Harris Williams

# Dental Market Overview

Q2 2022

# Dental Market Overview

1. What makes the DSO sector attractive?
2. What are levers for value creation in DSOs?
3. Where are we today in the sector's life cycle?
4. Appendix: Overview of key characteristics of platforms by specialty

# Large and Growing Dental Support Organization (DSO) Market

The overall dental addressable market is a massive $136+ billion market, growing 6%+ annually, and is comprised of 200,000+ dentists across ~197,000 practices, of which DSOs represent a growing component with significant room for expansion.

## DENTAL MARKET STATS[(1)]

**$136B+**
2021 U.S. Market Size

**6.2%**
Projected Annual Market Growth (2021-2027)

**200,000+**
Number of Dentists in U.S.

## REASONS WHY INVESTORS LOVE DSOs

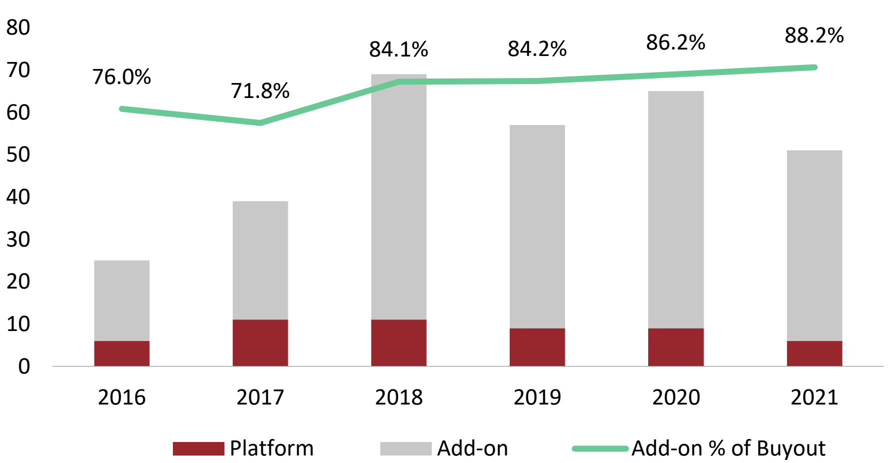
- Fragmented market with significant consolidation opportunity remaining
- Opportunity to add specialties and ancillary services in dense markets
- Healthcare-lite reimbursement profile, relative to other physician practice management models
- Highly recession resistant demand with proven ability to recover from pandemic

## REASONS WHY DENTISTS LOVE DSOs

- Focus on patient care; significantly reduced administrative burden
- Ability to overcome significant debt burdens out of school, while retaining equity opportunity
- Access to greater talent pool
- Opportunity for greater equity appreciation as part of scale platform

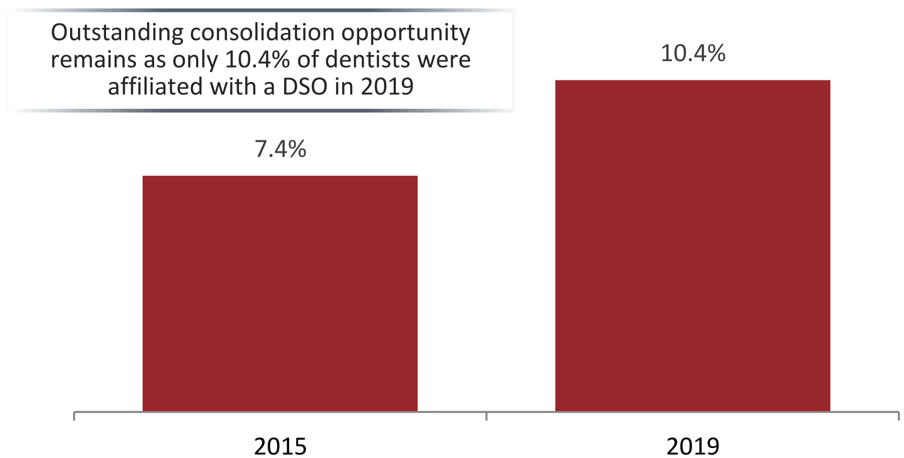
## STEADY NUMBER OF DSO M&A TRANSACTIONS BY YEAR[(2)]…

Dental Healthcare Provider Private Equity Buyout Count by Type as of 12/31/2021




## …WITH SIGNIFICANT RUNWAY FOR GROWTH[(3)]

Percentage of Dentists Affiliated with a DSO




1) Stax
2) Pitchbook
3) Health Policy Institute and American Dental Association

# Long-Term, Sustainable Investment Themes

Several key themes present an opportunity for prolonged investment and support further dental market growth and expanding DSO consolidation.

