the practices. 'The North' continues to hold strong with a busy market for acquisitions in Leeds and Newcastle in particular.





Interim Goodwill Results

	Average Completion Price exc FH	Average as a % of Turnover	Average EBITDA Multiple	Average Adj EBITDA Multiple	Average Adj Net Profit (Owner-Led)
Mixed	£2,498,225	171.52%	8.01	8.21	3.26
NHS	£872,250	151.47%	9.92	8.10	3.26
Private	£661,842	127.15%	15.21	7.66	2.89
All Practice Types	£1,280,087	148.24%	11.02	8.05	3.09

Curtains for the NHS market?

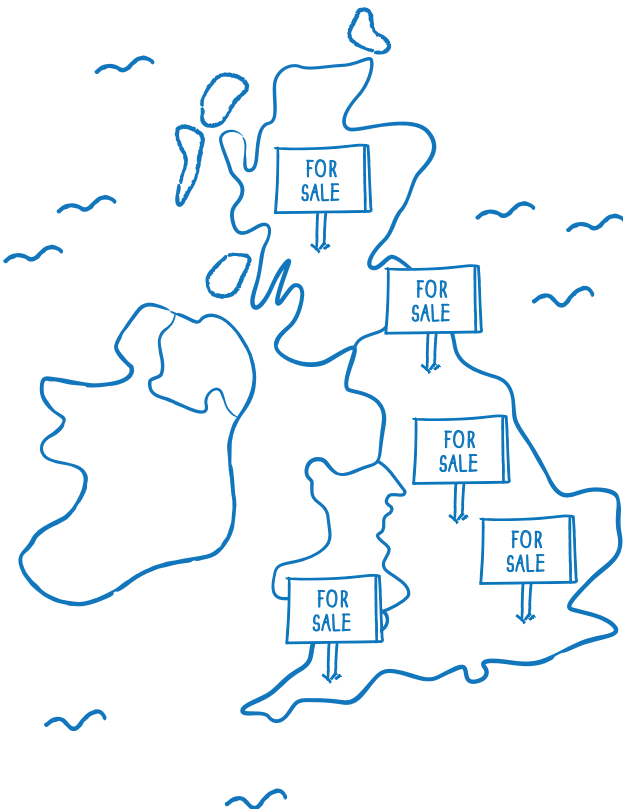
The survey says not! The market whispers would have NHS dental practices all but written off and whilst it is true that for some of the harder to recruit areas it is tough and values have fallen. This compounded by a lot of the groups insisting on modelling at £13 per UDA as a minimum which has a dramatic impact on EBITDA regardless of geography. Contrastingly, the independent market and their corresponding lenders still love NHS, particularly practices where there is good scope for further private growth. As recently as the week in which this report has been written, we are dealing with offers £100,000 over asking price on a practice at the £750,000 price level which is predominately NHS. Between the lines this is already in this survey with the average completion price for NHS sat at the £870,000 level, demonstrating that big NHS is out of favour with the market at the moment and holders of these assets might be advised to hold until the market has turned again.



The independent market and its corresponding lenders continue to be interested in the NHS market.

Regional Breakdown

Region	All Practice Types
Scotland	
Avg Price as a % of Turnover	120.61%
Avg Adjusted EBITDA Multiple	4.99
Avg Adjusted Net Profit Multiple	3.28
The North	
Avg Price as a % of Turnover	151.36%
Avg Adjusted EBITDA Multiple	8.94
Avg Adjusted Net Profit Multiple	3.46
North West	
Avg Price as a % of Turnover	118.50%
Avg Adjusted EBITDA Multiple	9.10
Avg Adjusted Net Profit Multiple	2.38
Midlands	
Avg Price as a % of Turnover	197.69%
Avg Adjusted EBITDA Multiple	8.66
Avg Adjusted Net Profit Multiple	3.59
Central Incl. Essex	
Avg Price as a % of Turnover	119.08%
Avg Adjusted EBITDA Multiple	5.86
Avg Adjusted Net Profit Multiple	2.05
South West	
Avg Price as a % of Turnover	155.00%
Avg Adjusted EBITDA Multiple	8.03
Avg Adjusted Net Profit Multiple	2.82
London & SE	
Avg Price as a % of Turnover	157.34%
Avg Adjusted EBITDA Multiple	8.40
Avg Adjusted Net Profit Multiple	3.39



Harvey Cohen recently enlisted the help of Dental Elite to sell his Dental Practice. Here he outlines his positive experience of working with the Dental Elite team:



I dealt with Phil Kolodynski who marketed the practice and then with Carl Wetton who helped with the sales process after the practice had been agreed. Both Phil and Carl were great and provided a fantastic service.

The practice was marketed by other agencies as well, who had undervalued the practice. However Phil said that a higher value could be reached through Dental Elite. Phil held a viewing day at the practice within a few days of marketing and everything that Phil said he could do, he did and we achieved an above asking price offer, from a buyer who was fantastic.

Carl was always available for any queries that I had about the sale and was always able to give me an answer. The service from Dental Elite was magnificent.

Dental Elite have helped my life and my future by achieving the sale I wanted and I would only use Dental Elite in the future. As a principal who has experienced other agencies, Dental Elite was second to none, miles better than any others.



Harvey Cohen
Experienced Director of
Dental Companies and
Planning Portfolio.



And the future...

You only have to pick up a newspaper to read of impending doom at the moment, but green shoots are showing. The third prime minister in as many months seems to have settled the markets a little and anticipated interest rate rises beyond 6% seem to have been a little over-zealous.

Likewise, the wholesale cost of energy has fallen in recent weeks. However, it is true that times will likely get tougher for most over the coming months, but historically, this has had positive outcomes for dental practice values. With the market currently favouring private practices, will this turn? Will the Dentex / Portman merger significantly affect value or will new players and existing smaller groups still make them compete at current levels? Only time will tell...



How do I know what my practice is worth?



- ▶ A free Practice Healthcheck provides a full report on value, likely deal terms and potential areas of improvement
- ▶ You might not need an agent to sell your practice but you will to get the best price

We'll help you unlock the true value of your practice

Phil Kolodynski
Associate Director of Practice Sales

