Check in before checking out

Ross Martin and **Dan Fine** provide a guide to those thinking about selling their dental practice

Here we are in a post-Brexit, post-COVID era, more than a decade after the Northern Rock debacle, and wealthy institutional investors are still looking for a place to put their cash. Healthcare is still thought to be as solid as death and taxes though so, despite the rumours, the money supply is ready and available.

Seasoned practice owners have mused for the last couple years over dinner with their colleagues, or in Whatsapp groups, 'My mate Bob sold for 6.5 times profit' and 'Just how long will it go on?'

You can't attend a webinar without the presenter providing a slide on EBITDA these days and asserting their own authority on the topic.

I suspect, though, that owners may be viewing the world only through their own spectacles, not comprehending that anyone other than a dentist would want to own a practice, certainly now. This is probably anchored to the historic position that only a dentist could own a practice. Therefore, like a kid finding the cookie jar, the surprise makes it ever so sweeter.

And so, as the private equity funds have kept pouring in, complemented by the banks' willingness to lend to associates with no previous expertise of running a business, the prices have crept persistently upwards.

Meanwhile, the profession is maturing, embracing cosmetic dentistry and 'retailisation', as evidenced by a 97% increase in revenue between 2009 and 2019 in the UK (according to Statista).

To the seasoned business owner, it then becomes a personal choice: can I be bothered to try and re-group after COVID and chase the growth that everyone else is achieving? Have I left it too late? Basic negotiation skills tell us if you have to do a deal, you'll get a worse deal. Our mantra when going through a sale process would be 'planning to stay, hoping to sell'.

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Planning to stay, hoping to sell

With 'planning to stay, hoping to sell' front of mind, the thing to do is develop the business. This may seem counterintuitive and you might think: 'What's the point of putting energy into something I'm selling?' This confusion leaves some vendors feeling deflated post-sale. They know there was a better deal but not why they couldn't get it.

Can you lose €500k that you never saw?

At Hive Business, one of the biggest heartaches is when we get a call from a potential client who is selling, or has sold,

THEY PSYCHOLOGICALLY CHECKED OUT AND BEGAN SPENDING TOMORROW'S MONEY THAT WAS 'PROMISED' WITH THE INITIAL OFFER BASED ON THE AGENT'S VALUATION without going through a well prepared sale process. We know that they have unwittingly lost tens, maybe even hundreds of thousands of euros. The reason is that they closed down all other options with the 'I am going to sell' strategy.

They chose not to develop the business because they were selling it, they psychologically checked out and began spending tomorrow's money that was 'promised' with the initial offer based on the agent's valuation.

While vendors like this are busy imagining paying off the mortgage, there are a couple of other things happening:

1. The business is perishing. There is no steady state in business; if you are not developing, you are declining
2. The purchase process is proceeding. Despite many vendors seeing the offer as the end, it is actually the start.

As a principal, you may be used to knowing what you are doing, and to people conforming to your view. In a sale neither of those occur.

Also, if you dislike paperwork then your misery will be compounded, and you won't necessarily be able to ask for help from your staff because of confidentiality issues.

It is easy to see how selling can become a highly stressful process. With the potential for 12 plus months until you get the cash in your hands, what will happen to the business in the meantime? Performance may drop and the financial model could become baggy, both impacting profitability. Now any reduction in profits, because of the 6.5x multiple you had on EBITDA, is eating into your 'sale price' of €600k, and that's only if the buyer sticks to the deal.

When starting this journey with a client, we always explain the risk of checking out too early and ask how they would react in that situation. The best answer we've received is: 'I would tell them to…' – you can guess the rest! Happily, we got this client the deal he wanted and his reactive approach, though it could have been interesting, wasn't needed. It would certainly have been ineffective.

When your only idea is to sell, you're checked out, the business is flatlining and the competition has claimed market share, will you have the energy to turn it round? What if that takes two years? Really, your strategy of 'I am going to sell' has worked exceptionally well, only the terms may not be what you desired. But let's not get bogged down in this doom and gloom; just as your practice sale can get significantly worse, it can get significantly better too.

Priming the business for sale

We've shown you how big the losses can be if you take your eye off the ball, now let's look at the obvious counterpoint: the opportunity

to win big here is still massive.

It's wonderful that prices are still so buoyant: more than five times EBITDA for the right practice.

Growth

To state the obvious, any growth in your business is multiplied by seven when you sell. But something else happens here: breaking away from the status quo can mark a seminal shift in your trading pattern. You might change gear and enter the realm of super profit growth.

We are seeing this happen among our clients, which is why reputable sales agents such as Christie & Co refer to us.

Wastage

It's equally true to say that any deficiency in the business will be magnified by seven too. It's natural for vendors to see the run up to a sale as a time to cut costs, but a good profit optimisation exercise starts 12 months out for two reasons:

- You want six months' evidence of trading at the higher profitability
- A good agent will iron out the incidental expenses.

The exercise you want to be undertaking here is those more difficult structural profit aspects such as average daily yield (ADY) performance, capacity issues and clinical methodology.

Front foot

Consider the perspective of a corporate buyer. They do not think like you. Bluntly speaking, they are genuinely happy to buy profit. However, they only want to buy real profit, not fictional profit, and this risk-based approach is something you should seriously

assimilate into your world, pre-purchase.

A non-exhaustive list of examples are:

- High quality data in your front desk system for income and new patient numbers
- Well maintained cloud-based bookkeeping
- Staff contracts
- Anomalies in tax structure.

Deficiencies in any of these will be taken advantage of, putting you on the back foot, and leading to significant erosion of any headline agreed price.

Be under no illusion, your years of blood, sweat and tears do not mean that you will be rewarded. This is silly really, because most issues are relatively easily solvable. So, give them an excuse to pay you the maximum price (they'll be quite delighted if you help them meet their own shareholder targets).

Next steps

In our next article, to be published in the next issue of *Irish Dentistry*, we'll explore your route to market, doing the deal and post-sale considerations.

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