

The Dental market in 2018

Key trends, activity and pricing

INTRODUCTION

Demand continues to outstrip supply and with good market liquidity supported by strong industry dynamics, activity remains strong across all price ranges.

As in previous years, demand is strongest in London and the South East, the Midlands and the North West, where population density is greatest. Scotland too is consolidating its position as a popular market with buyers moving north of the border to find better-value acquisition opportunities.

Last year, Europe's largest corporate provider, MyDentist, halted its acquisition programme to focus on the running of its UK-wide portfolio. In doing so, it identified a number of practices which were divested.

The corporate landscape has changed significantly since 2016 with a busy round of mergers and acquisitions affecting a number of the largest providers.

Oasis, the UK's second largest corporate dental provider, was sold to Bupa. The sale increased the number of dental practices held by the international healthcare group to well in excess of 400, with further acquisitions recently completed including Avsan Holdings, a group of 16 practices in England and Scotland and Metrodental, two major London practices. Both acquisitions were brokered by Christie & Co.

Meanwhile, Jacobs Holding, the Zurich-based global investment firm, acquired Southern Dental, the UK's fourth largest group with 79 practices. It also announced the acquisition of Scandinavian group Colosseum Dental in January, Swiss Smile in June, and further portfolio acquisitions in Finland and Italy, signalling a pan-European consolidation not previously seen in the dental sector.

There was further private equity (PE) activity in the UK with investments by CBPE Capital in Rodericks and by August Equity in its dental platform Genesis which is set to grow rapidly in the coming years. We are now seeing PE routinely bidding on both small groups and large individual practices.

Activity in the independent sector remains strong with smaller groups equally keen to acquire to benefit from a potential shift in exit multiples afforded through growth. A number of newly formed groups offering a 'partnership' model continued to expand and are becoming increasingly active.

Further down the market, independents were also expanding with multiple offers generated on most practices, particularly larger businesses in strategic locations.



Consolidation continues to be the key trend in 2018. The market remains strong and our brokerage and advisory teams are engaged in a number of prestigious assignments. We also undertook over 300 dental practice valuations on behalf of a wide variety of banks, reflecting the appetite to lend to the sector and the high level of deal activity.



Christie & Co Key Recent Activity

KEY TRENDS

There was a general increase in deal activity across the market

500

We estimate that annually there are approximately **500 separate transactions** in the market, excluding major M&A activity.

-£250,000

Demand for private practices increased significantly with multiples (of sustainable EBITDA) increasing, particularly for larger practices with an EBITDA of more than £250,000. Demand for NHS/ mixed practices was still very strong, although buyers were more sensitive to UDA underperformance than in previous years.

Larger practices were in particular demand as multiple practice owners continued to develop the 'hub and spoke' model.

