

One year later. Where are practice values and why?

It was like a bad dream. One year ago, our world changed forever. The pandemic raged throughout the world, and resulted in the immediate shutdown of the traditional dental market. The pandemic had more significance for the dental industry as one of the first outbreaks and tragedies was related to the popular Pacific Dental Conference.

When this shutdown occurred, not only did dentists close their doors, but practice sales stopped dead. Banks stopped lending, and purchasers stopped purchasing. At the time, the dental market was in a precarious position. In fact, with one wrong move (i.e. evidence of virus transmissions related to dental office visits), there was a distinct possibility that the public could have changed their perception of dental offices being safe and over the long-term, would refrain or reduce the frequency of visiting the dentist and dental offices except, for emergency procedures. In addition, there was also the possibility that because of additional ownership risks and costs, the concept of ownership may be less appealing.

Thankfully, because of a strong response from dentists, who made big sacrifices, and significant investments into safety measures, dental offices have retained the confidence of patients as being safe and an important healthcare service.

While we are nowhere near normal, here is what happened. During the initial few months of recovery, because of pent up demand for services, many practices experienced a surge in revenues as they caught up with delayed treatments. Later in the recovery, as the initial surge subsided, practices somewhat returned to normal revenues, but still had issues with consistency with the important hygiene and recall programs. The good news is that if you have kept in touch with your patients, those patients should still be loyal, so as we get closer to overcoming this pandemic, patients will start to return to their normal dental cycles.

What has happened to the dental sales market and dental office pricing during this recovery, and what will happen in the future?

The good news is that as practices opened up so did the banks. In fact, all of the practices that we had conditionally sold prior to the shutdown were successfully closed, with few adjustments related to the new potential future risks.

What is not surprising is that this new reality changed the timeline related to the sale of many dental practices. It seems that the added stress of all the changes, the extra costs, and staff issues are leading dentists to decide to sell immediately or in the near future.

In addition, although we haven't seen the exact results yet, we expect there to be a significant increase in operating overhead for most practices due to the extra safety measures. The extra costs are associated with:

- the actual preparation of the practices, (air cleaners, room dividers, compliance reports, etc.)
- the increase in supply costs from price increases, and extra PPE costs, and
- a decrease in workplace efficiencies related to a reduced number of patients in the clinic due to increased fallow times, and sanitizing regimens.

From an economic perspective, the factors mentioned above combined with the fact that the return of hygiene is sporadic, should have resulted in a significant reduction of dental practice values. However, despite the supply side indicating that practice values should have fallen, what actually happened is a huge surprise! The dental practice market has more or less recovered to pre-pandemic pricing levels. As a matter of fact, since reopening, PPS has actually achieved sales at near record price levels.

Why did this happen, and what will the future look like?

We all know that there is an oversupply of dentists in Canada. This had led to an oversupply of buyers which has fueled competition for the purchase of excellent dental practices. In addition, there are also buyers who are investors with a long-term outlook. They are always looking to acquire good practices to build their portfolios and to generate returns-on-investment.

As a result of the pandemic and despite banks being more cautious, many buyers became more aggressive in looking for distressed practices to take advantage of opportunities where owners wanted out or simply wanted to eliminate their ownership obligations. Further, demand was enhanced by a flood of new buyers into the marketplace. The latter were buyers who had not been actively searching for a practice and were happy associating. In many cases, these associates were more heavily impacted by the shutdown as they were the first ones to be let go if a practice suffered any type of slowdown. It would have made sense that these associates would have been happy not to have any risk by owning a practice that could be shut down, but there was an opposite response. The risk of being an associate became significantly apparent as they had no control over their employment conditions. Now, the concept of ownership control is more enticing.

The increased market supply of dentists and reduced practice performance has generally been offset with an increased demand for ownership resulting in pricing equilibrium, where with some exceptions, prices have recovered to pre-pandemic levels.

While the future is uncertain, we do think there could be a slight reset due to the earning drag on practices. The extra costs, PPE costs, and reduced patient visits will all eventually be seen on an income statement and result in reduced profitability.

Despite this reset, continued demand may negate these factors. Dental practices have proven to be excellent investments and should continue to stay this way in the future.

Colin Ross is a Partner in Professional Practice Sales Ltd. (www.ppsales.com), which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1-888-777-8825 or e-mail at: colin.ross@ppsales.com