



Practice Sales Guide

# Merger Guide



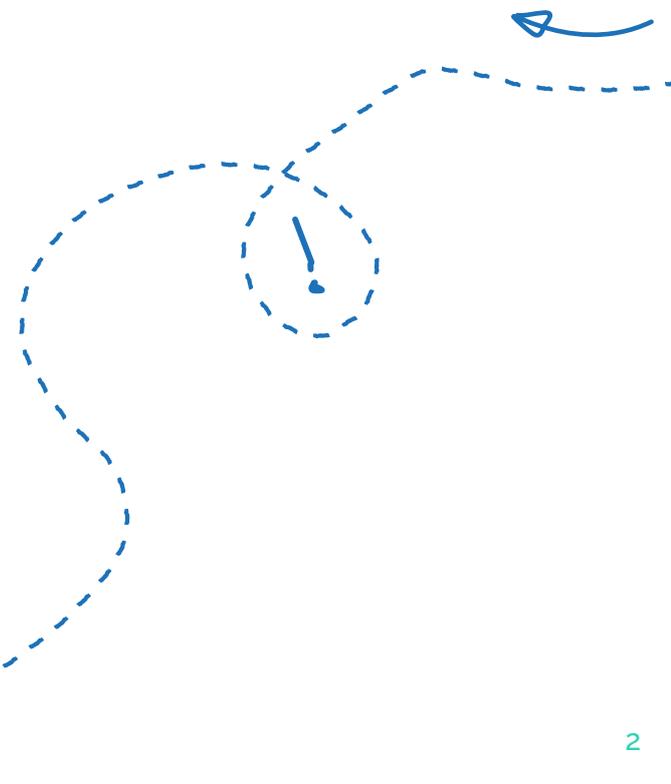
# Is now a good time to consider a merger?

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 **nine 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 a fraction of that price, providing a much cheaper way** of acquiring the goodwill value.



## Merging

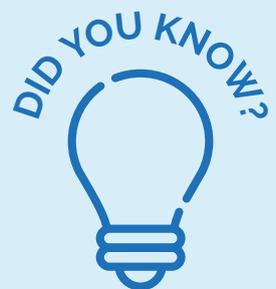
What's more, combining two practices under the same roof means they are far easier to manage as a single business. Amongst other benefits, this ensures staff are within close enough proximity to each other to complete collaborative cases with ease and the practice manager can oversee the business from 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 or conversely a service which is complementary to your own but not at odds with it.

### Top Tip

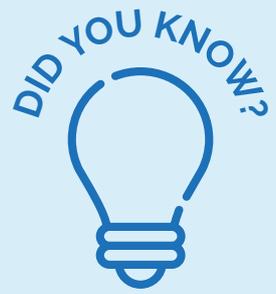
**If you are private and looking to merge you will more than likely have to stay on so budget this in your plans.**



**Any intended NHS merger or relocation must first be approved by the Local Area Team in order to acquire an agreement from NHS England.**

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' 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 especially given the events of the 2020 COVID-19 Pandemic where it was widely recognised that practices with multiple surgeries were easier to flex to a different Standard Operating Procedure and maintain revenues than a single-handed single surgery practice.



**Merged goodwill is often worth double to the new owner once integrated.**

## How do I get the best deal for my practice?



- ▶ 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

**Leah Turner**  
Director of Practice  
Sales Development



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.

To provide a small example —

- ▶ If you could acquire an NHS contract which provided **£60,000 of additional revenue in return for 2,400 UDAs** then you could likely deliver this contract for in the region of **£40-45,000 per annum** allowing for an associate to do the work and another part-time dental nurse. This would conservatively leave **£15,000 of extra EBITDA**.
- ▶ If you were to sell your practice on for say **7.5x EBITDA** this would add **£112,500 in value** to your business. However, you might be able to acquire the contract for considerably less based on current market rates. Of course you might not need the extra nurse which would add even more!

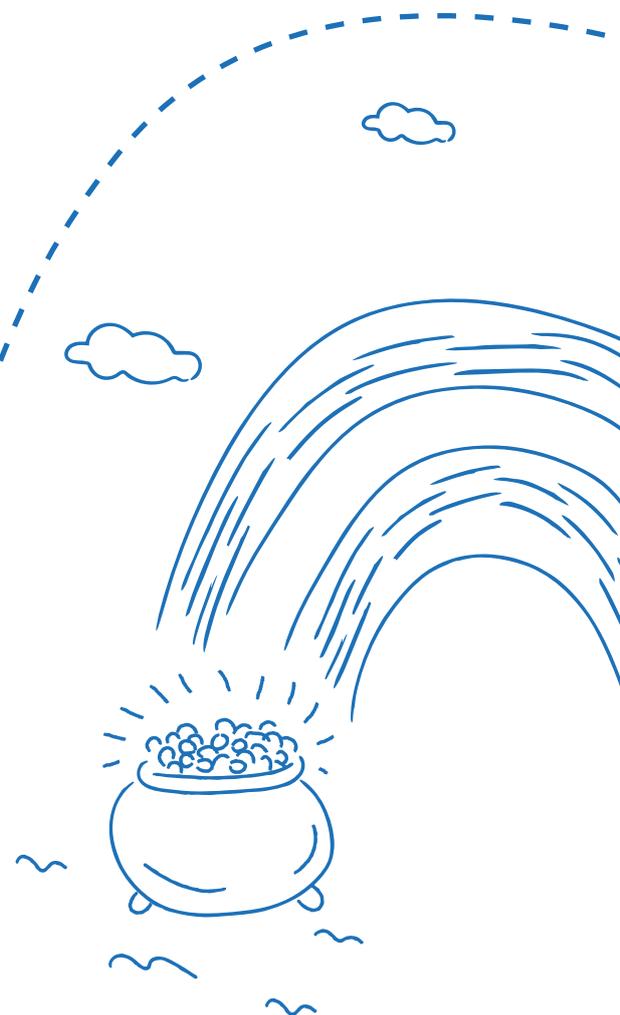
**Let's find the right arrangement for you.**

**Book your Practice Healthcheck today.**

DID YOU KNOW?



**Sometimes mergers are the most equitable way of selling dental practices which are top heavy in Freehold value.**



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