King's Ransom Group

STRATEGIC INVESTORS & ADVISORS

THE POTENTIAL IMPACT OF LOWER INTEREST RATES ON DSO DENTAL PRACTICE ACQUISITIONS

MARKET INTELLIGENCE & RESEARCH TEAM | RANSOM THOUGHTS | SEPTEMBER 2024

Author: Darren Sardoff, President & Chief Investment Officer

Lower interest rates are on the way: What impact will that have on the market for DSOs to acquire dental practices?

With all indications pointing to the Federal Reserve commencing an interest rate reduction program starting this month, we thought we would share our thoughts on the potential impact on the dental practice sales market.

Dental Service Organizations (DSOs) have been a driving force in the dental industry, acquiring practices at a rapid pace. Years of lower interest rates played a significant role in fueling these acquisitions, as they make it more affordable for DSOs to borrow money to finance purchases. The last few years have seen a slowdown in DSO activity as rates increased steadily, but that seems to be coming to an end and interest rate reductions seem imminent. This should provide benefits to dental practices who are looking to sell to a DSO.

Benefits of Lower Interest Rates for DSOs

- **Increased Borrowing Capacity:** Lower interest rates allow DSOs to borrow more money at a lower cost, enabling them to acquire larger practices and/or pay a premium for desirable practices.
- **Higher Returns on Investment:** With lower interest rates, DSOs can generate higher returns on their investments, making them more attractive to investors.
- **Increased Competition:** As DSOs become more aggressive buyers, competition for dental practices intensifies, potentially leading to higher valuations.

Benefits for Dental Practices Looking to Sell

- **Higher Valuation Multiples:** Increased competition among DSOs can lead to higher valuation multiples, meaning dental practices can receive more money for their businesses and more favorable terms.
- **Faster Transaction Process:** Lower rates allow for DSOs to boost their internal resources to close deals more quickly, providing a faster exit for dental practice owners.
- **Access to Strategic Resources:** DSOs will be able to offer dental practices access to even a wider range of resources, such tech upgrades, increased administrative support, marketing, and group purchasing power.

Potential Risks and Challenges

While lower interest rates present opportunities for dental practices interested in selling and for DSOs, it's important to note that there are also potential risks:

- **Interest Rate Volatility:** If interest rates rise unexpectedly, DSOs may face higher debt servicing costs, which could impact their appetite for acquisitions.
- **Economic Downturn:** A recession could lead to a decline in dental services, affecting the revenue and profitability of practices and thus lower valuations.

If you have any questions about this article or are interested in learning more about selling your practice, please contact Darren Sardoff at darren@kingsransomgroup.com.

ABOUT KING'S RANSOM GROUP

King's Ransom Group ("KRG") is a private investment firm and M&A advisor, working with companies across the business services, healthcare, and marketing industries. KRG's healthcare group advises dental practices nationwide in all facets of their sales process to help practices find the best and right investors and partners. KRG's team has decades of experience founding and operating businesses across various sectors as well as financial expertise having worked at some of the largest firms on Wall Street. For more information, please visit www.kingsransomgroup.com.

CONTACT OUR TEAM

David Kingsdale
Chief Executive Officer
david@kingsransomgroup.com

Darren Sardoff
Chief Investment Officer
darren@kingsransomgroup.com

Bryson Ishii
Chief Operating Officer
bryson@kingsransomgroup.com

Dennis Leibowitz
Executive Director
denny@kingsransomgroup.com

ABOUT THE AUTHOR

Darren Sardoff
President & Chief Investment Officer

Darren has 30+ years of investment experience across the media, technology, consumer, and communications sectors. His background includes senior roles in corporate M&A, investment banking, and principal investing.

Most recently, Darren was a Partner and Portfolio Manager at the investment firm, Act II Capital LLC, where he oversaw the investment process in over 100 companies throughout the firm's eighteen-year existence. The firm invested its $450 million portfolio in both public and private companies. In addition to his portfolio management responsibilities, Darren led investment research across the marketing, advertising, consumer, software and technology sectors.

Prior to Act II, Darren was a Vice President in the Media and Communications group at Lehman Brothers and Cowen & Company, and held a management role in the Corporate M&A group at Time Warner, Inc. Darren began his career at Ernst & Young and is a CPA.

Darren received his MBA from the Wharton School at the University of Pennsylvania and his BS with honors from the University of Buffalo.