

# Mergers and Acquisitions

Why it's happening more, and why M&A is good for the industry

**L**ook for more consolidation in the dental industry, particularly on the manufacturer side, says Tony Stefanou, DMD, founder of the Dental Sales Academy and “How to Sell to Dentists” workshops, and president of Connect the Dents, a company focused on dental-industry mergers and acquisitions.

## Reasons why

According to Stefanou, eight factors are driving the industry toward a new round of M&A activity:

1. Concerns about the “recession” are starting to subside. “Companies were kind of ‘watching and waiting’ from late 2008 until recently,” he says. “Buyers were a bit nervous about spending money (and also weren’t getting credit), and sellers didn’t feel it was a good time to put their companies on the market. Economically, the feeling is that things have improved a bit and therefore, activity is starting to increase — although it’s another story as to whether this is true or not.”
2. Private equity firms have shown unprecedented interest in the dental sector, and are now purchasing dental companies. “Once they purchase a company, they want to see solid growth numbers fairly quickly,” he says. “So, in addition to organic growth, they are aggressively looking to acquire other companies and merge them into their recent investment.”



3. The medical device tax is hitting companies on their top line revenue, and small companies are finding it difficult to maintain the R&D required for organic growth.
4. With the increase in group/corporate practices, manufacturers' margins are getting squeezed, as their larger business models demand different pricing. That is starting to make it tougher for the smaller companies as well.
5. A number of consistent, solid companies that have been around for decades or generations (mom-and-pop, family-owned businesses) are at a point where they need an exit strategy. "The owners are getting a bit older, and it's becoming more difficult to keep up the business and continue to grow in this environment," says Stefanou. "They don't have a family member willing to take it over."
6. A number of companies that have one main innovative product or service, and have achieved some market share, face a number of challenges to get to the next level. They need the financial resources to market effectively and to develop a strong sales team/structure. Many are still trying to decide whether to go through distribution or go direct. "Their best bet might be to be acquired and continue to operate within that company or creatively work to integrate in another manner," says Stefanou.
7. There are just too many companies out there. "Some categories of products have dozens and dozens of options for dental offices to consider, and the consequences are that the market simply can't 'hold' so many choices," he says. "Remember that there are also a number of international companies now looking to gain exposure and a strong presence in the North American market."
8. More companies have the financial resources to acquire others today (and many are looking to acquire not one, but multiple companies), but they recognize they have competition for companies on the market. As a result,

the M&A process has become quicker and more efficient. "Acquirers are now evaluating opportunities faster and are making very fair price offerings to companies that are selling," says Stefanou. "It used to be that acquisitions took a long time. That's no longer the case, or no longer has to be the case."

#### Should we be glad about this?

Stefanou believes that the increase in M&A activity is a good thing. "A moderate amount of consolidation is good, and every industry goes through stages of increased activity," he says. He cites three reasons why those in the industry should be happy about what's happening.

**First**, many well-established companies lack the time or financial resources to put what is necessary into place to continue

'Economically, the feeling is that things have improved a bit and therefore, activity is starting to increase.'

to grow in today's competitive marketplace. Also, longstanding dental companies that have been family-owned now need a solid exit strategy, realizing that waiting too long can significantly decrease their company value.

**Second**, a good number of start-ups spend too quickly and flame out within a year or two, depriving practitioners of many innovations and technological advances.

**Third**, practitioners are getting bombarded with sales messages from more companies than ever, and they "would welcome consolidation to simplify things a bit," he says. "It's becoming time-consuming and confusing to make important purchasing decisions." ■

Connect the Dents can be accessed at [www.connectthedents.com](http://www.connectthedents.com), or by e-mailing Tony Stefanou at [tonydmd@gmail.com](mailto:tonydmd@gmail.com), or (917) 796-4538.