Backlog busting
Community Diagnostics Hubs could greatly expand the role of the independent sector

New image
Medica Group CEO Dr Stuart Quin talks about the company's transformational expansion

The touch of a button
How Covid-19 accelerated telehealth and fuelled a rise in consumer diagnostic testing

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In focus

Standing the test of time

Can innovation and independent sector capacity help tackle rising waits for diagnostics?

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INTELLIGENCE + INSIGHT

The dental sector is emerging from the Covid-19 pandemic in better shape than many anticipated during the first lockdown. **Clare Emery**, partner at law firm Harrison Clark Rickerbys, looks at some of the reasons why dentistry has remained resilient in the face of ongoing challenges

Braced **for change**

Following the sudden closure of dental practices at the start of the first pandemic lockdown, there was general concern about the impact on the market, which had been trading healthily beforehand. Substantial activity had been driven by the growth in corporate acquirers and a wish to sell practices before the March 2019 budget, at which changes to capital gains tax regimes had been anticipated but had not occurred.

The opening up of practices from 8 June onwards was cautious; in the case of the NHS, the income of these practices was supported by the NHS with a requirement to carry out very little activity. Private practices had to wrangle with the difficulties of opening up under new standard operating procedures, with constraints around the types of treatment permitted and the fallow time required between certain procedures.

The impact on the market of these seismic changes has, perhaps, been more limited than initially anticipated. For the three-month period from 1 April 2020, practices were addressing the challenges brought about both by closures and by reopening at short notice with limitation. There was little time for market activity and neither buyers nor sellers had the bandwidth to progress, while dealing with the challenges of PPE, screening patients and making practices Covid-secure.

Limited activity over the summer was chiefly driven by the fire sale of practices which practitioners did not reopen. The market picked up again in earnest in the autumn, with transactions which had been put on hold in March being revived, a renewed appetite from corporate acquirers to return to market and associate dentists to buy their future security by owning a practice rather than depending on the goodwill of a practice owner.

> PRIVATE PRACTICES HAD TO WRANGLE WITH THE DIFFICULTIES OF OPENING UP UNDER NEW STANDARD OPERATING PROCEDURES

Finally, the period between Christmas and the end of March 2021 was extremely busy, driven by both an appetite to transact, and of course the anticipated (and, in this case, realised) changes to the CGT regime in the March budget. Even the lockdowns during December 2020 to March 2021 did not affect appetite or practice values which returned to pre-Covid levels.

