Selling to a Dental Conglomerate – The Devil is in the Detail!

Each stakeholder in dentistry has their own opinion on the dental corporates – whether they are successful or doomed for failure? But sure enough the corporates are growing in number as Sainsburys and Tesco’s up the ante. Similarly, House of Fraser are rumoured to follow suit, which will leave the Independent Principal competing with some even bigger corporations. There are also two other players shortly to enter who I’m involved with but not allowed to mention!

Some dentists view the corporates as the devil and I’m not in this camp (nor do I hold any commercial interest in being so), but there is increasingly a number of practicioners considering selling or working for one. However, the trick is to work out what you want from them before even opening any discussion with them. If you look to sell or be recruited by any of them you will deal with well-trained individuals in their field, so the first thing is to be clear in your mind what you want out of the deal. Nearly all of the individuals I deal with for acquisitions to dental corporates have considerable clout to negotiate the deal terms so that they will work for the vendor if they are negotiated properly!

So let’s start with the decisions that should be made before entering any negotiations:

1. Price - Get a realistic idea of the value of your business from a recognised valuer or accountant with an independent view. If you were selling your house – would you only get one valuation? Lots of the valuers (including ours) offer free ‘no-strings’ valuations now.

2. Basis - Remember that corporates value your profit not turnover, read my article on EBITDA and work out what you want out of the deal. Nearly all of the individuals I deal with for acquisitions to dental corporates have considerable clout to negotiate the deal terms so that they will work for the vendor if they are negotiated properly!

3. Deal Terms – When will you get your money? On Day 1 – Over 5 Years. Work out how this would work if you were selling to another dentist. Would they insist you stick around for 5-6 years to get the full consideration?

4. Tenure - Is it worthwhile retaining the Freehold? Does the buyer really want the Freehold. There are buyers out there who look just to buy buildings tied into 15-20 Years Leases.

5. The Team – What will happen to them? How is your purchase price calculated? Will your associates have to move to the lower UDA values, just given them or not? How tenable is all? All of your staff will be protected by TUPE but there is an old saying about wills and ways!

Of course this list is not exhaustive, just an illustration of the four key principles I would request any potential vendor consider before opening negotiations because it is easy to get too far down the road and then consider the outcomes post-sale.

Once you have decided the outcome, you are happy with, then the negotiations roll on. Remember, that if you have had two independent valuations from trusted sources then the chances are that their valuations should hold firm. Do not let a purchaser talk down the price of a practice. Put simply - if they don’t like the practice they won’t buy it all.

Remember there are always other options. Yes the ADP-IDH Merger has in essence removed one competitor from the market, but there are ample small groups and purchasers out their looking for the same stock as them. There is also more than one corporate buying private practices. Competition is everything! Do not feel guilty for shopping around. Some people fear that if they shop around they will lose the initial offer they had. This may be true in House Sales but not true when you are selling to a conglomerate. Unless their funding pot dries up (which it would have done anyway during the DD process if it was going to), your offer of £500,000 will still be there in three weeks time! Always remember for NHS practice sales, try times out of 10 in the driving seat!

For Private Practices, make sure the deal lights are on and not just a flicker. If you are selling to a corporate you will most likely have to stay on, so take some time to understand how their practices are run. Will they guarantee the marketing spend? Will they invest in the latest technologies? And what lab / implants/orthodontic appliances can you use? How is any deferred consideration linked to the practices/your individual performance? What is tenable is this especially with any changes they may be intending?

OK, so you’ve agreed your offer and you’re happy with the price and the terms. Now for the associate contract. In all likelihood the contract you gave your associates is probably based on the BDA Model but how does this new agreement work and how much freedom does it give you? What happens if you really don’t like it, what sort of notice period can you give them, or perhaps equally important can they give you?

Take a Deposit – “I’m a corporate and I’m not allowed to mention!”

Why not? I can tell you that I’ve sold practices to corporates and they can and will pay a deposit. This means that if they change their mind or decide to change the terms at the last minute then there is at least some recom pense and it means that your legal fees up to that point will be covered.

The Changeover – Different groups do things different ways but normally there is a short period between exchange and completion where your associates and staff will be informed of the sale and introduced to a member of your chosen purchaser’s management team. Normally at this point they would be given their new associate agreements for post-sale and given an opportunity to ask any questions of likely changes that will happen. The biggest change for a lot of practices is a change of software!

Take a Holiday – I could use a cliché here; take one you deserve! However, this isn’t my main sentiment. Initially, there will be a psychological barrier to overcome for both the selling principal and the staff if you are remaining in the practice beyond sale. You will normally feel the need to sort out any problems and they will come to you with them. I always advise any principal to take a fortnight out of the practice in the initial weeks post-sale to allow the staff to adjust to the new management regime and chain of command which means upon return it is very likely you will be back in the driving seat!

For Private Practices, make sure the deal lights are on and not just a flicker. If you are selling to an associate as 50% of the battle will be fought, the other 50% is up to you and it’s this 50% you have to consider before you even open the negotiations!