## Dental Market Drivers

### UNTAPPED WHITESPACE IN DENTAL TREATMENT MARKET[1]...

**~65%**
of Adults with a Dental Visit in the Past Year

**~26%**
of Adults with Untreated Dental Cavities

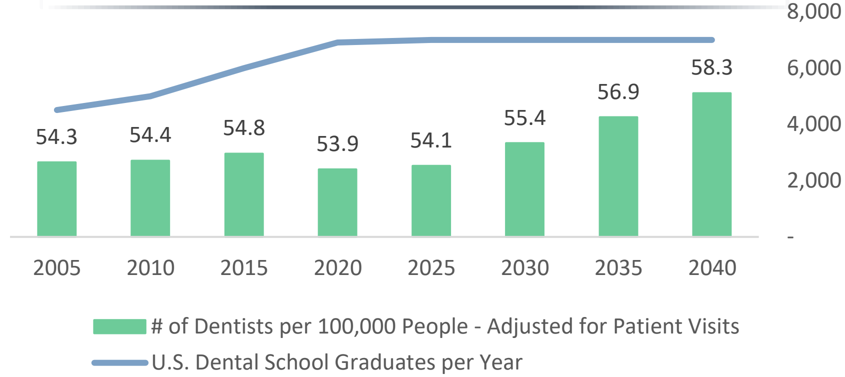
**~86%**
of Children with a Dental Visit in the Past Year

**13%+**
of Children with Untreated Dental Cavities

Platforms with sophisticated marketing functions will be well positioned to gain market share from under-penetrated geographies

### ...WILL BE SERVED BY EXPANDING POOL OF DENTISTS PER CAPITA[2]

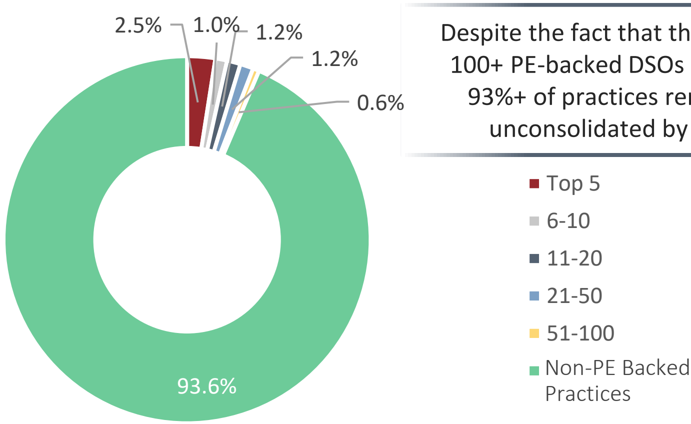
Growing dental school graduate pool from 2005 to 2020 is producing an increasing number of dentists per capita




## DSO Consolidation Drivers

### EXTENSIVE REMAINING DSO FRAGMENTATION[3]...

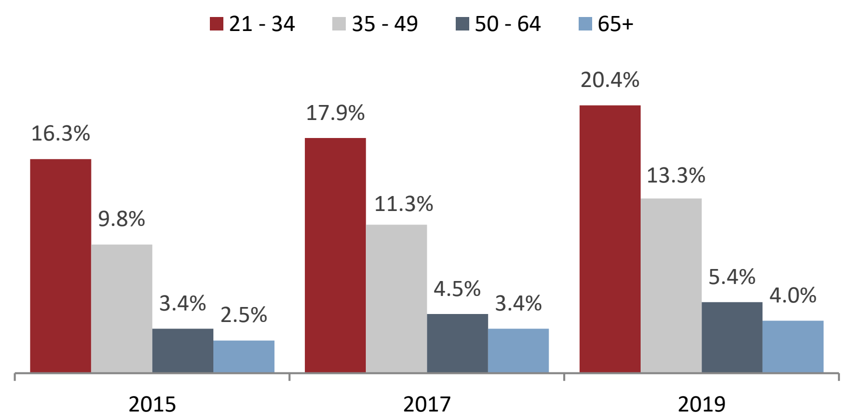
Percentage of Practices Affiliated with PE-Backed DSOs, Ranked by Size




Despite the fact that there are 100+ PE-backed DSOs today, 93%+ of practices remain unconsolidated by PE

