



# Considering a Merger

## Is now a good time to consider a merger?

The dental practice sales market is currently booming and this is an exciting time for dental businesses looking to expand. Buying a practice outright is not the only option available, however, and the idea of a practice merger might be a better solution for some.

There are several benefits to a business merger as opposed to an acquisition, and one of these is that ultimately, it's less expensive to effectively buy-in goodwill.

The example being that if you were to buy a practice, it might be valued at up to seven times the EBITDA (earnings before interest, tax, depreciation and amortisation). However, if you were to merge with this practice instead, the EBITDA growth could potentially be bought at less than half that price, providing a much cheaper way of acquiring the goodwill value.

What's more, combining two practices under the same roof means they are far easier to manage as a single business. Amongst other benefits, this ensures staff are within close enough proximity to each other to complete collaborative cases with ease and the practice manager can oversee the business from one single location. All these aspects increase the likelihood of success for the merger, and consequently the long-term success of the business.

While an ideal option for independent practices wishing to grow, it is just as common for micro- or macro-corporates to merge practices to increase their efficiency. If a practice has spare surgery rooms that are not being fully utilised by the existing business, then merging the practice with another will fill the space and streamline expenses.

This is also true when you consider the goodwill value of the practices – the value remains much higher when you merge the businesses together, as the potential is created to sell the combined business at a much higher price. I would even say you could double your money by going down this route!

### What to look out for

Principals looking to merge should pay close attention to ensure that the cultures of the two merging businesses align. For example, a practice that offers mostly general dentistry at mainstream prices would find it very difficult to merge with a dental provider that offers specialist services for which it charges more. If two disparate practices from different ends of the spectrum were to merge together, then there is likely to be some element of clash in the type of dentistry they're delivering.

Similarly, a minimally invasive dentistry focused practice wouldn't easily merge with a team consisting of specialists in the field of veneers, crowns or implants. If the service provided by each practice didn't tessellate and their cultures jar, this could potentially cause issues when it comes to clinical decision-making. It's best therefore to look for a practice that offers a similar provision or range of services that you offer in order to avoid this.

It is also important to ensure that the current principal is fully on board with the project. Ideally you would want to make sure that the principal moves with the goodwill, at least at first, as this will help to encourage the patient base to move across too and make the transition more seamless. The impact relocation might have on the patients themselves is necessary to consider; will the practice still be in a convenient location? Will it require an alternative bus route? Is there ample car parking? Will private patients attend a practice where there is also NHS work being offered?

Of course, any NHS merger must be completed in line with the NHS England policy on the merging or relocation of NHS contracts. In the standard operating policies and procedures for primary care it states, "dental contracts and agreements are location-dependent and are specified with the documentation". Therefore any intended merger or relocation must first be approved by the Local Area Team (LAT) in order to acquire an agreement from NHS England.

Finally, from a vendor's perspective, if you have a practice that is turning over less than £200k per annum and you are considering an exit plan, you may well want to seek advice on whether you are more suited to a merger than an outright sale. It is essential to do this before you sign into any long standing leases, as these could significantly damage the benefits of a merger, requiring you to pay an exit premium to cancel the lease.

Whatever your situation, at Dental Elite we understand the complexities you face and can provide you with the right advice to make the most suitable arrangement. This is a great time in the dental industry to consider a merger, and our highly experienced team will help you explore all the possibilities to ensure you get the very best deal.

**Hopefully this gives you an idea of what to expect with Merger Opportunities. The next Guide in the series is looks at 'Deferred Consideration' but if you have any questions in the interim or would like us to value you practice on a free and non-committal basis please contact us on 01788 545900. Once we have completed a practice visit we can provide you with a Healthcheck Report which demonstrate exactly how we have calculated your practice's value and perhaps more importantly how we feel it could be improved.**