

Provident Dental Services Update: Summer 2024



Provident’s Dental Services coverage team has continued to interact with a range of industry participants in 2024. We have observed both new and familiar themes such as the importance of clinic-level performance, focus on specialty services, and anticipation of increased deal flow given recent and near-term credit and equity market activity.

Dykema Dental Conference



Provident attended the 2024 Dykema Dental Conference in Denver, CO. Our team met with and gathered perspectives from a variety of industry stakeholders, including DSOs, independent practices, operators, investors, lenders, and service providers.

Dental Services Coverage Team



Ajeya Shekar
Director



Chris Schlesinger
Vice President

Key Recurring Topics & Discussion Themes with Industry Participants



Continued Investor Interest & Sector Tailwinds

Tailwinds such as significant fragmentation and a growing, recurring patient population have supported strong investor interest, despite the increased scrutiny observed in individual investment processes



Successful Margin Recovery for Many Group Practices

Rising labor and operating costs drove recent margin compression, but groups in multiple markets have seen improvement, including larger DSO acquirers that paused M&A to focus on operations



Increased Focus on De Novo Clinic Models

Groups with successful de novo models experienced fewer disruptions from macro pressures and are earning increased investor attention; many large DSOs have increased investments in de novos



Expanded Interest in Specialty Services

Successes in payor contracting by large specialty DSOs, lower discretionary exposure, and a limited provider supply have increased both investor and group practices interest on specialty care



Significant Improvement to Credit Market

Lender interest in dental has increased significantly in the last six months for both new and refinanced facilities. Pricing has improved monthly as well, however scrutiny of pro forma EBITDA remains high



Importance of Same-Clinic Performance

Investors continue to view same-clinic performance as a key driver of valuation, as it reflects the success of many operational focus areas; DSOs with 5-15% same-clinic growth have seen increased interest



Anticipation of Strong Deal Volume & Outcomes

Expected near-term, large DSO exits and the improved operational and credit profile of many acquirers is driving expectations of a resurgence of premium transaction volume



Increased Deal Structure to Maintain Add-On Valuations

Volume has remained strong for small practice acquisitions, however unchanged seller expectations have increased the prevalence of equity rollover, seller notes, and earnouts to support valuations