

# Private Equity Investment in Dental Care

## Creating Long Term Value

*Dental is a sector that has long been a favorite of the private equity community. Consolidation within the sector has continued unabated for 20 years driven by favorable growth dynamics and continued market fragmentation. As large dental platforms have emerged, independent dental services organizations continue to seek alternative solutions to grow their equity value over the long term.*





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Provident is the leading investment banking firm specializing in merger and acquisition advisory, strategic planning, and capital formation for middle-market and emerging growth healthcare companies.

The firm has a vast network of high-level, senior industry contacts, a thorough knowledge of market sectors and specialties, and unsurpassed experience and insight into the M&A process. Provident uncovers value and opportunities that others often overlook to create transaction premiums for its clients.

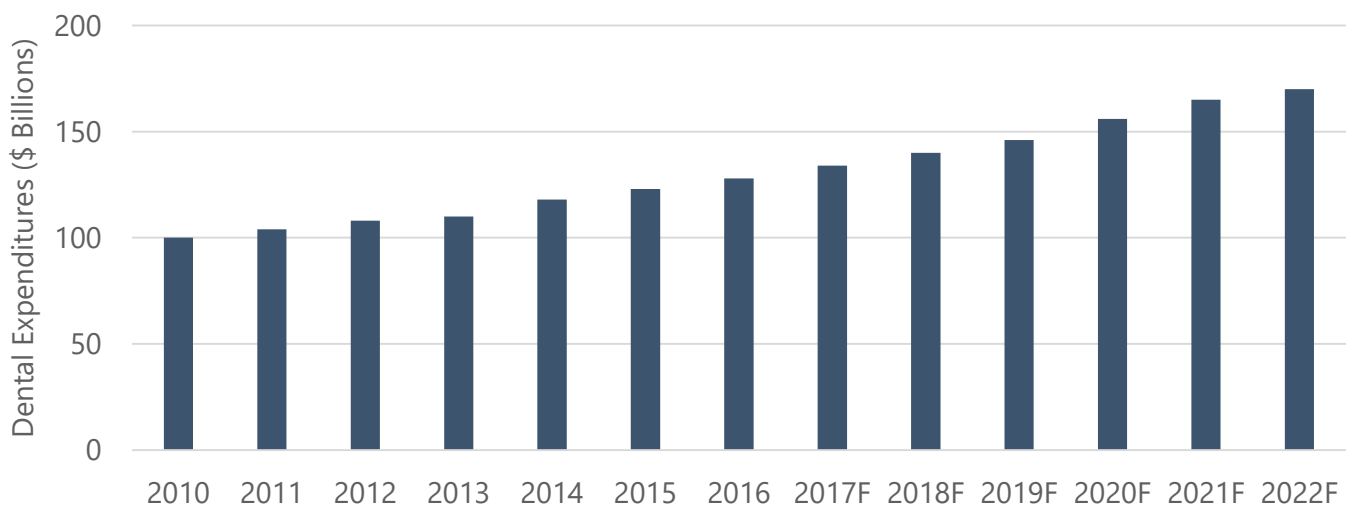
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# INTRODUCTION

Within the dental sector, Provident has a reputation for representing leading dental service organizations (DSO). Former client transactions include Great Expressions Dental Centers' 2008 partnership with Audax Group, Baystate Dentals' 2013 acquisition by North East Dental Management, Laser Dentistry for Children's 2015 transaction with Webster Capital, and Children's Dental Health Associates' 2016 recapitalization with DFW Capital Partners. While dental has long been one of the most actively consolidated sectors, merger & acquisition activity within the space has continued at a strong pace. Projected to be a \$170 billion industry by 2022, a highly favorable macroeconomic backdrop exists for the dental sector. However, the success of a dental services organization is predicated on its ability to invest in a comprehensive infrastructure, recruit dental practitioners, and diversify service lines.

Several large dental service organizations such as Heartland Dental Care, Aspen Dental Management, and Great Expressions Dental Centers, have greatly benefited from the macroeconomic tailwinds driving the sector. Yet, while many large dental consolidators have benefitted, smaller independent dental organizations have not been able to capitalize on the same scale. In an environment of ever increasing margin pressure and competition, the dental community faces significant challenges. Dentists near the age of retirement are reconsidering whether or not they will be able to realize a return on the time and dollars they have invested in their practices' ahead of retirement. Early career dentists, saddled with student debt, are considering whether it is worth the risk of financially committing the resources to invest in their own private practices' with consideration to the opportunity cost of seeking stable employment with a large dental practice. Taking these factors into consideration, dental organizations have begun to look for alternative strategies to grow the equity value of their organizations over the long term.