### ...WITH GROWING DENTIST EXCITEMENT FOR DSO AFFILIATION[4]

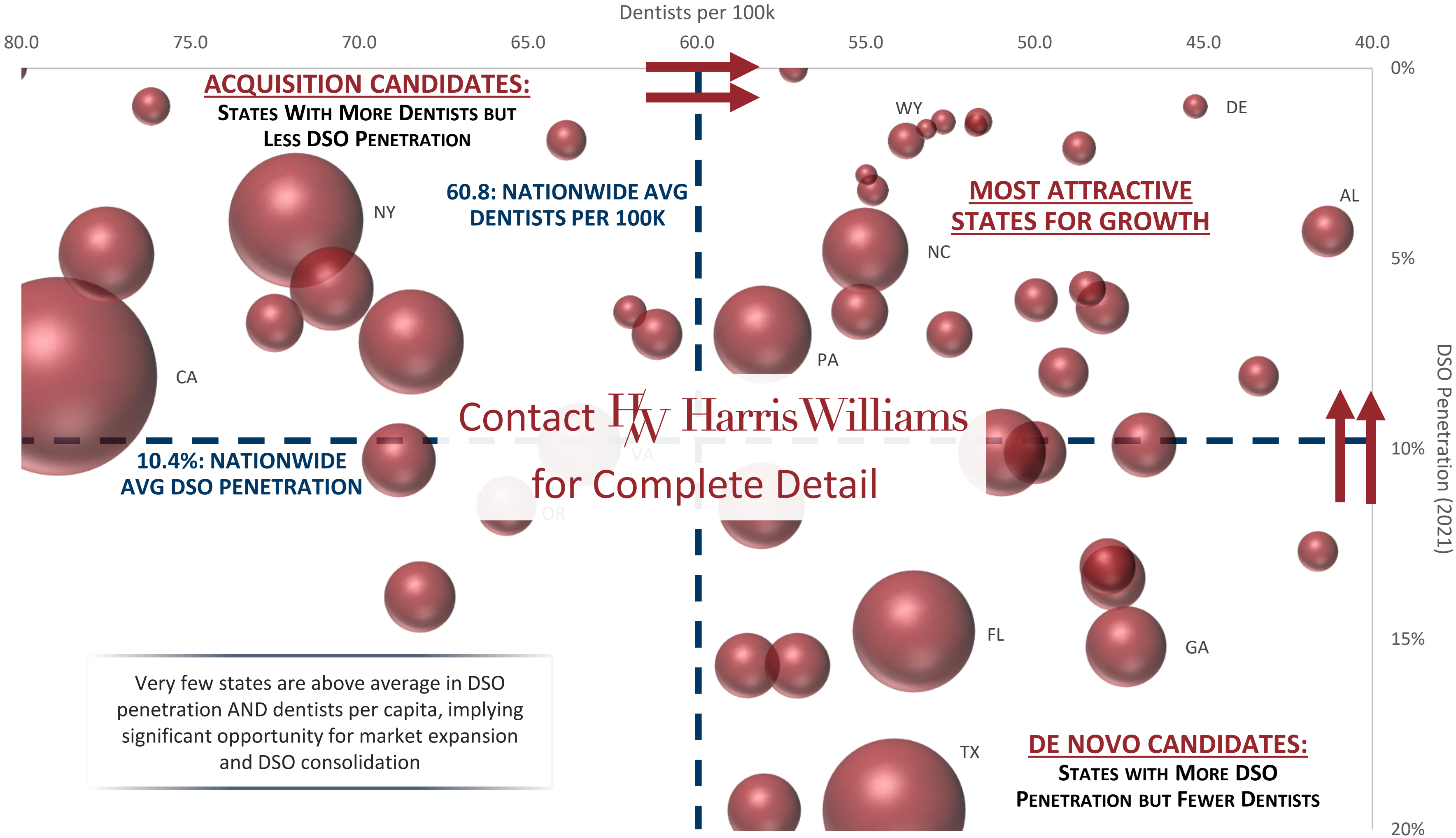
Percentage of Dentists Affiliated with a DSO by Age Cohort




1) CDC National Center for Health Statistics
2) Health Policy Institute and American Dental Association
3) Harris Williams Analysis
4) Stax

# Majority of U.S. Geographies Ripe for Further Expansion and Consolidation

While some geographies maintain higher DSO penetrations and/or a greater number of dentists per capita, there is an exceptional opportunity for continued consolidation and de novo growth in nearly every state.




