



The Dynamics Driving Dental Practice Deals



Data provided by



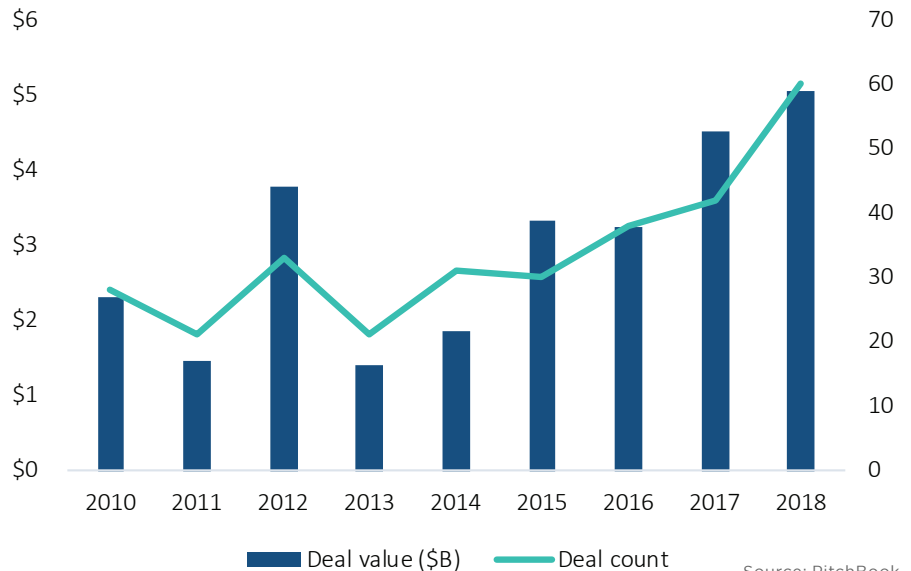
PE buyers driving dental practice deals

The pace of dealmaking for US-based dental practices has accelerated over the past five years while attracting an increasing share of private equity investment.* Last year, completed transactions tripled 2013 totals as sponsors closed 60 deals in the space. Meanwhile, aggregate values have climbed steadily over the past five years from \$1.4 billion to \$5.1 billion. This uptick in both volume and value follows a period of consolidation that reflects the organic development new practice configurations over the past two decades.

According to the American Dental Association, fewer dentists now operate a standalone clinic than ever before even as the industry continues to expand and diversify. Twenty years ago, 2 out of 3 dentists ran a solo practice. Two years ago, that ratio slipped to 1 in 2 as dentists join group practices at a growing rate to benefit from greater scale and to outsource back office services to dental support organizations.¹ As a result, practices representing more than 500 employees expanded at a 12% compound annual growth rate between 2002 and 2015, according to the ADA, with the market share of DSOs expected to grow from \$18 billion in 2015 to \$42 billion in 2020—a CAGR of 18.5% compared to just 2.3% for the rest of the market, which is only expected to grow by \$13 billion over the same period.

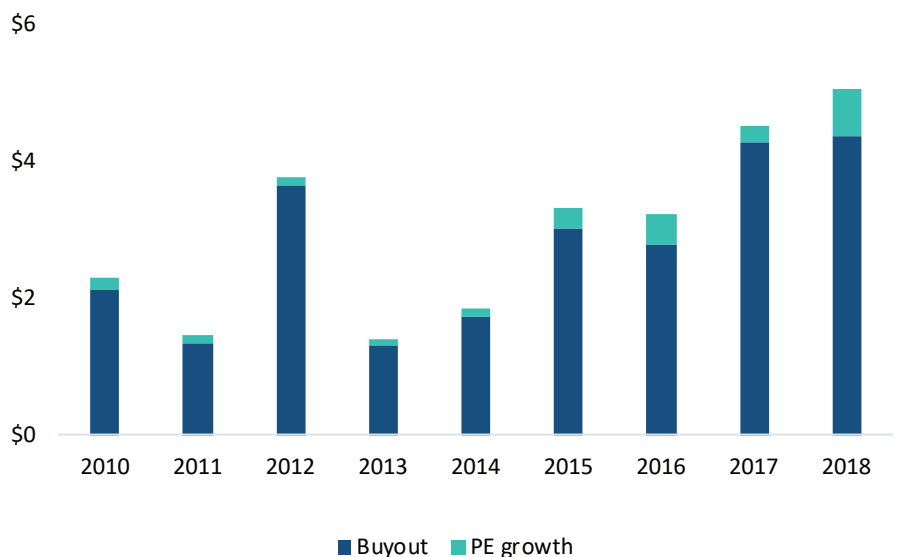
Consolidation across the dental industry drives PE dealmaking to new heights