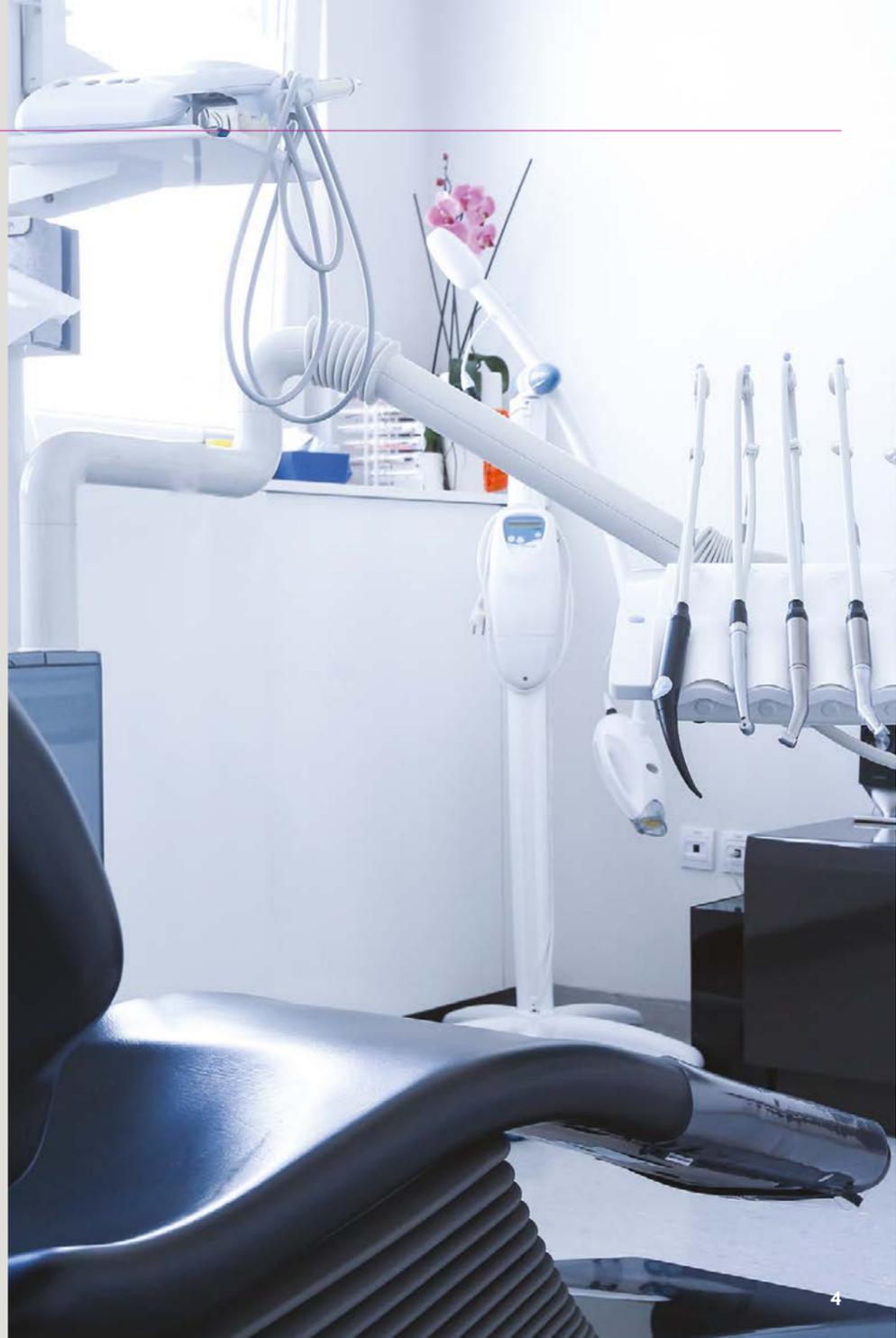
Specialist and referral practices were more sought after, with an increase in multiples paid providing the vendor and other specialists remained with the practice post completion.

A number of new corporate purchasers were formed with funding, either from private equity or through debt facilities to take advantage of the 'buy and build' opportunity that exists.

There was increased interest in the sector from private equity investors although this has been curtailed by a lack of group acquisition opportunities and credible management teams.

Deal terms became more generous to vendors with a general reduction in the amount of deferred consideration caused by **increased market competition**, particularly where a Principal dentist agrees to tie in for a longer period.

A fall-off in demand and therefore prices paid for practices occurred in more remote locations where the recruitment of dentists is more challenging.



VALUATION / ADVISORY ACTIVITY

LLOYDS BANK 

Lloyds Banking Group

173 commercial Red Book Compliant valuations with a combined value of £175.4m

 **Bupa Dental Care**

Bupa Dental Care

Ongoing rental advice and freehold valuation advice


DAMIRA.
DENTAL STUDIOS

Damira

Group valuation to help support the continued expansion and growth strategy of the group throughout the UK

 **ALLIANCE**

Alliance Dental

Portfolio review to help support the onward growth and development of the group together with investment to improve the quality of individual assets

 **Santander**
Corporate & Commercial

Santander

83 commercial Red Book Compliant valuations with a combined value of £101.2m



2016/17 confidential advisory project

Buy side consultancy advice provided to a global private equity house to support its bid for Oasis Dental Care

KEY DEALS



Multi-site private referral group, Southern England

Competitive bidding process off an asking price of £5,250,000
Bought by expanding regional corporate group
Principal retained to help grow business



Weymouth Street Paediatric Dentistry, London

Two leading specialist practices
Confidential marketing process
Multiple offers generated, sold to expanding dental partnership group



Avsan Holdings, Group of 16 high quality practices

Possibly the largest independent transaction of 2017
Located across England and Scotland
Sold to leading corporate healthcare provider
Transaction closed within 2 months of Heads of Terms being agreed



Madeley Dental Practice, Shropshire

11 surgery large NHS/mixed practice
Three partners tied-in
Sold to a national operator



Dinnington & High Green Dental Practices, Yorkshire

Two high-turnover dental practices
13 well-fitted surgeries
Sold to PE backed consolidator



