

COVID-19 Practice Sales Update

I know we have all had enough of Covid-19. I promise not to speculate on the future (nobody knows anyway) or get stuck talking about the number of cases, Canada vs. the U.S., or anything else “generic” about this horrible pandemic. I will, however, take the chance that you are interested in real-life stories about what is happening in the market for what is likely one of your most valuable assets.

Just like your business, our business came to a grinding halt in mid-March. All the deals we were working on were put on hold. Valuations were re-scheduled. Banks stopped funding all but the overly-secured deals which is understandable. Everyone went into crisis mode and we discovered Zoom! We have had deals fall apart, people pull listings because their nest egg was badly eroded, people put their practices up for sale for health reasons or out of fear, and sadly, we had to help one family deal with a practice sale due to a Covid-19 related death of a dentist.

As the weeks and months went by, the uncertainty started to wane and people started to make forward-looking plans again. The cases below are actual deals and timeframes so you can see what has happened in the market thus far and make your own predictions of what this all means for you.

Case #1

This was a very good practice that billed over \$1M with a large patient base in central Toronto. However, it had a bad lease with a demolition clause. Showings were scheduled in mid-March either by a virtual tour or safe showing. By the end of March, 5 offers were received. The vendor decided to accept the offer of a neighbouring dentist who paid a nice premium, but it was not the highest offer. The transaction was originally scheduled to close in early July, but closing was delayed to the end of July. There were no adjustments to the price or terms. The vendor also voluntarily deferred some associate compensation to assist with transition cash flow. Both sides are extremely happy with results.

Case #2

A nice associate driven practice in its own building in a small town was listed in mid-March. A decision was made to hold off on showings until mid-May due to Covid. The showings were done in both a safe manner as well as by video link. Multiple offers were received at the end of May and the vendor elected to go with the highest offer. At this point, practices had not reopened so there was language dealing with closing being determined based on the reopening date. The purchaser offered a pretty high premium to the combined value of the practice and the building. However, there was difficulty in getting financing approved at that level so a price abatement of about 3% was agreed to by the parties. The buyers were also required to inject some cash to cover part of the premium. This financing process took the better part of 2 months which is uncharacteristic of the banks under normal circumstances and can be attributed to

Covid. Currently, we are waiting for the completion of inspection reports and expect the deal to close in September.

Case #3

This scenario involves a very well established practice in its own building in a mid-sized town less than 1.5 hours from Toronto. The practice was listed in early July, and safe showings occurred in mid-July. Multiple offers were received. The vendor selected the highest offer by a very narrow margin which was a nice premium to the appraised value. Due diligence is underway presently and the legal documents have been drawn up. The vendor and purchaser have met multiple times and are working towards the original closing date of October 1st.

These are just a few examples of practice sales that illustrate what has transpired thus far. Clearly, the sky is not falling. Patients are coming back and many clients are reporting unprecedented demand likely caused by the 3 month shutdown. We have been fielding numerous calls from people who “hear” that practice values are falling. That is simply not true. Dentistry is a very profitable healthcare profession/business that is somewhat recession proof. The DSO’s (Dental Service Organization’s) exist to capitalize on the profitability of dentistry. Individual dentists are well-advised to think that way too. There is no question that our world has changed, but there are still plenty of opportunities to prosper and be fulfilled in dentistry.

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