Note: Bubble size denotes relative size of dental market
Source: Harris Williams Analysis of Health Policy Institute and American Dental Association Data

# Dental Market Overview

1 What makes the DSO sector attractive?

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3 Where are we today in the sector's life cycle?

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# DSO Value Creation Levers

A variety of core business characteristics determine the opportunity for value creation that exists within the dental ecosystem – a company's relative strength on these dimensions directly influences the EBITDA underwritten or multiple applied by investors.

| CATEGORY | HARRIS WILLIAMS OBSERVATIONS | VALUE DRIVER: EBITDA | VALUE DRIVER: MULTIPLE |
|---|---|---|---|
| **Clinical Quality and Compliance** | ▪ Crucial component for validating a market-leading platform of scale<br>▪ Focus will include coding and compliance track record and patient satisfaction | | ✓ |
| **Doctor Retention** | ▪ Stable provider base with lower-than-industry-level turnover<br>▪ Post-acquisition retention levels greater than or equal to the base business<br>▪ Focus on the ability to retain and backfill acquired doctors, with particular focus on owner doctors | | ✓ |
| **Employee Recruiting and Retention** | ▪ Benchmark turnover rates against other dental platforms and multi-site healthcare businesses<br>▪ Focus on turnover rates by employee type (clinical vs. non-clinical staff), turnover rationale, ability to backfill departures, and the sophistication of recruiting infrastructure | | ✓ |
| **Margin and Labor Efficiency** | ▪ Demonstrated ability to realize margin expansion through clinic-level operating efficiencies with scale<br>▪ Focus on clinic-level margins and labor utilization rates, with a particular emphasis on the post-COVID period given labor market disruptions | ✓ | ✓ |
| **COVID-19 Recovery** | ▪ Rapid and sustained v-shaped recovery for market-leading platforms<br>▪ Focus on top-line revenue and volume as well as pre- and post-COVID margin profile | | ✓ |
| **Payor Mix and Reimbursement** | ▪ Diversified payor mix with favorable reimbursement rates<br>▪ Focus on historical reimbursement rate trends, commercial / government breakdown, Medicaid expansion and rate trends by state, and payor contracting track record | | ✓ |
| **Organic Growth** | ▪ Understand key drivers of organic growth such as capture rate and disaggregating SSS growth by price, volume, and mix will be key focus areas<br>▪ Benchmark of 5% annual organic growth, with ~3% baseline same-store sales (SSS) growth plus additional organic growth, including de novos and service mix expansion (e.g., ortho capture) | ✓ | ✓ |

# DSO Value Creation Levers (cont.)

| CATEGORY | HARRIS WILLIAMS OBSERVATIONS | VALUE DRIVER | |
|---|---|---|---|
| | | EBITDA | MULTIPLE |
| **De Novo Performance (As Applicable)** | ▪ Clearly established de novo process with an in-house team that has a strong track record of scaling de novo clinics<br>▪ Focus will be on historical de novo ramp to maturity (timing, slope, revenue, and EBITDA), consistency of unit economics, and the future pipeline of opportunities | ✓ | ✓ |
| **Acquisition Execution** | ▪ Refined strategy, consistent execution, and investments in supporting resources<br>▪ Focus areas include multiples paid and alignment of completed acquisitions with overall M&A strategy | ✓ | ✓ |
| **Post-Acquisition Integration** | ▪ True platform integration and a demonstrated ability to quickly and effectively onboard acquired practices<br>▪ Focus on the degree of integration (people, processes, and systems), supporting resources, and integration checklist and timeline | ✓ | ✓ |
| **Revenue and Cost Synergies** | ▪ 1x+ in cost savings and 1x+ in revenue synergies for certain acquired clinics depending on acquisition type<br>▪ Focus on historical synergies realized by type (e.g., headcount, vendor savings, payor contracts, internal referrals) and timeline for realizing synergies | ✓ | |
| **Post-Acquisition Organic Growth** | ▪ Post-acquisition growth rates greater than or equal to the base business<br>▪ Focus will be on volume growth, new doctor recruitment, rate uplift from payor contracts, and service mix expansion, along with associated timing to achieve post-acquisition growth | ✓ | ✓ |
| **Acquisition Pipeline** | ▪ Active and growing pipeline of future opportunities and consistent conversion over time<br>▪ Focus on the size and actionability of the current pipeline and historical conversion rates of opportunities at various stages | ✓ | ✓ |
| **Doctor Compensation and Equity Ownership** | ▪ At or above market compensation and diversified equity ownership<br>▪ Focus on compensation benchmarking by market and alignment between doctor production and equity ownership | | ✓ |