United States Dental Care Expenditures

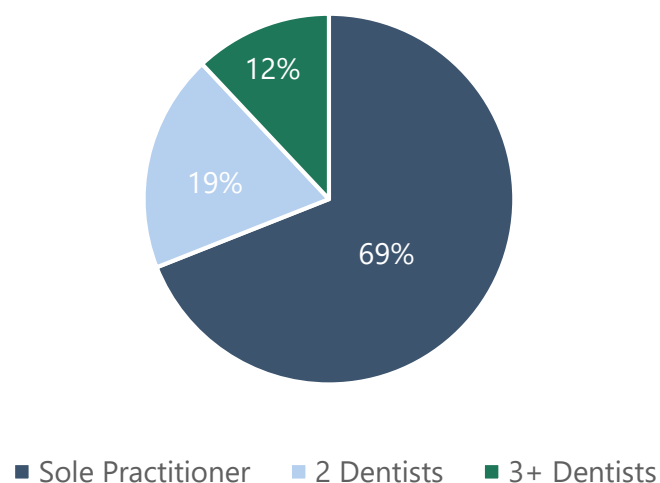


# PRIVATE EQUITY INVESTMENT AND INDUSTRY CONSOLIDATION

Private equity has long played an integral role within the sector. Dental was one of the first segments of healthcare services to undergo significant private equity investment and consolidation in the late 1990's. Aspen Dental Management (currently a portfolio company of American Securities) completed its first private equity recapitalization in 1997 with APG Partners and has since become one of the largest dental service organizations in the United States. During the late 2000's, a second wave of significant private equity capital began flowing into the sector. In 2008, Provident Healthcare Partners represented Great Expressions Dental Centers through a recapitalization with Audax Group. The "first mover" private equity platforms within dental had great success capitalizing on the high level of fragmentation by making acquisitions both regionally and nationally. Relative to other segments of healthcare services, consolidation activity within the dental sector has lasted much longer without signs of slowing down. Investment by the private equity community has continued unabated for almost 20 years, as well as through two recessions. The sector has attracted capital from some of the largest private equity funds as many national groups have gone through several iterations of private equity. Since Great Expression's initial recapitalization with Audax Group, the company was traded to OMERS Private Equity in 2011, and most recently exited to Roark Capital Group in 2016. Yet still today, the dental industry remains highly fragmented, and the opportunities to consolidate while gaining size and scale continue to exist.

Over the course of the last 12 months, nine new private equity backed DSOs were formed. As staffing costs and rents continue to increase, and costly value based care initiatives are pending, there is a compelling case for smaller independent dental clinics to align themselves with a DSO that can provide the infrastructure, recruitment tools, marketing capabilities, capital, and administrative support functions necessary to relieve the pressures facing their respective organizations. Groups of scale are able to take advantage of synergies by spreading fixed costs across a broader base of clinics, centralizing administrative functions, and increasing leverage with payors. Private equity has been an attractive solution for DSOs looking to create growth in their equity value in this environment.

Dental Provider Fragmentation



# CREATING VALUE THROUGH PRIVATE EQUITY

## M&A Strategy

Great Expressions Dental Centers (GEDC) is a nationwide provider of dental services based in Bloomfield Michigan. GEDC is a good example of what can be accomplished leveraging a private equity partner to embark on an acquisitive growth strategy by leveraging the infrastructure of a robust platform to provide an exit strategy for later career dentists while removing the administrative burdens that exist for independent practitioners. In 2008, Provident Healthcare Partners represented GEDC through a private equity recapitalization with Audax Group. At the time of this transaction, GEDC had revenues of approximately \$60 Million and 98 offices under management. GEDC saw the opportunity to expand leveraging the capital of a private equity firm to execute on an acquisition strategy. After a competitive process, GEDC was recapitalized by Audax Group. As a result of that partnership, GEDC was able to execute on its strategy and achieve the rapid growth that GEDC desired. Audax exited their position in 2011 to OMERS Private Equity after adding 54 offices to the GEDC platform. The shareholders of GEDC maintained a meaningful portion of ownership in the company and saw a substantial increase in the value of their rolled equity. Today, Great Expressions is one of the largest DSOs in the country with more than 300 practices under affiliation.



