



DENTAL NEWSLETTER

March 2017

1300 Smiles

1300 Smiles, which mainly operates dental practices in QLD with some in NSW and SA, reported a slight dip in revenue and net profit after tax in the half year to 31 December 2016 but still produced a sound result.

However, with new practices popping up across the nation we suspect the dental corporates have passed the point of easy growth. 1300 Smiles has been the better of the corporates as far as we can judge.

Some corporates face big problems with purchased practices when outstanding vendor dentists, with high personal fees, reach the end of their vendor dentist workout period (of three to five years) and cannot be replaced with similar calibre fee producers.

The ultimate problem corporates face is that dentistry is people intensive rather than capital intensive. Whereas some businesses can replace humans with bigger and smarter machines, there isn't a way to make a dentist able to drill the teeth of two patient's simultaneously.

Hanging on Too Long?

Dentists who hang on to practice ownership when their fees are in sharp decline risk a significant drop in practice value. Many would be better off selling to another dentist and working for that dentist for say two or three days per week.

Abano Health Care Financing Treatment

New Zealand's Abano Health Care is starting 18 months interest free treatment offers according to the Australian Financial Review, 22 February 2017. Competitors 1300 Smiles launched its own voucher and payment scheme 2 years ago.

It is also rebranding 50 Australian practices to its Maven brand.

Meanwhile, a takeover battle continues within Abano with three shareholders, currently holding 19-20% of its shares, trying to move to a controlling position. It's probably early days in that battle.

Previously Dental Partners founder Mark Timmoniy, whose company was taken over by Abano, had been involved in litigation with it. Both Abano and 1300 Smiles indicated that they were struggling to maintain turnover in what they believe is a weak environment for dentists.

Corporate Weakness

Dental Corporates have the fundamental weakness that no matter what they do, their limitation is that a dentist can only treat one patient at a time. Their further weakness is that their non owner dentists have less incentive to build and improve practices than do owner operators.

Our Tip

In ten years' time there will still be as many privately owned dental practices in Australia. Corporates will struggle to maintain fee income in many practices as vendor dentists reach the end of their contracts. New dental practices will be started and many existing privately owned practices will continue to grow, particularly the one's where dental owners have excellent interpersonal communication skills with patients and their premises are well presented.

Medibank Privates 'Secret Plan for Angry Customers'

The Age, 15 March, reported that evidence in the Federal Court, in the ACCC action against Medibank Private, revealed that Medibank geared its call center for expected customer blow back after it secretly changed its cover for health tests in hospitals.

The ACCC accused Medibank Private of misleading and deceptive conduct and that it engaged in a cover up of its 'unconscionable' behavior to put profits over people. It is alleged that the company had internally predicted that it could make up to \$24million from the changes, as long as customers didn't find out and switch insurers. Medibank denied the allegations.

The Court heard that Medibank and subsidiary AHM customers were stung with a number of expenses after it changed its policies without telling customers. The ACCCs lawyer told the court that Medibank had readied its call center staff with scripts to deal with expected complaints. *'Medibank took steps to tell other stakeholders in the system.....but it did not circulate a notice to its members'* said Mr Armstrong.

The judgement is yet to be handed down but huge damage has been done to Medibank Privates reputation.

Bullying Tactics by Corporate

A corporate purchased a practice in which the dental services have been overwhelming provided by the vendor and an employed dentist.

The employed dentist had been employed for several years and had been followed to the practice by a

significant number of pre-existing patients, who had clearly chosen her to be their dentist. Those patients have continued to refer other patients to her. She had no restraint agreement and had been paid a salary and superannuation mix based on the conventional formula.

Immediately upon purchasing the practice the corporate began badgering her to sign a contract and become a dental contractor. What the contract proffered to her was disadvantageous compared to her existing employee status. The contract required her to agree to a restraint of trade agreement not to practice within a specified distance of the practice for a specified time.

As is usual with corporate contracts it required the dentist to pay the corporate a percentage of fees for administrative services so that she could treat 'her patients' in their practice!

Comments

1. The dentist is an established dentist with a good following of patients
2. The corporate assumed that it could ride roughshod over her rights to practice elsewhere if she desired
3. The corporate assumed that they could change her status from that of an employee to that of a contractor
4. Without her agreement they commenced paying her as a contractor; quite a dangerous step as it can lead to unfair dismissal claims
5. The corporate had not engaged in conversation with the dentist prior to purchasing the practice
6. There is no reason why a dentist with a good patient base, part of which she had brought to the practice, should agree to a restraint agreement. Indeed there are powerful reasons why she should not. This is particularly so as the new financial arrangement was disadvantageous to her
7. The reason the corporates impose these contracts is to distance themselves from obligations including aggregated salary packages impacting their payroll tax obligations
8. The corporate purchaser did not do their homework sufficiently and that is their problem. The dentist must not be coerced
9. If corporates make it a condition of practice purchase that employed dentists sign contracts that should be clearly spelled out to the dentists. Dentists that are asked to sign a restraint agreement are entitled to ask what payment is the corporate going to make to them for giving up their right to practice without restraint

Dumb Question

I was once contacted by an accountant (from one of the big four international accounting groups) completing due diligence for their corporate buyer of a practice from one of our older clients. He required that we provide him with a serviceability list of the dental equipment. My reply was:-

'Your client is a dental corporate. Get them to have a dentist check the dental equipment.'

They completed the purchase, but never did get a dentist to check the equipment.

Negotiating Associate/Partnership Agreements

If you are preparing to purchase part of a dental practice and would like guidance on these matters, please contact Graham Middleton on 03 9843 7777.

When Associateships Breakdown into Legal Conflict

This story is on page 200 of **Synstrat Dental Stories** and is very similar to an actual event. It's a must read for those entering an associateship arrangement. To obtain a copy of this publication, make a tax deductible donation to the **Delany Foundation**, a charity which brings hope and opportunity into the lives of young people deprived of education in Australia, Papua New Guinea, Kenya and Ghana. Once you have made your donation, please email confirmation of your donation along with your postal address to natasha@synstrat.com.au and a copy will be sent to you. Donations can be made by mail to:

Delany Foundation
PO Box 429
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Or via direct debit to the Delany Foundation Ancillary Trust, BSB 062 784 CBA account number 4050 5402. Should you have any difficulties, contact Matthew Mahoney on 0419 202 787 or 02 9600 8184.

Practice Accounting Services

Synstrat is the only accounting group in Australia which maintains an active, continuously updating database of dental practice benchmarking performance. This is essential in assessing and advising performance of a practice. Telephone David Collins or Graham Middleton on 03 9843 7777.

Independent Financial Planning and Life Insurance for Dentists

Synstrat is experienced at providing financial plans for dentists. These take into account dental practice profitability and benchmarks, as well as ownership of premises and other family assets and financial issues. Telephone Graham Middleton, Cameron Darnley or Roger Armitage, each of whom are experienced financial planners, on 03 9843 7777. Cameron can also assist with life insurance. Synstrat Management Pty Ltd holds its own licence. It is not obliged to recommend the products of a particular bank or insurance company.

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