

Dental Overview

January 2017

Executive Summary

The retailization of healthcare services in the US is an important secular trend and dental services are no exception. In addition to this theme, dental healthcare in the US is undergoing rapid change as the result of a confluence of factors that make the sector attractive to investors.

Among the factors driving dental services transactions are a relatively favorable regulatory environment compared to the broader healthcare landscape, demographic tailwind, high fragmentation and favorable reimbursement dynamics. As a result, several well-capitalized dental platforms have emerged and the M&A environment continues to be active.

Dental Market at a Glance: Key Figures

| | |
|-----------|---|
| \$123B | Expected market for dental services in 2016 |
| 5.2% | Annual industry growth from 2014 – 2020 |
| 195,202 | Practicing dentists in the United States |
| 69% | Proportion of solo dental practitioners |
| 182,784 | Number of dental offices in the United States |
| \$247,227 | Average student debt per dental graduate |
| 34.4% | Exchange family plans that cover pediatrics |

Key Tailwinds

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

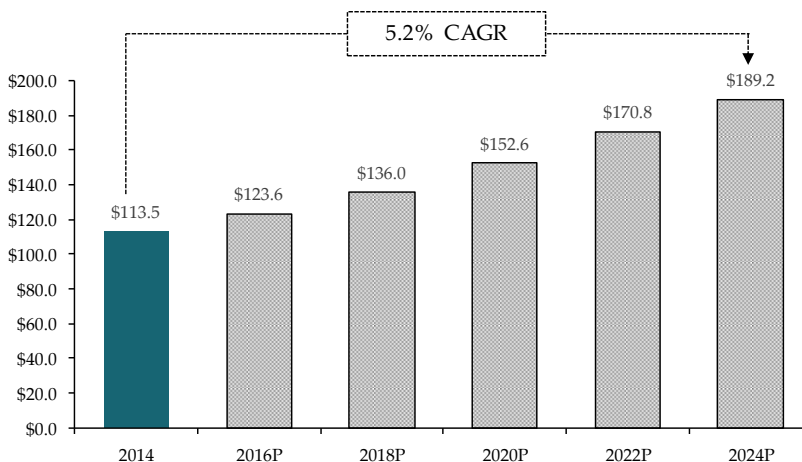
Favorable Regulatory Environment

- 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

Sector Growth & Outlook

Dental Expenditures in the US



Sector Outlook

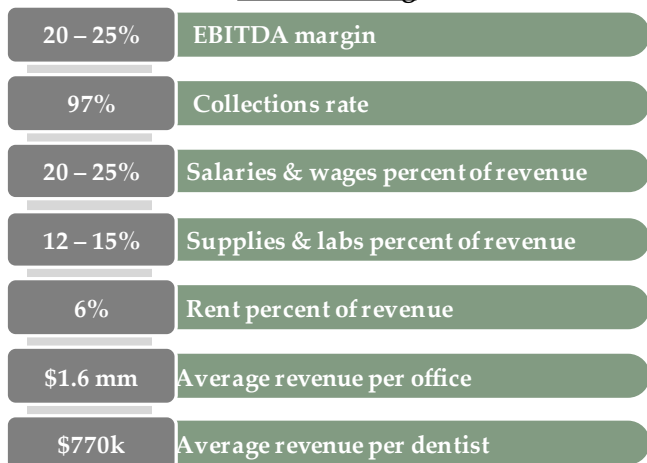
Overall, the dental market is expected to grow well above GDP at ~5.2 percent per year through 2024. The combined impact of sector tailwinds, a stable dentist supply and ongoing DSO consolidation point to a market that will continue to experience heightened M&A activity and investor interest. Despite the emergence of several large dental platforms, 69 percent of practices remain under the ownership of solo practitioners.

Market Snapshot

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



Investment Considerations

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

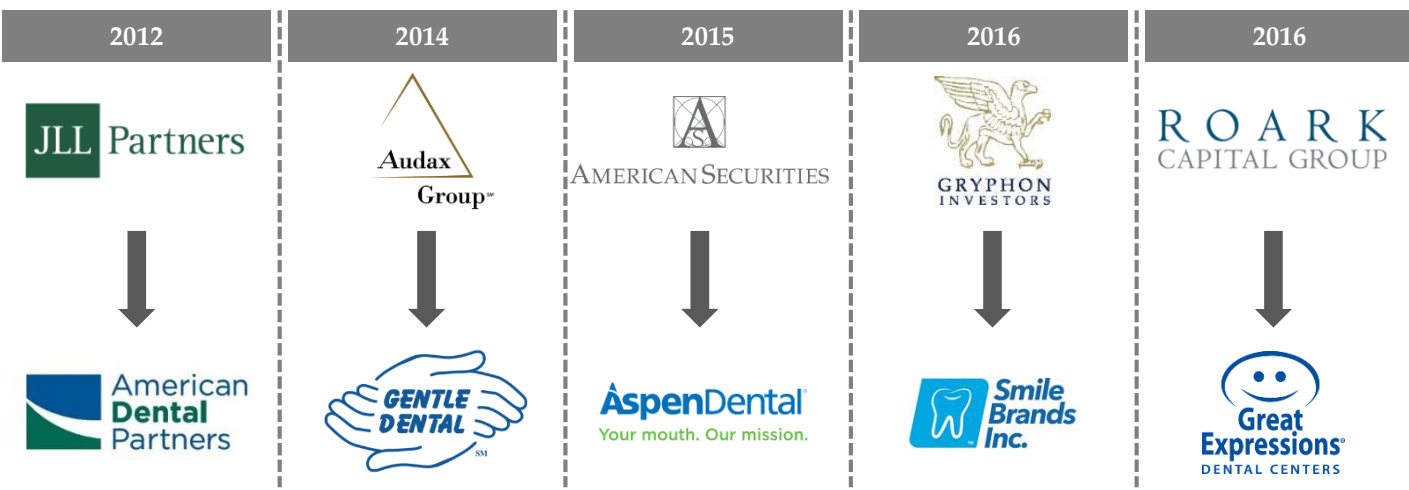
Risks

- 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



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