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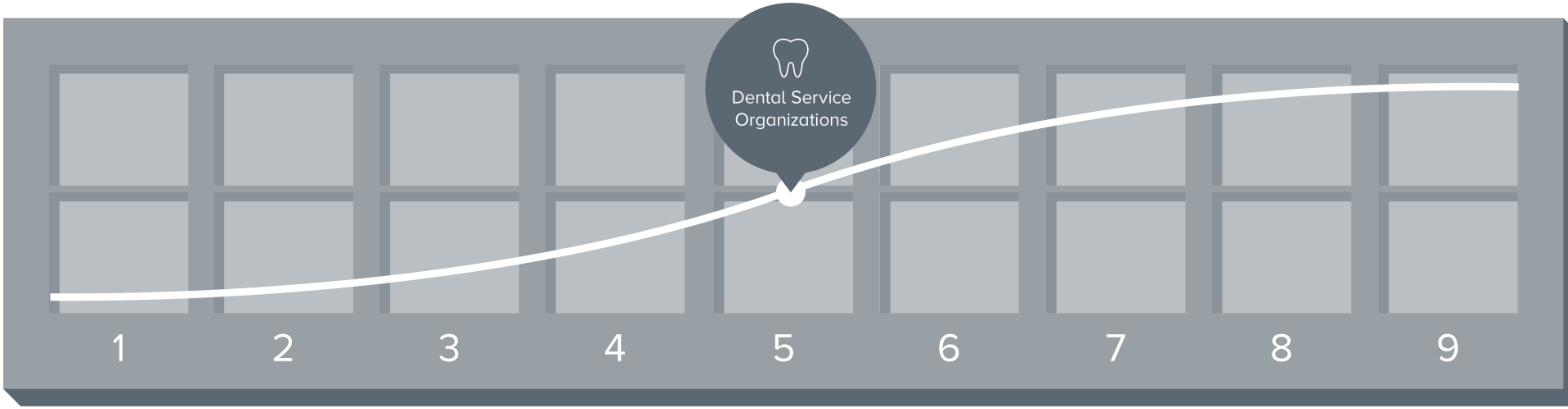
# The DSO Market Has Many Innings Left in Its Evolution and Maturation

As the DSO market continues to mature, significant opportunities for value creation by investors remain.




| INNINGS 1 – 3 (THE LAND GRAB STAGE) | INNINGS 4 – 6 (THE PROFESSIONALIZATION STAGE) | INNINGS 7 – 9 (THE CONSUMER STAGE) |
|---|---|---|

Clinical Efficiency

Back-Office Capabilities

Scale Developed

Focus on Specialization

Customer Experience Focus

Physician Experience

Level of Consolidation

Current focus of investors in DSO market specifically

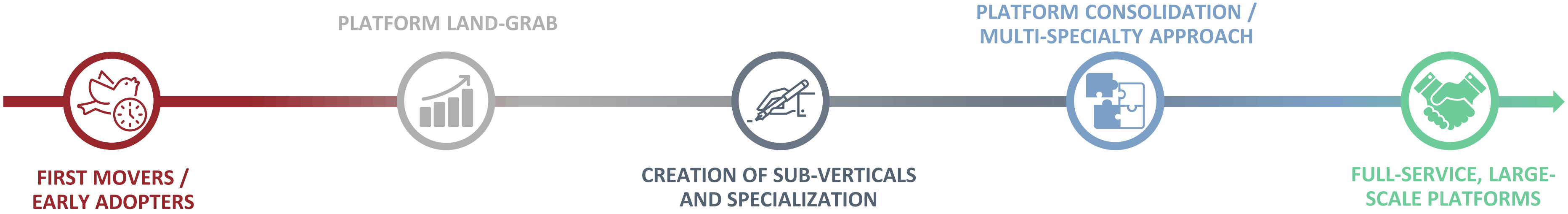
Opportunity for investors to continue to add value

Key Operational Capabilities Developed: Core Administrative Functions; Financial Management Operations; Equipment & Supplies; Information Technology; Real Estate & Facilities Planning & Management; Payor Contracting; Marketing, Branding, & Patient Acquisition; Physician Retention; Customer Experience