US PE deal flow in dental practices



Platform creation sustains the dominance of buyout deals among sponsors

US PE deal count (#) by transaction type in dental practices



¹: The shift in practice configurations along these lines would appear more pronounced among women dentists and those newer to the profession than their older male counterparts, according to the ADA. In addition, more women than men are poised to become dentists in the future, with women representing 48.5% of dental school graduates in 2017. For that year, the ADA has reported that only 20% of all dentists under 35 were in solo practice.

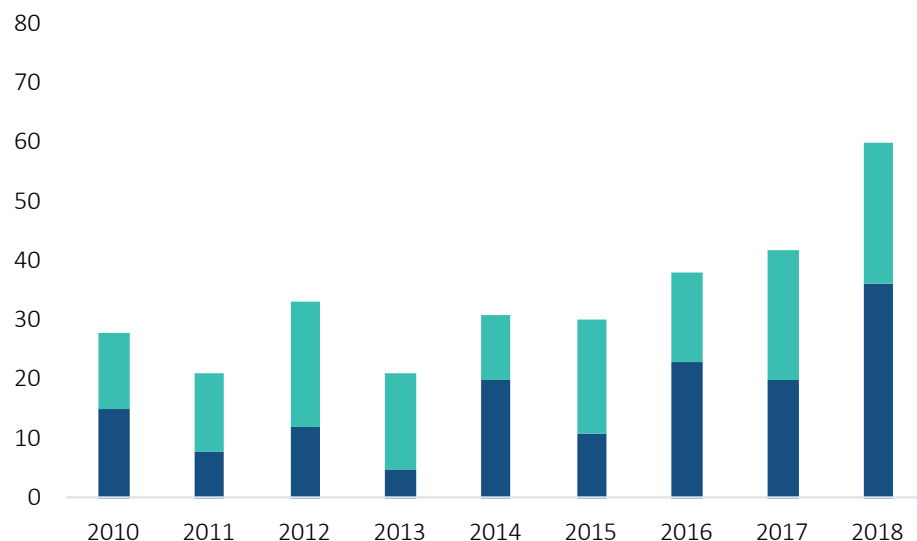
All the same, only 7.4% of US dentists were affiliated with a DSO in 2017 even as these platforms are growing in size and influence. With the support of major private equity players, the largest DSOs have already exercised a significant role in elevating levels of dealmaking.

Private equity investors have actively pursued an increasing number of buyouts on a year-over-year basis since 2013, helping value to grow last year alone by 80% over 2017 while representing 60% of all transactions closed in the space for 2018. From a low of \$680 million posted in 2009, deal value for completed buyouts has increased as sponsors pursue the growth of larger dental practice groups and support organizations. This trend illustrates a persistent investment thesis among PE sponsors of buying and building platforms that can better compete on cost by realizing efficiencies up-and-down the value chain to grab greater market share on a regional basis.

As PE has focused its capital and energy on platform expansion, minority growth transactions have failed to increase at a comparable rate over the same period. Meanwhile, add-on deals overtook others in volume last year to comprise roughly two of every three deals closed, with aggregate values growing from \$480 million in 2008 to \$2.64 billion. Not only do these deals address the type of fragmentation characteristic of the dental industry, they also blend down initial buyout multiples once add-on synergies are realized.