Metrodental, City of London

Two larger, fully private practices
Key locations in St Mary Axe and Cannon Street
Sold within three months of instruction

Christie & Co Market Snapshot Analysis of Recent Transactions

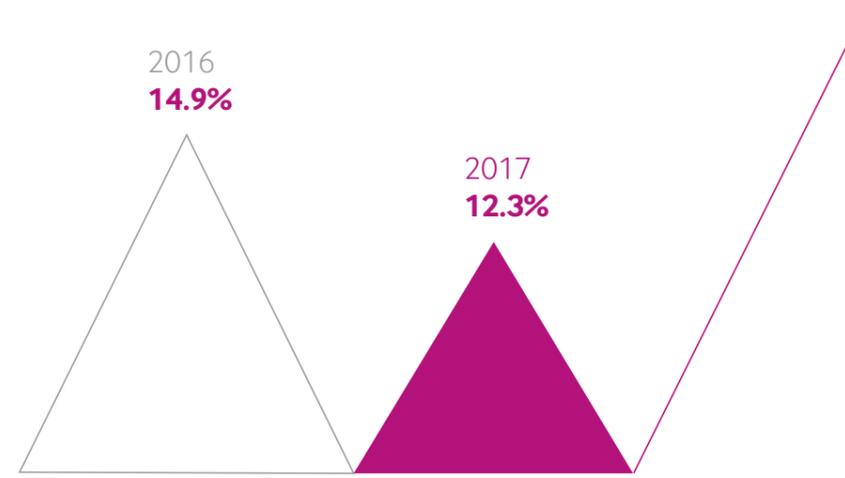
PRICE INDICES

A 12.3% increase in prices paid for dental practices was reported in our Business Outlook 2018 report

Last year saw record demand for dental practices with prices for most types of practices rising across the board. We reported an increase in prices paid of 12.3%, lower than in 2016 but still a healthy increase. Supply in the market continued to be a challenge for buyers, whether first time buying Associates or expanding groups with frenzied bidding for the better quality and located practices.

Banks remained very keen to lend and view the dental market as a green light sector, attracted by low risk of impairment and the security of income with opportunities to grow revenue through the up-selling of private treatments. Our colleagues at Christie Finance received offers from 40 different lenders in the previous year.

As in previous years, the largest conurbations generally saw the strongest level of demand with recruitment being a factor in the underperformance of significant numbers of NHS contracts, particularly in the more remote regions of the UK.



Movement in average prices, year on year

Average Sale Price through Christie & Co: £1.33m

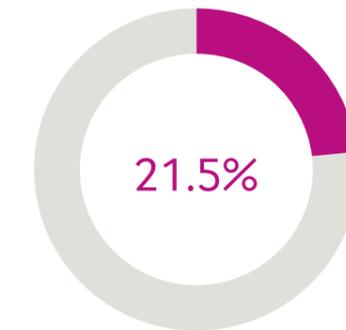
Major transactions

Date	Vendor	Purchaser	Deal
February	Bridgepoint Capital	Bupa	Sale of the UK portfolio of Oasis practices
April	Southern Dental	Jacobs Holding	Sale of 79 UK practices
April	Partick Dental	Bupa	9 surgeries across 2 sites in Glasgow
April	Private	Gensmile	Large 10 surgery high quality practice in Suffolk
May	Private	August Equity	Sale of 10 regional practices as dental platform
July	Private	Smile Clinic Ltd	8 surgery mixed practice in Ipswich, Suffolk
August	Private	Portman	11 surgery mixed practice in Shropshire. Sold off an asking price of £3.5m plus FH
September	Rodericks	CBPE	Investment in Rodericks alongside founder and CEO Shalin Mehra for further expansion of UK portfolio
October	Private	Gensmile	Group of 3 specialist referral practices in the South of England
November	Avsan Holdings	Bupa	Group of 16 practices across England and Scotland
November	Metro Dental	Bupa	2 large high quality private practices located in central London
November	Private	Dentex	2 high end specialist paediatric and orthodontic practices in the West End
November	Michael & Margaret Naylor	Genesis Dental Care	2 high turnover mixed dental practices in South Yorkshire comprising 13 surgeries

