

Dental Services

Q3 2024

Market Update

M&A activity within the dental services sector remained consistent with recent quarters. Two sizeable recapitalizations were completed, large and mid-sized DSOs continued executing on high-volume add-on strategies, and many dental businesses continued to improve their operations and begin refocusing on M&A.

The two most notable transactions of Q3-2024 were ProSmile's acquisition of Destiny Dental, a sponsor-owned pediatric-focused DSO with 20 locations in the Midwest, and Main Post Partners' recapitalization of Platinum Dental Services, a 37-location DSO concentrated in the Mountain West. These transactions highlight the increasing ability of both sponsors and DSOs to complete transactions with mid-sized groups, facilitated by the improving credit market. We expect additional large recapitalizations to be announced in the coming weeks and finalized in Q4.

Many existing DSOs maintained strong momentum with smaller single-location and group practice M&A targets, including groups such as Heartland, MB2, and GPS Dental. Specialty-focused groups led this activity, with an increased level of transactions completed with pediatric and orthodontic practices led by DSOs such as beBright, ProSmile, Smile Doctors, Southern Orthodontic Partners, and Vitana Pediatric & Orthodontic Partners.

From an operational perspective, dental practices continue to emerge from the inflationary pressures of the last two years at different rates. Numerous large DSOs have noted a flattening of wage growth among hygienists and dental assistants, general maintenance of patient volumes compared to 2023, and long-awaited increases in reimbursement from select PPO insurers to reflect an increased cost profile. Coupled with decreased debt service costs, many DSOs are well positioned to shift their focus back to M&A. However, Provident also observed select DSOs that were unable to weather the storm and elected to consider distressed, strategic options with their creditors.

Select Transactions

| Month | Investor | Target | Location(s) | State(s) |
|-----------|---|---|-------------|---------------|
| July |  |  | 1 | Southwest |
| July |  |  | 1 | Southeast |
| July |  | 4 Orthodontic Practices | 15 | East |
| August |  |  | 20 | Midwest |
| September |  |  | 37 | Mountain West |

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