# Many Platforms Are Investing Time and Effort on Specialization…

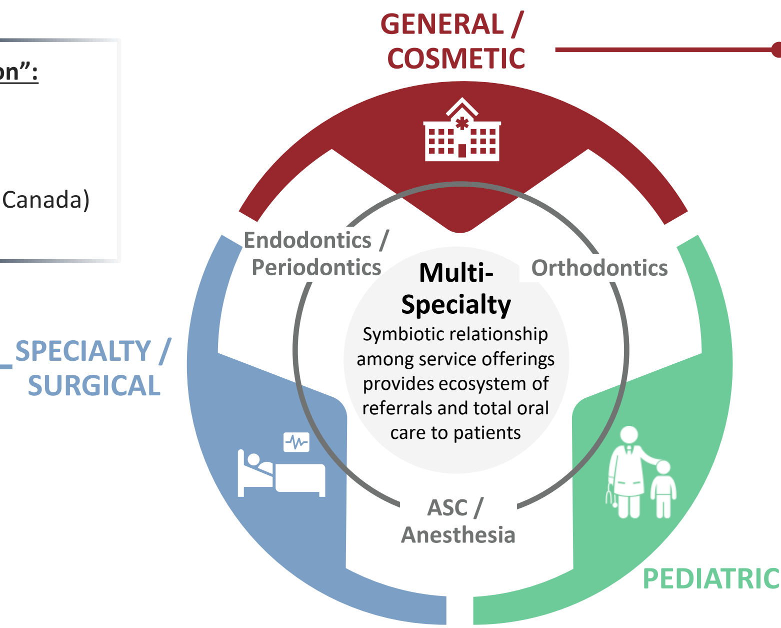
Many platforms are seeking to differentiate themselves with specialized or unique strategies, which has resulted in specialized platforms of scale that have not been seen in the industry before.

**TYPICAL MATURATION CYCLE OF PHYSICIAN SERVICES BUSINESSES**




**Other Forms of "Specialization":**

- "High-End"
- Mobile / On-site
- Cosmetic
- Alternative Countries (i.e. Canada)
- Digital-first




**Highly recurring patient base and revenue model, with regularly scheduled preventative check-ins, and opportunity to differentiate via unique operating models (high-end, technology-forward, care coordination, etc.)**

**Healthcare-heavy service offering producing healthy unit economics, despite the highest paid dental workforce, as demand outstrips supply across many regions of the country**

**Mission- and community-focused care provided by specialist dentists to the population of children that has an insured rate of 94%**

# …and We Are Seeing the Formation of Multi-Specialty Ecosystems

The ability to leverage density within geographies can drive better-than-market growth and profitability through multi-specialty expansion and by successfully keeping referrals in-house.

- **Multi-specialty regional density can be scaled rapidly through a three-phase process surrounding an anchor practice in an attractive geography**

## PHASE ONE: MARKET AND PARTNER SELECTION

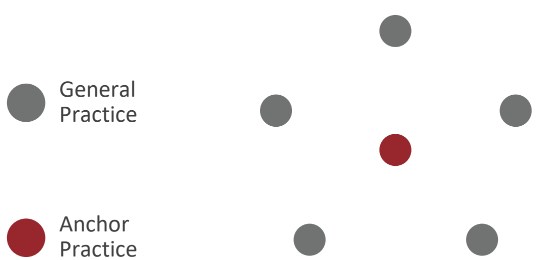
**Target Market**

- Urban density and suburban family markets
- Underserved regions with shortage of providers

**Anchor Affiliation**

- Mature, large-format office with high operatory count
- Multiple owners / doctors

***Ecosystem Structure***




## PHASE TWO: DENSITY AND SERVICE LINE EXPANSION

**Additional Affiliations**

- Acquire practices within driving distance to anchor
- Prioritize experienced providers with strong reputation

**De Novo Offices**

- Leverage existing brand equity to build de novos
- Use dentists from existing locations to import culture and scale rapidly

***Service Line Expansion***

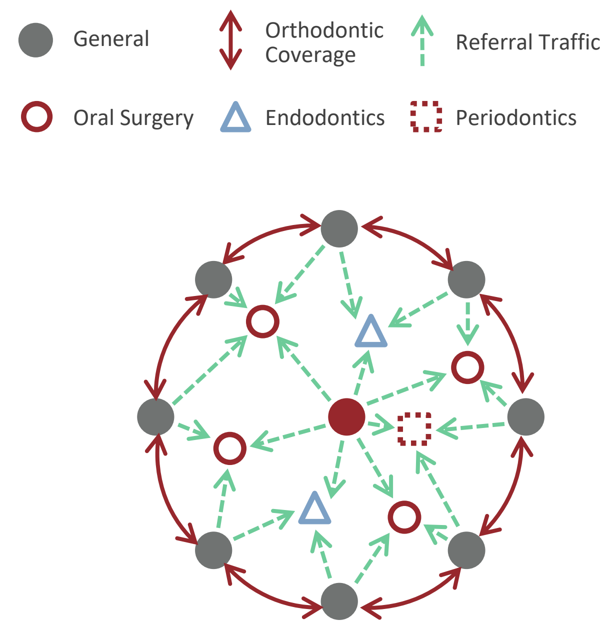
| |
|---|
| Cosmetic Dentistry |
| Oral Surgery |
| Endodontics / Periodontics |
| Care Coordination |

