



Market outlook: Is dentistry recovering?

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It's fair to say the last two years have been seismic for the profession in pretty much every way imaginable. Like an earthquake, the tremors of COVID-19 are still being felt. But are those tremors getting weaker? Is dentistry in recovery? And what about the future? I asked **Paul Graham, Head of Dental at Christie & Co**, how he sees the market as it stands today.

What's your overall assessment of the dental market?

PG It's important to view the current state of the market in the context of the last 18 months. Pre-pandemic the market was strong, then COVID-19 hit and there was still a naivety about the severity of what would eventually happen – as a country I think many thought we'd be OK after a few weeks. Christie & Co was on target Q1 2020 for a strong performance, which was a carry-over

from an equally strong Q4 in 2019, which was a record year for us in practice sales, then everything changed. There was a complete pause in the marketplace, followed by the re-opening of NHS dental services in the summer. In Q3 we saw further recovery and what I'd call the green shoots of the trends we are seeing take hold now, particularly patients migrating towards private dentistry, and while Q4 was challenging as a country, there was a feeling of 'kudos to the profession for remaining open.' That really underpinned a lot of confidence in the market, and as we moved into 2021, M&A activity was in full swing. There was an overflow of some of those deals that were on pause being re-ignited as a result, but most deals in 2021 – our best ever year – were new business.

What sort of businesses hit the market?

PG It was interesting as we didn't see many distressed practices coming to the market looking to offload. We saw mixed and fully private practices that had been flourishing. Why was that? You only need to look at their fully NHS counterparts to see they were in recovery mode. Receiving notices of targets, often at the last minute, really offered little to

no certainty for many NHS practice owners. While operationally many are still in recovery mode – current targets for this quarter stand at 85% – investors still see core NHS businesses as highly attractive propositions. For those NHS practices that diversified and offered private treatments, this offered a quicker path to recovery than those who were unable to do likewise.

How sustainable is this pattern of recovery?

PG Growth is not uncommon within the dental sector – we've seen it for more than seven years now. There has always been the appetite there, and the pandemic has emphasised that further. Somewhere around 75% of buyers to the market are independents, supported by high-street lenders. The components within dentistry are good, and there's no sign of demand abating. We see it being sustainable due to the very thing that created this growth pattern, demand. It is still very much there.

Once you factor in the general lead-in time for a deal across both NHS and private, there's typically a six-to-nine-month window of deal time. Looking at the pipeline of deals

agreed in Q3 and Q4 of last year that have rolled into this year, and the amount of new business agreed, it just does not look like that activity tap is going to be turned off anytime soon. It's an interesting marketplace, and one that's highly fragmented. There's more choice for buyers than ever before, and they often have ambitious plans. It's a thriving environment.

Christie & Co's Business Outlook report alluded to a lack of supply of 'good quality larger practices'. What do you define as good quality, and why do you think there's a lack of supply of them?

PG Those businesses are independently-owned, and the size and scale are fairly unique in the marketplace. Mid-market is dominated by three, four or five surgery practices, and the high-quality, multi-surgeries of seven, eight or nine and beyond are often limited in supply anyway.

When you look at the types of owners of those practices, they are predominately NHS contract holders of high value, and they have been able to fulfil targets easier than some of their smaller counterparts. Once you factor fallow time in, for example, a business with additional surgery space is always going to be able to do more than one without. And while 100% targets weren't being set for NHS practices, they were still being paid in full, minus appropriate abatement. They were arguably good practices before, and potentially becoming even more profitable ones throughout the pandemic. As we see targets open up again, we might see that as a catalyst for more supply coming to the market with contract holders looking for the exit.

When it comes to the private sector, this is where we see a range of practices that are undoubtedly enjoying the influx of private income with consumer spend on the rise that isn't a transfer of NHS patients – it's in addition, through high-end cosmetic dentistry. For many looking to sell, there's a realisation that now is the best time to do it and offer to stay on as an associate in the practice, which retains value to the existing patient base.

You mention cosmetic dentistry. The report suggests orthodontics is enjoying a significant boom. What were the trends pre-pandemic, and are they also sustainable?

PG When you look at this market, it's been a real success throughout 2021. When you look

at the standard operating procedures they had to abide by, they provided more flex and mobility than general dentistry throughout that time. Those who were successful in a re-tendering process were receiving 7+3 contracts (7 years + 3 years) and some were coming to the market immediately upon successful receipt of that. The security and longevity of a new contract guaranteed high buyer demand. Meanwhile, some other NHS orthodontic practices were only receiving a two year rolling contract – the demand for these is understandably low

To what extent has the market been shaped by COVID-19, Brexit, both – or neither?

PG Without doubt, both have offered challenges. Speak to anyone and they will tell you recruitment is an issue, but it has been for some time. The supply of dental nurses, for example, is perhaps being more acutely felt at the moment. Having said that, it's probably reassuring to know that staffing issues are not just confined to dentistry – it's all commercial industries.

What it's led to is the profession trying to present itself as a more attractive proposition – both recruiters and those in positions of authority within government. When you look at the EU qualifications of dentists, about 17% of current registered UK dentists have an EU/EA degree. If barriers of entry to the UK don't become too onerous, we may still see an attractive pathway EU dentists want to take advantage of. When it's been overlapped with COVID-19 it's been very difficult, as many have come to work and would travel to see family and relatives in their native homeland. Travel restrictions mean this is an almost impossible option to sustain.

We're also aware, especially when it relates to nursing staff, it comes down to pay, training and upskilling. There's been more of an emphasis on these areas in recent years, and many corporate operators are implementing a skills-based programme to develop and further the careers of dental nurses, so they feel like valued and important members of the profession, which they very much are.

From your perspective, is NHS dentistry still going to be an attractive market for the next generation of dentists coming through, many of whom may have reservations about the system and framework they'll be operating within?

PG Those who are lobbying for improvements within NHS dentistry are doing so with the passion and belief that NHS dentistry has a place within the UK. The vast number of consumers and patients also value that too. It's very easy to focus on the negatives, but much of the conversation about the framework is on improving it, not removing the option of NHS dentistry. That's a positive we could and perhaps should accentuate. NHS dentistry is a great thing, and often it gets unfairly compared to private dentistry in the same sentence. The two are separate, and both have unique strengths and opportunities for a practice owner, an associate and for patients. There is a place for both, and always will be. If you're a young student coming through who's heard nothing but negative stories about the NHS and how great private is, that is bound to affect decisions about your career pathway.

While there is a focus on how effective private dentistry has been in dentistry's recovery, the foundations of what's created the activity in the UK marketplace from a sales point of view is high-quality, core NHS businesses. One cannot thrive without the other, and so NHS dentistry will always remain attractive. ♦



Bio

Paul Graham is the Head of Dental at specialist business property adviser, Christie & Co. He spearheads the dental brokerage side of the business, driving a number of significant high-profile single asset and group transactions. Paul is based out of the company's Edinburgh office and leads an expanding multi-disciplinary team of agents and advisors across the length and breadth of the UK.

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