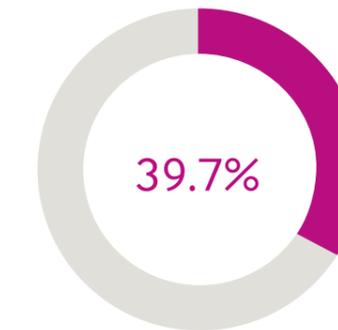
KEY TRADING PERFORMANCE BENCHMARKS (FY16-17)

A snapshot of average trading metrics for individual dental practices across the UK

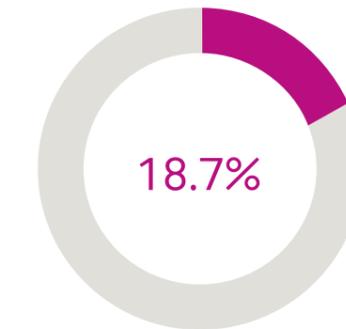
These benchmarks are based on actual historic account information gathered for our valuation reports and transactional projects over the last 2 years



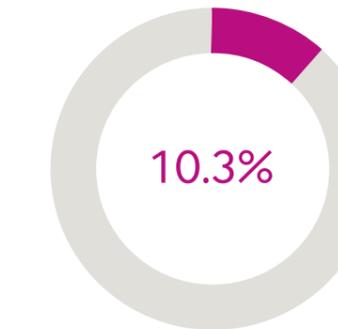
EBITDA margin (fully managed model)



Associate costs margin



*Total staff costs margin (excl. Assoc. Costs)