Add-ons increase share of all PE deals following surge in buyouts

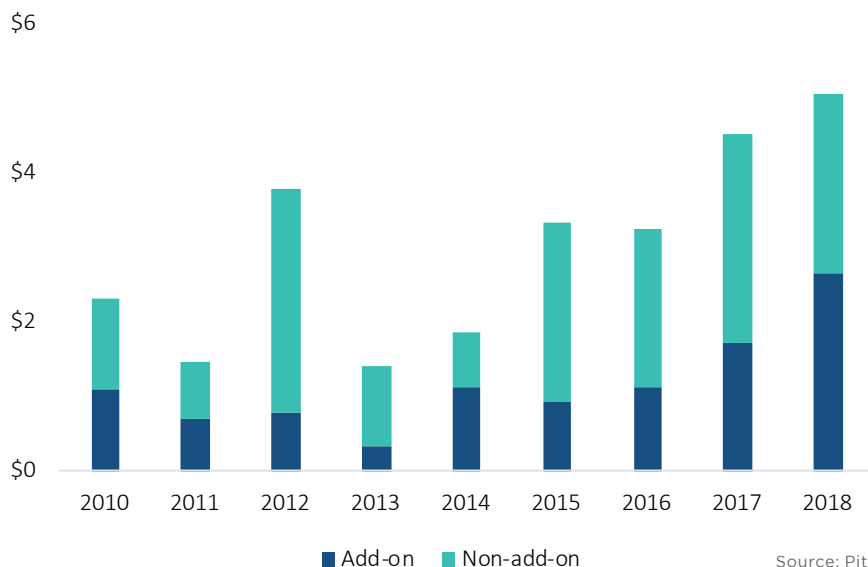
US PE deal counts (#) reflect uptick in add-on activity



Source: PitchBook

Add-on transaction value rises with increase in practice rollups

US PE sponsors expand aggregate add-on deal value (\$B)



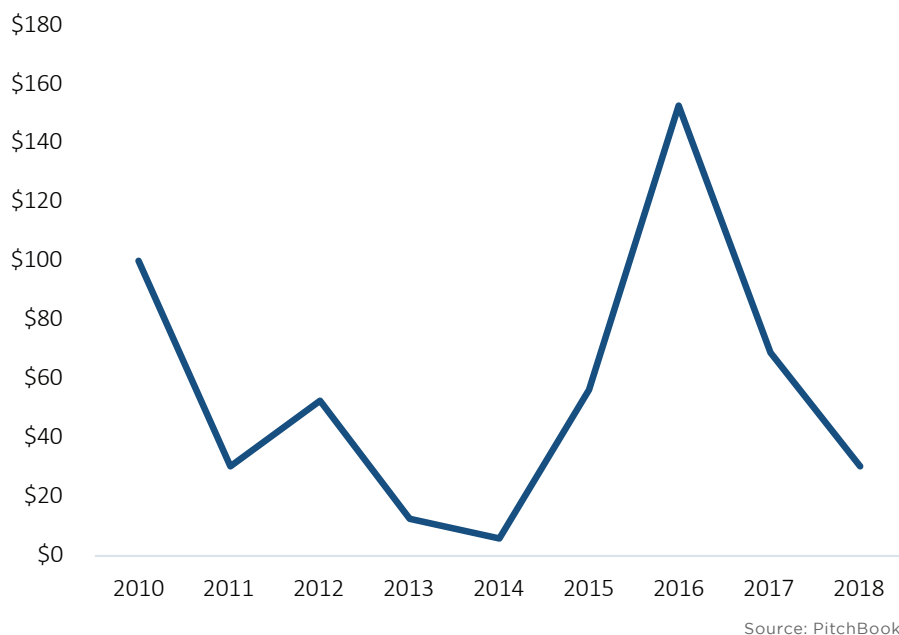
Source: PitchBook

*Methodology

The dental practice dealmaking data was generated using a custom list of keywords in order to identify appropriate companies within the PitchBook Platform. Otherwise, customary PitchBook reports' methodologies for M&A transactions and PE deal flow was utilized.

Deal sizes return to the lower end of historic range

Median deal size (\$M) in US dental practices



While middle-market firms have completed many of the dental practice rollups in recent years, the largest transactions of late have gone to DSOs. These companies handle a range of business operations for clinics like HR and payroll, accounting and billing, or advertising and marketing for sometimes hundreds of clinics and group practices. Last year, KKR agreed to take a controlling stake in Heartland Dental, the largest DSO in the US, at a \$2.8 billion valuation. As portfolio companies targeted by the bigger buyouts now approach the upper limit for the average hold time of five-to-seven years for most PE funds, the fragmented dental industry may be poised for more mega-deals.

Secondary buyouts dominate the top transactions in dental practices

Select transactions in dental practices & services in US, 2010-2018

Company	Deal Size (\$M)	Close date	Deal type	Location
Affordable Dentures	825	October 22, 2015	Secondary Buyout	Raleigh, NC
Great Expressions Dental Centers	675	September 28, 2016	Secondary Buyout	Bloomfield Hills, MI
Western Dental Services	575	September 16, 2012	Secondary Buyout	Orange, CA
Aspen Dental Management	547.5	October 1, 2010	Secondary Buyout	New York, NY

Source: PitchBook