## De-Novo Strategy

In 1997, Aspen Dental Management (ADM) became the first DSO to enter into a true private equity recapitalization with APG Partners. At the time of the investment, ADM had 10 offices under management in the Northeastern United States. Through the partnership with APG, Aspen Dental Grew from 10 locations to 100, and APG exited its investment in 2006 to Ares Management. ADM has leveraged a growth strategy that is unique relative to other large consolidators within the dental space, focusing on a consumer centric approach. Utilizing its various private equity partners, ADM has expanded on a purely de-novo basis. This strategy has revolved around building clinics in attractive locations with attractive patient bases and leveraging its brand and marketing capability to drive patient traffic. Compared to an acquisition focused strategy, a de-novo strategy carries less integration risk and could be more cost effective. However, it creates one problem that is difficult for many organizations to solve, which is the staffing of new clinics. ADM leverages its brand and consumer expertise in the same capacity it does with patients to recruit dental practitioners to their platform. This has been an attractive option to many early career dentists that have come out of school with student loan debt, and do not want to take the financial risk of starting a practice themselves. Today, Aspen Dental is currently a portfolio company of American Securities and is affiliated with more than 550 clinics across the United States.



## DENTAL TRANSACTION ENVIRONMENT

Record fundraising has created a significant amount of dry capital for the private equity community, and in a low interest rate environment, private equity funds have the ability to put capital to work at a low historical cost. Due to the high degree of market fragmentation, there is a large supply and demand imbalance that exists for platform caliber dental organizations. The result of this imbalance, is that the market for dental transactions has become increasingly competitive, dramatically influencing valuation levels. An example of this dynamic at work is the formation of CORDENTAL Group by New MainStream Capital. Instead of partnering with an established platform, CORDENTAL was created in March through the commitment of \$25 million in equity capital from New MainStream. The organization has tapped professionals from a previous PE success story, Ms. Dana Soper and Mr. Steven Jones to lead the CORDENTAL Platform, and each has deep experience in growing multisite businesses in a variety of sectors including infusion therapy and the dental industry. Ms. Soper and Mr. Jones will leverage their experience in growing through an acquisitive strategy to scale the CORDENTAL platform. The formation of CORDENTAL is indicative of the willingness by the private equity community to put capital to work in a creative manner to find platforms in the dental sector. Since the founding of that organization, CORDENTAL has performed two acquisitions of dental clinics in Missouri and Virginia.

While investors have found creative solutions to gain access to platforms in the dental industry, with interest rates slated to rise, valuation levels are plateauing. This has led to robust transaction activity in the dental space as organizations have monetized their equity during a strong market. Driven by these compelling factors, in 2017 alone there have been 26 publicly announced dental M&A transactions.

### 2017 YTD Dental M&A Transactions

Month	Acquirer	Target Company
January	Knight Dental Group	Precision Craft Dental Laboratory
January	Sentinel Capital Partners	Altima Dental
January	Spring & Sprout	Wood Lombardozzi
February	Smile Brands	A+ Dental Care
February	Smile Brands	OneSmile Silicon Valley
March	Dynamic Dental	Dental Partners
March	New MainStream Capital	CORDENTAL Group
March	Western Dental Services	Smile Wide
April	Mid-Atlantic Dental Partners	Mid-Atlantic Practice
April	Gentle Dental Partners	Great Hill Dental Partners
April	Brentwood Associates	Jefferson Dental Clinics
April	Gauge Capital	Pediatric Dental Providers
June	Sun Life Financial	The Premier Dental Group
June	Western Dental	Choice Family Dentistry Center
June	MidOcean Partners	Affinity Dental Management
June	Smile Brands	Johnson Family Dental
July	Tradewind Capital Group	Premier Dental Group
August	Dimension Dental	4 Dental Arts Locations
August	Light Wave Dental	Herbert Dental Group
August	Cordental	Forest Park Dental
August	Cordental	Konikoff Family Dentistry
August	Pouschine Cook Capital Management	Southern Dental Alliance
August	Western Dental	Childrens Dental Group
September	Smile Brands/A+ Dental Care	Folsom Dental Group
September	Western Dental	Kids Dental Care
October	Sentinel Capital Partners	MB2 Dental Solutions

## CONCLUDING THOUGHTS

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As evidenced by the steady stream of new private equity investment, based on the robust transaction volume, market fragmentation, and attractive macroeconomic backdrop, the dental sector will continue to experience significant investment and consolidation activity. Large organizations will continue to expand their platforms through add-on acquisitions and de-novo growth strategies, while platform caliber organizations will continue to attract private equity interest.

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