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As doctor's offices re-open and economy returns to health, the medical M&A market stays sickly and frail

What once used to be an active market, both for large and small medical practices, has fizzled as buyers and sellers cannot agree on valuations

Loan Doctor Financial Logo

WEST PALM BEACH, FL, USA, July 13, 2020 /EINPresswire.com/ -- The COVID-19 pandemic forced the shutdown of almost every business in March, including medical practices. While those are now re opening and seeing patients, they are doing so with significant limitations, such as stringent PPE requirements and in some cases prohibitions against elective procedures. What has not at all returned to any semblance of normalcy, however, is the M&A activity in the medical field. Doctors or groups looking to buy or sell medical practices are unable to agree on prices, and deals are falling through or being postponed.

> “Buyers don't want to overpay for practices based on 2019 revenue, while sellers don't want to sell at a discount since they believe the revenue drop is temporary. Both are right!”
> *Dr. Edgar Radjabli, DDS, CTA*

Part of the reason is that most acquisitions of medical practice sales involve some type of financing obtained by the buyer. This financing has been severely impacted by the pandemic. In late March at the height of the pandemic, a representative from Bank of America Practice Solutions, one of the top banks that fund medical practices said: "Although we are open for business, we can’t fund business until this is over and offices are back up running".

While things seem to be opening up somewhat, it's clear that banks and specialty lenders are being much more cautious and are not willing to lend as much, focusing on lending on current financials, which have often been severely affected by lower revenue in 2020 compared to 2019 or before. This limits buyer's ability to pay, forcing them to cap the price of their offers.

On the other side, sellers are unwilling to sell at deflated prices. "If your practice generated revenue of $1 million over each of the last 3 years, and this year its only on track for $500k, you don't want to sell it based on its 2020 numbers", explains Dr. Edgar Radjabli, DDS, CTA and CEO of Loan Doctor, a specialized commercial lender focusing on the healthcare industry. "Most doctors are back at work, and while revenues are down, they are earning enough to keep practices afloat. There is simply no reason to sell for a 50% discount today when most believe this revenue drop is temporary", he continued.

Indeed, according to Bill Henderson, President of Tier Three Brokerage Ltd, which focused on dental practices, there is hope because "the revenue for the Uber ride someone did not take, or the meal they did not buy at a restaurant is lost forever. But COVID-19 does not reverse tooth decay or make impacted wisdom teeth go away. That restoration will still need to be done, and those wisdom teeth will still need to be extracted. There will be lost hygiene revenue, and depending upon how the eventual recovery goes, revenue for some elective procedures may be lost. But unlike many businesses, that deferred revenue is building up a back log that will help the recovery in the dental industry far more than many others."

This means that as revenues recover and expenses stabilize over the next year or beyond, it is likely that the medical practice M&A market will return to normalcy, and with it, the specialized lenders can get back to normal operations.

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