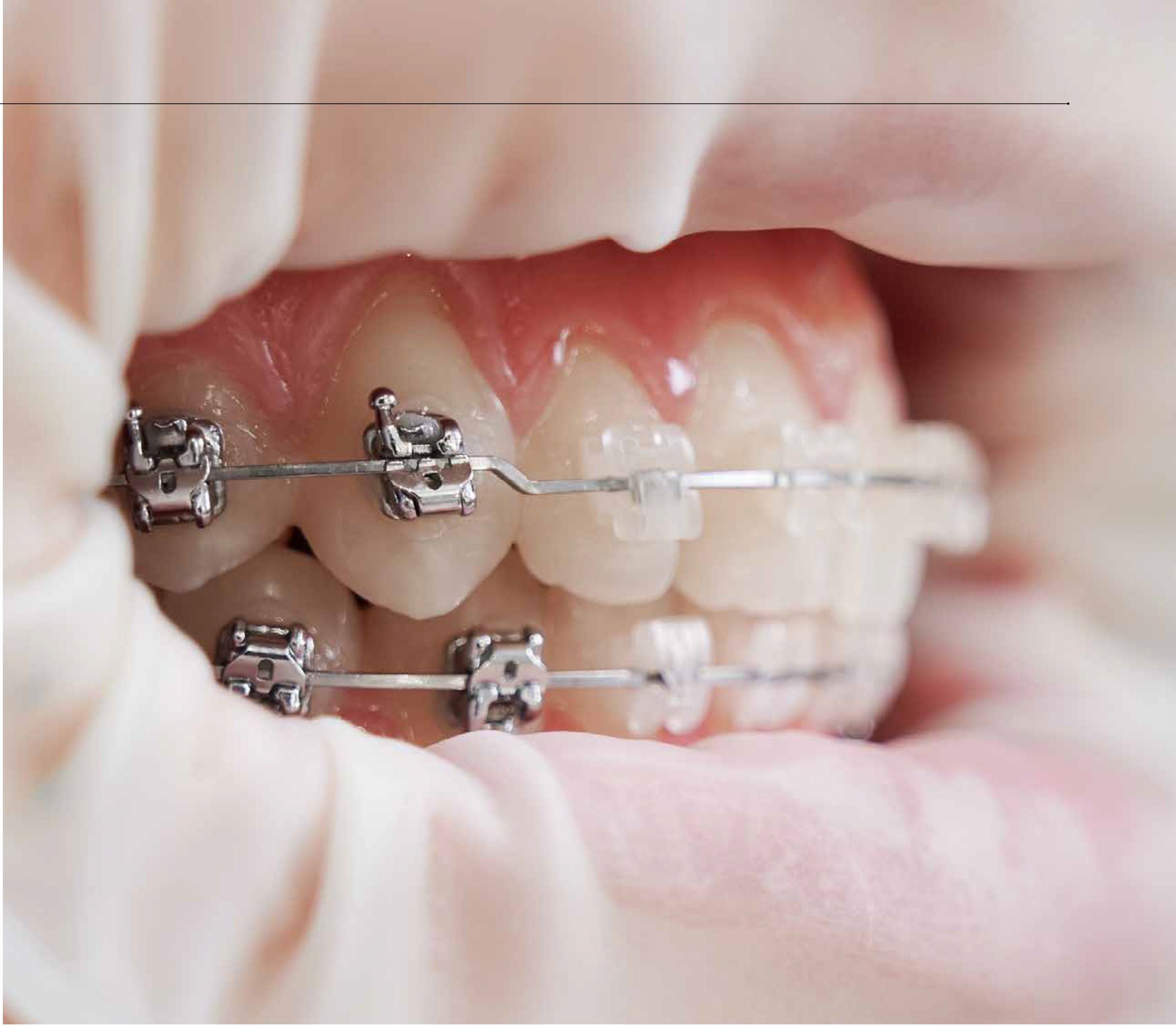
Deferred consideration

One interesting trend of note has been an increased appetite for deferred consideration, not only from corporate buyers (who have traditionally deferred approximately 30% of the purchase price over a three- to five-year period) but also from individuals who would ordinarily have paid 100% of the price upfront. Now they are hedging against uncertainty in income by looking for some deferral in case the practice revenue cannot be maintained post-sale.

Throughout the remainder of 2021, practice sales have remained strong, and the drive to acquire, from both corporate and individual buyers, is undimmed, so practice prices have remained resilient.

One of the interesting features about the period during and since the lockdown has been the increased appetite for private dentistry.

Limitations on the availability of appointments with NHS dentists have driven additional demand for private dental services. In addition, there has been a notable upturn in demand for cosmetic dentistry, perhaps arising from



the increased time that people have spent looking at their face on video calls, and, in some cases by increases in discretionary income which has not been spent on holidays and socialising.

Because patients have continued to contribute to capitation schemes during lockdown, practices with large capitation schemes have seen income levels remain stable throughout the period. Therefore, large mixed practices remain an attractive proposition for the corporate acquirer, and often the subject of competitive bids.

So, what challenges remain for dentists as they continue to work within the 'new normal'?

There are still restrictions on treatment so, although fallow time has been reduced, it is still a consideration for practitioners. Mask wearing, handwashing and social distancing continue to be required in medical settings including dental practices.

Many practices have adapted well, acquiring new equipment for air purification, adapting systems and relying on smarter booking processes to reduce the impact of fallow time and remote consultations to maximise surgery capacity. Equally, Covid has made unprecedented demands on the resilience and resourcefulness of the profession.

LARGE MIXED PRACTICES REMAIN AN ATTRACTIVE PROPOSITION FOR THE CORPORATE ACQUIRER, AND OFTEN THE SUBJECT OF COMPETITIVE BIDS

Those who have been able to adapt - certain specialities, such as orthodontic work, have been able to maintain or increase their turnover – have come through, but for some practitioners these issues have been tougher to resolve.

There also remains a significant recruitment problem following Brexit; a huge reduction in EU dentists is leading to notable impacts on specific geographic pockets, such as the South West, as well as rural areas more generally.

It remains to see how these will play out.

In summary, however, the dental market remains an attractive proposition for investors, due to its resilience and ability to change and adapt so clearly demonstrated over the last 18 months.