## PHASE THREE: ADDITION OF SPECIALISTS

**Flexible Playbook That Can Be Adjusted with Scale**

- Start with specialist rounding between practices
- Once density achieved, create standalone centers

***Referral Ecosystem***



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# General Dentistry

General dentistry practices focus on preventative care aimed at maintaining people's health, oral function, and facial appearance for their lifetime, though often incorporates some specialties.

**KEY COMPETITIVE DIFFERENTIATORS**

- Lifetime Value of a Patient
- Dentist Retention
- Payor Diversity
- Provider Utilization Rates
- Organic Growth / Same-Store-Sales Rates
- De Novo Capabilities
- Net Promoter Score
- Marketing Capabilities / ROI
- Specialty Mix / Capabilities

**ILLUSTRATIVE GENERAL DENTISTRY PLATFORMS**

Contact Harris Williams for Complete Detail

**$35.6B**

General Market Size (2021)[1]

**~160k**

General Dentists[2]

**0.5%**

2016 – 2021 Growth in General Dentists[3]

**$170,160**

Average Compensation per General Dentist[4]

**10.3%**

of General Dentists Affiliated with a DSO[5]

1) Stax
2) CDC National Center for Health Statistics
3) Ibid
4) Health Policy Institute and American Dental Association
5) Ibid

# Oral and Maxillofacial Surgery

Oral surgery is the most healthcare-heavy dentistry offering, as surgeons perform operations on teeth, jaws, or surrounding facial structures to maintain health, oral function, and facial appearance.

**KEY COMPETITIVE DIFFERENTIATORS**

- Revenue Diversity by Service and Surgeon
- Referral Dynamics / Repeatability
- Payor Mix
- Surgeon Utilization
- Investment in Facilities and Equipment
- Surgeon Incentives / Buy-In
- Average Age of Surgeon
- Affiliated Residency Program

**ILLUSTRATIVE ORAL SURGERY PLATFORMS**

Contact HW Harris Williams for Complete Detail

**~$16.2B**

Oral Surgery Market Size (2021)[(1)]

**~7.5k**

Oral Surgeons[(2)]

**(0.4)%**

2016 – 2021 Growth in Oral Surgeons[(3)]

**$407,550**

Average Compensation per Oral Surgeon[(4)]

**9.6%**

of Oral Surgeons Affiliated with a DSO[(5)]

1) Stax
2) CDC National Center for Health Statistics
3) Ibid
4) Health Policy Institute and American Dental Association
5) Ibid

# Endodontics

Endodontics is the branch of specialty dentistry focused on dental pulp (the inside of the teeth) and surrounding tissue, and has only recently begun to consolidate into specialty platforms.

**KEY COMPETITIVE DIFFERENTIATORS**

- Referral Dynamics / Repeatability
- Geographic Footprint / Scale
- Production per Endodontist
- Payor Diversity
- Organic Growth / Same-Store-Sales Rates
- Capability to Add Incremental Specialties
- De Novo Capabilities
- Proven Acquisition Integration Playbook / Pipeline

**~$32.5B**

Endodontics Market Size (2021)(1)

**~5.7k**

Endodontists(2)

**0.3%**

2016 – 2021 Growth in Endodontic Dentists(3)

**$343,670**

Average Compensation per Endodontist(4)

**8.4%**

of Endodontists Affiliated with a DSO(5)

**ILLUSTRATIVE ENDODONTIC PLATFORMS**

Contact Harris Williams for Complete Detail

1) Stax
2) CDC National Center for Health Statistics
3) Ibid
4) Health Policy Institute and American Dental Association
5) Ibid

# Pediatric Dentistry

Pediatric dentistry focuses on improving the lives of patients and educating parents on the importance of good oral hygiene habits from infancy to teenage years.

