Reopening dental practices during COVID-19

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Once COVID-19 was declared a worldwide pandemic in March, Canada's federal, provincial and territorial governments rapidly implemented drastic public health and safety measures aimed at reducing the spread of the disease. These measures involved shutdowns across nearly every sector and industry; dentists had to shutter their practices and suspend all non-essential services.

After some success with "flattening the curve," on May 26, 2020, the Ontario Ministry of Health lifted restrictions to allow for the gradual resumption of select healthcare services, including dental services. The Royal College of Dental Surgeons of Ontario released a list of 48 recommendations to guide its members in safely re-opening of their practices. A number of these measures, including introducing a vacancy period between patient visits, stringent disinfections, and allowing for substantial physical space between all patients, will ultimately drastically reduce patient flow. Coupled with the costs of the recommended retrofits, such as floor-to-ceiling dividers and HVAC modifications, the profitability of many dental clinics moving forward may be impacted.

Dentists facing profitability and cash flow issues can consider the following options in order to alleviate financial distress:

- Manage working capital by accelerating controllable accounts receivables and delaying accounts payable;
- Recover increased operating costs by increasing fees;
- Cut new spending by deferring upgrades to clinics and imposing hiring freezes;
- Cut operational spending by freezing marketing or non-essential expenditures and consider layoffs or salary reductions;
- Renegotiate commitments such as rent by seeking a deferral, defer debt repayments with banks and equipment leasing firms;
- Access government relief programs such as CEWS, CEBA and CERCA;
- Draw down on existing credit facilities such as lines of credit;
- Access reserve funds located in the dental professional corporations;
- Consider and re-assess space requirements and downsizing if feasible from a profitability perspective; or
- Review the catalogue of services provided in order to determine if there are cost-effective "add-ons" to generate new revenue.

Another option that exists for dentists is consolidation. Leading up to the COVID-19 imposed shutdowns, the number of multi-dentist practices in Canada were on the rise. Selling and consolidating dental clinics is anticipated to increase over the next few years, as the Job Bank of Canada predicts that due to the older age profile of the dental profession, a number of dentists will be seeking different opportunities. This may come in the form of a consolidation with a corporate purchaser or merging clinics with other dentists, and taking on less onerous roles. Given the economic uncertainty introduced by COVID-19, the number of dentists seeking these opportunities will likely grow in the coming months.

While selling a dental clinic during uncertain economic times may lead to concerns about valuation, historically, even in the face of economic instability, dental clinic revenues remain resilient. Many dental services and procedures are necessary, and the reduced capacity for patient flow may lead to built-up demand. Dentists can continue to seek and receive fair purchase prices for their clinics through allocating profitability risks with potential purchasers:

- The purchase price for clinics can be structured so that there is a significant amount of cash upfront, with additional earn-out payments made in the future based on the revenue of the clinic.
- Dentists may opt to stay on as employees or independent contractors, collecting a percentage of their billings as compensation. This means the dentists participate in efforts to increase revenues to pre-lockdown levels.
- Valuators may consider COVID-19 to be a unique, one-time event, such that the value of dental clinics may not be affected negatively, as valuations are generally based more on historical financial performance.

Dentists looking to sell or consolidate at this time should consider organizing and preparing their disclosure documents, including practice financial statements for the last three to five years, clinic and equipment lease documents, employment agreements, production reports and asset lists. Dentists should also contact their accounting advisors for a discussion on the best steps to prepare their clinics for sales from an accounting and tax perspective.

BLG has significant experience working with dentists and consolidators in navigating the legal aspects of the purchase and sale of dental clinics. If you have questions about your options when it comes to navigating the uncertainties created by the COVID-19 environment, get in touch with any of the contacts listed below.

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