Favorable Payor & Reimbursement Landscape
- Out of pocket payments constitute ~40 percent of dental expenditures, resulting in significantly reduced reimbursement risks compared to other healthcare services operators

Rising Disposable Incomes
- Cosmetic dentistry is witnessing growing demand as a result of rising disposable personal incomes

Demographics
- The US population continues to age, and people aged 65+ spend ~18 percent more per year on dental care than other age groups

Favorable Regulatory Environment
- Dental legislation and regulation largely takes place at the state level
- Recent legislative attempts in Washington, Wisconsin, Texas and North Carolina seeking to limit the presence or scope of Dental Service Organizations (“DSOs”) have been defeated

The intersection of these forces with eager capital and high dental industry fragmentation has resulted in a heated market for dental platforms seeking to achieve scale density through acquisition and de novo growth strategies.
The market for dental is characterized by several factors that are relatively unique to the sector within healthcare:

- Unlike provider shortages that exist in medical primary care, the ratio of dentists to population is sufficient and expected to remain stable.
- General dentistry (defined as restorative, preventative and diagnostic services) comprise 53 percent of the overall market; orthodontics is the largest specialty.
- Within specialty dentistry, orthodontics is the most prominent at 28 percent of specialty dental services by revenue (10 percent of all dental); followed by oral surgery, pediatrics, and periodontics.

### Benchmarking

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA margin</td>
<td>20 – 25%</td>
</tr>
<tr>
<td>Collections rate</td>
<td>97%</td>
</tr>
<tr>
<td>Salaries &amp; wages %</td>
<td>20 – 25%</td>
</tr>
<tr>
<td>Supplies &amp; labs %</td>
<td>12 – 15%</td>
</tr>
<tr>
<td>Rent %</td>
<td>6%</td>
</tr>
<tr>
<td>Average revenue per office</td>
<td>$1.6 mm</td>
</tr>
<tr>
<td>Average revenue per dentist</td>
<td>$770k</td>
</tr>
</tbody>
</table>

### Strategies

- Value creation strategies include geographic density, volume-enhancement programs, branding strategies, technology infrastructure investments and the creation of multi-specialty practices.
- Recruitment strategies include employed vs. affiliation, equity vs. cash bonus, and student loan repayment programs.
- Decision on branding model (local vs. regional vs. national) will impact decision making on acquisitions, de novos and overall geography.

### Risks

- Key risks of dental practice management include significant existing competition, recruiting risk, regulatory attention and capital intensity.
- Low reimbursement risk relative to other sectors of healthcare:
  - Cash payments constitute ~40 percent of the overall industry payor mix.

### M&A and Capital Markets

- Double digit EBITDA multiples not uncommon.
- Private equity is the chief acquirer.
- Debt is generally available due to longstanding familiarity with the DSO model among lenders.

### Select Private Equity Platforms

- JLL Partners
- Audax Group
- American Securities
- Gryphon Capital Group
- Gentle Dental
- Aspen Dental
- Smile Brands Inc.
- Great Expressions Dental Centers

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