**KEY COMPETITIVE DIFFERENTIATORS**

- Recurring Revenue / Lifetime Value of a Patient
- Ancillary Service Offerings / Family Offering
- Medicaid Exposure and/or Payor Mix Diversity
- Compliance Functionality / Proof of Professionalization
- Demonstrated Quality Outcomes Data
- ASC Ownership / Access

**ILLUSTRATIVE PEDIATRIC PLATFORMS**

Contact Harris Williams for Complete Detail

**~$9.0B**

Pediatric Dental Market Size (2021)[1]

**~8.8k**

Pediatric Dentists[2]

**2.9%**

2016 – 2021 Growth in Pediatric Dentists[3]

**$227,120**

Average Compensation per Pediatric Dentist[4]

**12.4%**

of Pediatric Dentists Affiliated with a DSO[5]

1) Stax
2) CDC National Center for Health Statistics
3) Ibid
4) Health Policy Institute and American Dental Association
5) Ibid

# Orthodontics

Orthodontics is dedicated to the diagnosis, prevention, and correction of improper positioning of teeth.

**KEY COMPETITIVE DIFFERENTIATORS**

- Referral Dynamics / Practice Relationships
- Geographic Diversity
- Average Orthodontist Production
- Monthly Net Production
- Revenue Recognition Policy / Cash Collections
- Technological Investment / 3-D Printing Capabilities
- Supplier Relationships / Pricing

**ILLUSTRATIVE ORTHODONTIC PLATFORMS**

Contact HW Harris Williams for Complete Detail

**~$16.1B**

Orthodontics Market Size (2021)(1)

**~11.0k**

Certified Orthodontists(2)

**~0.5%**

2016 – 2021 Growth in Orthodontists(3)

**$340,380**

Average Compensation per Orthodontist(4)

**12.5%**

of Orthodontists Affiliated with a DSO(5)

1) Stax
2) CDC National Center for Health Statistics
3) Ibid
4) Health Policy Institute and American Dental Association
5) Ibid

# A Collaborative Approach to Consumer Healthcare

We pool the expertise in consumer, healthcare and life sciences, and technology to advise premier companies across the consumer healthcare landscape.

## For more information on our experience in the dental sector, contact us:


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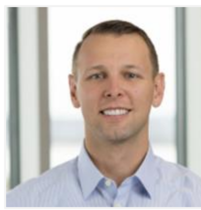

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## Select Recent Transactions

**Physical Therapy**
lifemark HEALTH GROUP
a portfolio company of
Audax Private Equity
has been acquired by
Loblaw Companies Limited
on behalf of its wholly owned subsidiary
SHOPPERS DRUG MART

**Dermatology**
FOREFRONT DERMATOLOGY
a portfolio company of
OMERS
has been acquired by
Partners Group

**Veterinary**
Alliance Animal Health
a portfolio company of
LightBay Capital
has been acquired by
L Catterton

**Fertility**
CCRM FERTILITY
a portfolio company of
TA Associates
has established a strategic partnership with
UNIFIED WOMEN'S HEALTHCARE
a portfolio company of
Altas Partners
Ares

**Dental**
American Dental Partners
a portfolio company of
JLL Partners
has been acquired by
Heartland Dental
a portfolio company of
KKR

**Vision**
NVISION EYE CENTERS
has received an investment from
Ontario Teachers' Pension Plan

**Behavioral**
hopebridge Pediatric Specialists
a portfolio company of
Baird Capital
has been acquired by
Arsenal Capital Partners


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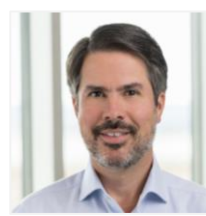

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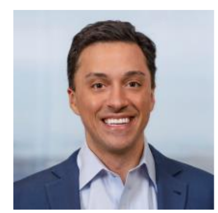

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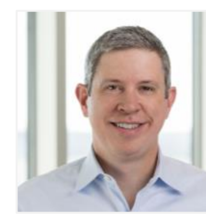

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# Harris Williams: Capabilities and Locations

Harris Williams has a broad range of industry expertise, which creates powerful opportunities. Our clients benefit from our deep-sector experience, integrated industry intelligence and collaboration across the firm, and our commitment to learning what makes them unique. For more information, visit our website at www.harriswilliams.com.


Aerospace, Defense & Government Services


Building Products & Materials


Business Services


Consumer


Energy, Power & Infrastructure


Healthcare & Life Sciences


Industrials


Specialty Distribution


Technology


Transportation & Logistics

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