



ADP case study

Introduction

Associated Dental Practices (“ADP”), initially founded in 1985, is a chain of dental practices in which Milestone originally invested in January 2002, acquiring it at a valuation of £7.5m. Over the following five years Milestone’s total equity commitment to ADP totalled approximately £15.5m on which, at exit, Milestone made a return on investment of approximately 2.4x.

Milestone guided ADP through a concerted growth programme including new leadership (a new Executive Chairman and CEO) and assisting the Group to raise a debt facility of £26m to support its acquisition of Community Dental Centres (“CDC”) in December 2006. Milestone sold the Group to ADP’s management team in conjunction with Kaupthing Bank in March 2007.

ADP is ranked the third largest dental business behind Oasis PLC and Integrated Dental Holdings Ltd. ADP operates 71 dental practises across England and provides dental services to 470,000 patients from both the private sector and the NHS.

Key milestones

<i>Jan 2002</i>	ADP acquired by Milestone for £7.5m
<i>2002-2006</i>	Further investment by Milestone of approximately £8.0m
<i>Jan 2003</i>	Appointment of Bharat Patel as CEO
<i>Dec 2006</i>	Acquisition of CDC
<i>March 2007</i>	Sale of ADP to management and Kaupthing Bank

Background

The Milestone team, led by Bill Robinson, identified the opportunity in 2001, completing the acquisition of ADP from its founders in January 2002, with the intention of installing a new management team, implementing a more rigorous and disciplined approach to the business and guiding it through a programme of growth, both organically through the roll-out of new practices and through targeted acquisitions.

Founded in 1985 as a stand-alone dental practice, the Group had already grown to encompass 23 practices, all based in the South of England, by the time of its acquisition by Milestone. This, combined with the increasingly high media profile given to the shortage of NHS dentists across the country convinced Milestone that ADP represented a viable opportunity for investment.

Team

Milestone bolstered the management team with the appointment of Richard Flaye as Executive Chairman. In 2003 a new CEO, Bharat Patel, was appointed.

Prior to joining ADP, Bharat worked for Tesco as a Regional Director, bringing with him considerable expertise in managing a multi-site enterprise and a disciplined approach to centralising the administration of the network, which enabled ADP to grow the business more effectively.

Strategy

The Milestone team formulated the following strategy with ADP's management team:

- To centralise administration, human resources management and accounts for each practise, effectively making the dentists up to 20% more productive in terms of time available to treat patients;
- To grow the Group through organic roll-out of practices as well as targeted acquisitions;
- To address the shortage of available dentists through the recruitment of dentists from overseas - mainly from India and Continental Europe, funding their training and relocation.

Implementation

During the Group's five years of ownership by Milestone the number of practices grew from 23 to 63; with improved productivity the average gross margin per practice increased from 10% to 21%.

The strengthened management team under Bharat Patel drove through significant operational and business process improvements, including investing in information management systems, staff training, clinical governance and management infrastructure, as well as a strong financial reporting culture and the implementation of KPIs.

Strong recruitment links in Europe were combined with the introduction of an innovative and highly successful recruitment scheme whereby the group financed the

training of dentists from India in return for a three year contract with an ADP practice in the UK. The net result of this programme has been that dental vacancies in ADP practices remain low and are substantially below the industry average despite there being a shortage of dentists in the UK market as a whole.

In addition, the management team negotiated favourable contracts under the nGDS scheme, winning tenders for 16 new practices, and contracted revenues from the NHS. Fully contracted revenues from the NHS represent approximately 80% of ADP's revenues, with the remaining 20% coming from patients upgrading to private treatment.

In 2006 the opportunity arose for ADP to acquire CDC, a 9 practice strong high street chain operating in the South West of England, concentrating similarly on servicing demand from NHS patients, and providing a good fit geographically with the existing practices. Milestone assisted ADP's management team both with raising a debt facility of £26.6m with Barclays in order to part-fund the acquisition, and with the process itself.

Exit

Following the successful acquisition of CDC, Bharat Patel was keen to continue the buy and build programme, and with this in mind during 2006 acquired a 13% stake in Oasis Healthcare Plc, a listed dental practice group and market leader. An initial approach was rebuffed, at which point Milestone indicated to ADP that it would be better served finding a new private equity partner suited to involvement in a potentially risky hostile takeover that would double the size of the Group.

Milestone retained Close Brothers to value the Group and subsequently exited ADP through the sale of the business for £70m to the existing management, in concert with Kaupthing Bank.

On completion, the return generated was 2.4x the money invested and 25% IRR over five years.

Conclusion

- The Milestone team identified potential value in a group operating in an undersupplied but essential sector, with scope for consolidation, and secure contracted revenues from a governmental source;
- Milestone recognised that dental practices could be managed as a multi-site retailing business, and that dentists themselves were not professional retailers and therefore would benefit from the introduction of management and business disciplines;

- The strengthening of the management team and implementation of a more structured and centralised approach to the business with a strong culture of financial reporting and the adherence to KPIs enabled the roll-out of additional practices without any loss of focus or control;
- The enhanced efficiency also produced immediate results demonstrated by a substantial growth in margins during the five years of Milestone's ownership;
- The Milestone team was able to leverage its funding skills and experience in managing the acquisition process to assist the ADP management team in acquiring CDC'
- The key factor in the success of this deal was the combination of the supportive day-to-day relationship that the Milestone team maintained with ADP's management, with an innovative and rigorous approach to running a large dental chain;
- Ultimately, Milestone readily acknowledged that a different type of private equity backer was better suited to support ADP's ongoing strategy and was able to precipitate a successful exit to enable ADP to fulfil its ambitions.