Labs & materials as % of turnover

*Please note that total staff costs include hygienist and therapist costs

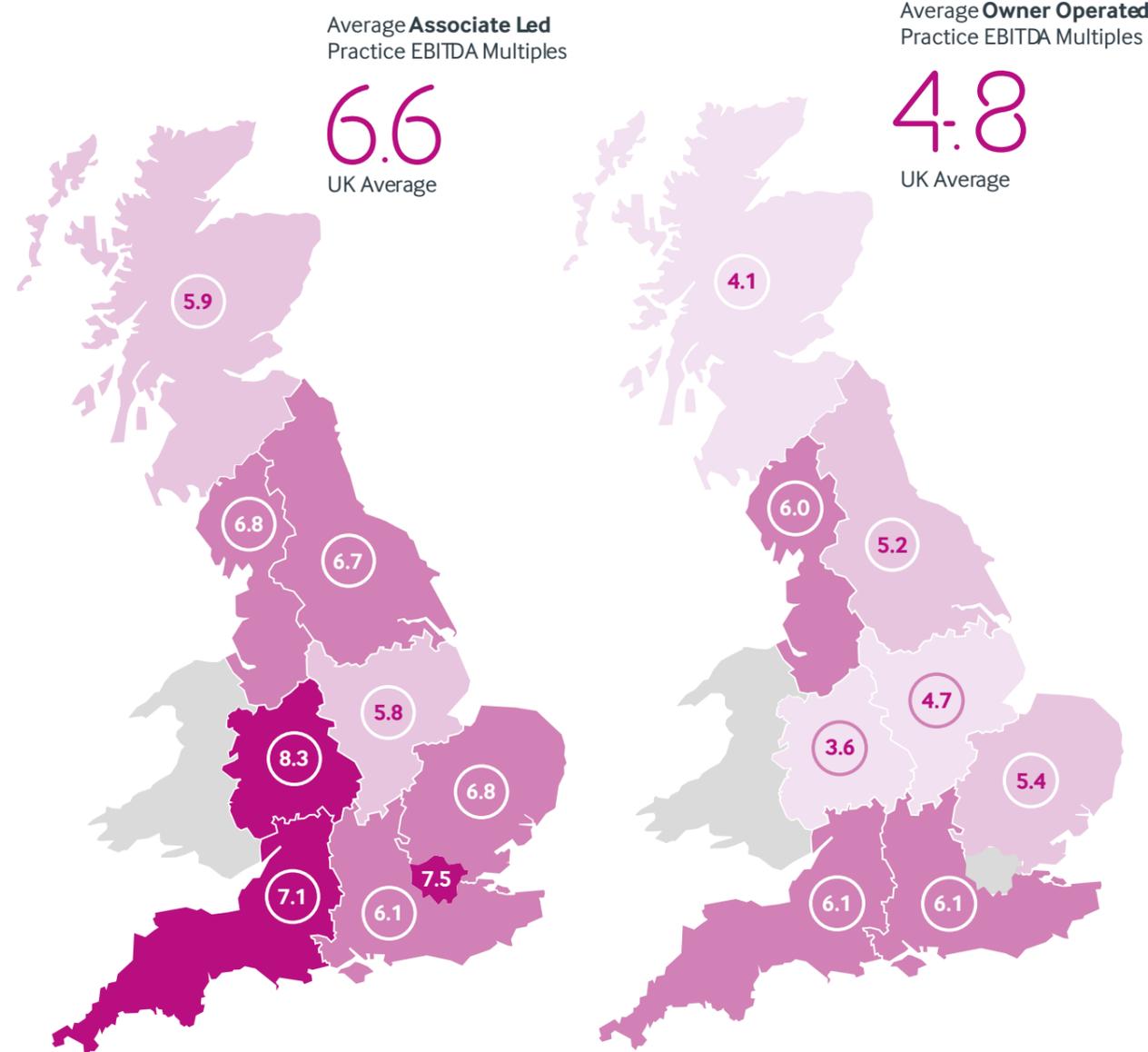
CURRENT EBITDA MULTIPLES

There is clear comparable evidence that groups sell for a premium multiple compared to single assets

The heat maps and charts set out our analysis of dental practice sales over the last six months and new deals agreed in the same period to give the most up to date reading on the market. Practices have been grouped with reference to geography, type and size.

We have also separated smaller practices with a turnover of less than £600,000 (which are likely to be owner/Principal run) from larger, Associate led practices to reflect the difference in operating margins and multiples paid.

Smaller practices, particularly those with an NHS contract (England and Wales) still tend to be priced by purchasers on a multiple of turnover whereas buyers of larger practices are generally more sophisticated and adopt a multiple of EBITDA.



CURRENT EBITDA MULTIPLES

NHS and mixed practices generally achieve higher EBITDA multiples. It is notable that multiples for fully private practices have increased in the last 12 months at a greater rate than other types

The EBITDA used to calculate the multiple paid reflects the actual performance of the business. We make no adjustments to staff costs or Associate rates unless the vendor has specifically committed to adjusting the cost base to this level prior to completion. This follows the market which is particularly sensitive to any such adjustments.

The multiples expressed are averages and are representative (generally) of the market, however, can be influenced by factors like:

- The sample size in a particular region or practice type
- An EBITDA which is significantly higher/lower than normal
- A purchaser with a special interest in acquiring a particular practice willing to pay a premium
- The timeline of a sale being constrained due to impairment or other reasons

Average EBITDA Multiple by Practice Type

Mixed

Associate led	6.8
Owner operated	4.5

NHS

Associate led	6.6
Owner operated	5.6

Private

Associate led	6.3
Owner operated	3.8

Average EBITDA Multiple by Number of Chairs

1 to 2

Owner operated	4.1
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3 to 5

Associate led	6.0
Owner operated	5.7

6 or more

Associate led	7.2
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Challenges for the Dental Sector

TRANSACTION TIMESCALES

The majority of dental practice transactions complete within 6 months

There are many factors that can influence the timing of a dental transaction such as:

Specialist solicitors – there are too few specialists relative to demand. We also find that non-specialist solicitors can cause unnecessary delays as they try to get up to speed on the nuances of NHS contract transfers and other specialist areas.

Finance – whilst a good number of banks are keen to lend to the sector, the debt raising process is a transaction in itself, which requires an independent valuation and underwriting process involving third party solicitors for the lender to validate the loan.

Property – landlords need satisfaction that an incoming tenant is creditworthy and references are needed as part of the application for 'licence to assign'. Often, leases can be quite short which means that new terms need to be negotiated with the landlord involving a premium being paid and/or a rent review.

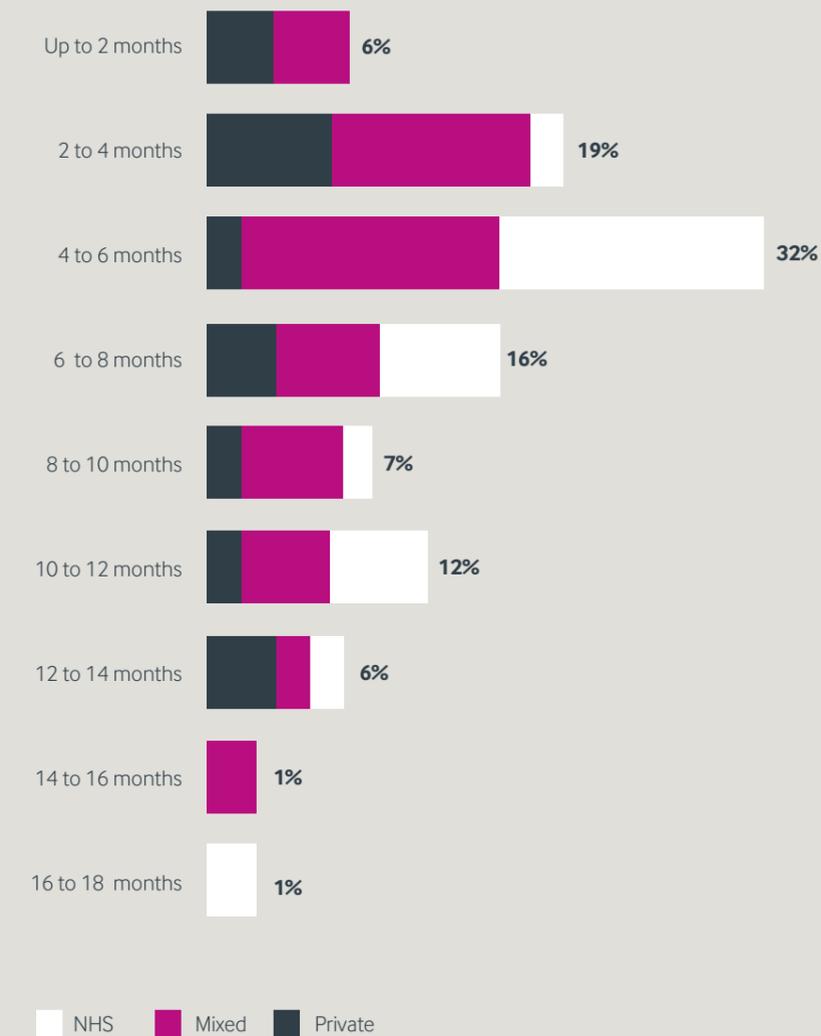
NHS contract transfer and CQC – unless an NHS contract (England and Wales) is incorporated it can only be transferred through the 'partnership route'. This ties in closely with the CQC. Agreeing on a strategy with both buyer and seller (and advisors) in terms of 'who does what' is absolutely vital or weeks can be added to the sale time. Where there is an NHS contract in place, a signed copy will always be required – this can often lead to delays if it is necessary to obtain a fresh copy from the LAT.

The SPA/BTA – the contract which transfers ownership of assets or shares in a limited company can be relatively easy to negotiate, particularly if the solicitor drafting takes a balanced view. Matters such as retentions, net asset target calculations (share sales) warranties and indemnities all form part of this. Share sales are increasingly common and can be quicker as sometimes there is no need to get a landlord's consent.

Associate agreements – where a Principal is remaining, his/her terms will need to be agreed including remuneration and restrictive covenants.

 Share sales of private practices are generally the shortest transactions 

The below chart illustrates transaction times according to different practice types expressed as a percentage of total transactions over the last 36 months



THE ASSOCIATE SHORTAGE

Our consultancy team is currently undertaking a detailed study of the UK labour market

The dental labour market, in particular, the recruitment of dentists of suitable quality, is emerging as a key issue that the sector must address. The significant delay experienced by new dentists in receiving NHS "performer numbers" led to a lack of NHS dentists and the underperformance of many NHS contracts that had previously achieved UDA target. Generally, the more remote regions of the UK have been experiencing challenging recruitment conditions for a while but this is now emerging as an issue in more densely populated areas too.

A lack of dentists will inevitably put upward pressure on pay scales and could lead to margin erosion.

Our consultancy team is currently undertaking a detailed study of the labour market and will publish our report this summer. We will be commenting on a number of key trends in the sector including:

- **To what extent is there an under-supply of Associates and how is the industry reacting to this challenge?**
- **How the more challenging recruitment environment is affecting pay scales in both NHS and private dentistry regionally?**
- **The role of therapists and hygienists in the future**
- **The anticipated impact of Brexit on the supply of EU dentists**
- **KPI and cost benchmarking**

CORPORATE SERVICES

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

- Acquisition & Disposals Advice
- RICS Accredited Valuations for Loan Security
- Expert Witness / Dispute Resolution
- Landlord & Tenant Services
- Benchmarking Reports
- Strategic Business Advice / Market Mapping
- Market Research

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