

Clearview

Dental market

Positive demographics and a highly fragmented market means the dental sector remains attractive to both corporate dental chains and private equity investors.

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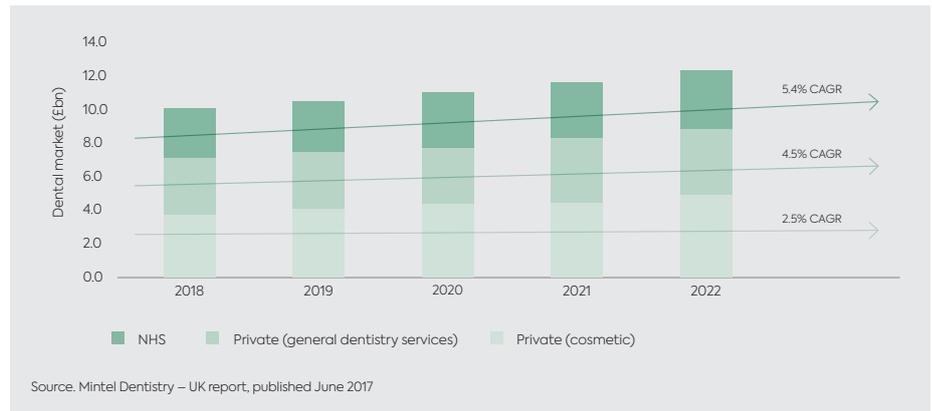
Market overview

The UK dental market remains highly fragmented - in 2018 there were 11,965 registered dental companies/groups and 14,150 dental practices, yet only 12% of these practices were owned by corporate dental bodies¹ indicating that the dental market is ripe for further consolidation.

Indeed the consolidation drive has gathered pace in recent years as investors capitalise on the advantages that operating a larger-scale business brings. These include:

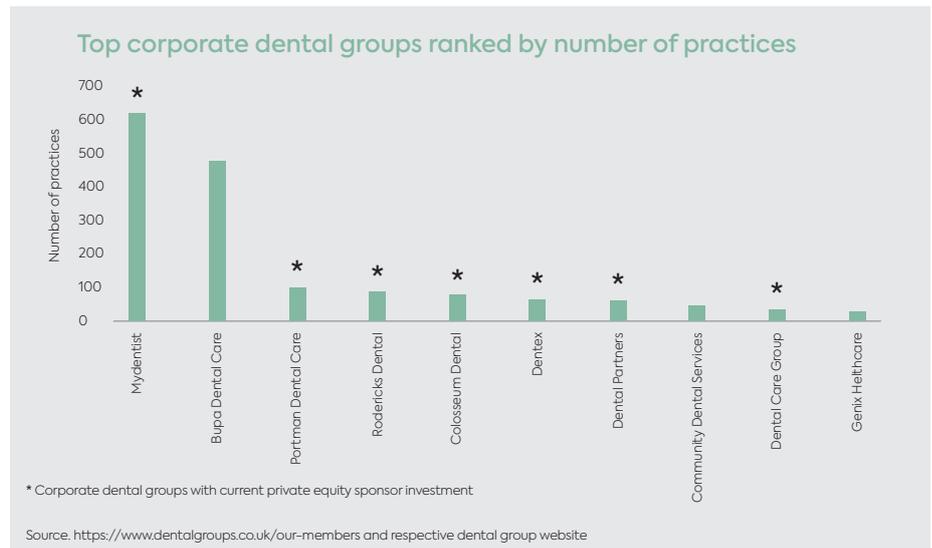
- The creation of a strong brand which then generates a recurring customer/revenue base
- Achieving economies of scale through shared services, e.g. exploiting increased buying power and back office synergies
- Enabling a flexible operation with multiple disciplines under one roof
- Lower capital expenditure requirement per dentist compared to individual practitioners
- Giving the option to vertically integrate into laboratories and other services

2018 total expenditure on dental services in the UK was estimated at £10.1bn (€11.8bn), with £3.9bn (€4.6bn) spent on NHS services and £6.2bn (€7.3bn) on private dental services. The dental market is projected to grow by an average of 4.1% p.a. until 2022, driven by favourable demographics and growth in cosmetic dentistry, the fastest growing segment at an average of 5.4% p.a.²



Private equity interest

Private equity has played a significant role in the consolidation of the dental market to date, with seven of the largest corporate dental groups currently private equity-backed. This interest is showing no signs of abating with investors searching for dental companies with a strong management team and a platform fine-tuned for growth through a buy and build strategy.



1. ONS UK business; activity, size and location: 2018

2. Mintel Dentistry – UK report, published June 2017

Favourable demographics

A population that is both increasing in size and ageing underpins demand for dental care in the UK. The total population in the UK is predicted to increase from 66.9 million in 2019 to 68.6 million in 2024, with the majority of this growth attributable to the over-60s, whose population is projected to increase from 16.1 million to 17.8 million over the same period, representing an 11% increase over the next five years³.

The increased demand for dental services in later life tends to lead to more recurring treatment such as remedial and restorative work, which along with mounting awareness of oral hygiene across all ages, is expected to drive growth in the dental market in the short to medium term.

Funding

Dental services in the UK are funded both privately by the consumer and through publicly-funded contracts. NHS dentistry is fully subsidised by the government in certain circumstances, such as:

- Under 18s
- Pregnant women and for 1 year post birth
- Individuals with low income, a group which often includes those of retirement age

Subsidised patient groups represent a recurring revenue stream for a dental practice, providing certainty of cash flows. Investors continue to be attracted to the combination of a high growth private dental market underpinned by evergreen NHS contracts, with the non-discretionary NHS spend reducing the risk associated with highly lucrative but discretionary private dental spend.

The perfect smile

The growing interest in health, wellbeing, and enhancement of self-esteem have all contributed to increasing demand for cosmetic dental treatment in the UK, with this segment projected to be worth £3.3bn (€3.9bn) annually by 2022. The advertising industry and media play a huge role in selling the concept of perfection through cosmetic solutions, with influencers and celebrities now able to share products and services directly on social media, making them ever more accessible to the wider public.

The new NHS contract and Brexit

The new NHS dental contract is being trialled in dental practices across the UK and is expected to be rolled out gradually throughout 2020. Although the prototypes have reported some initial positive clinical findings⁴, the overall impact on the dentistry profession of moving towards a capitation model is not yet fully known. Questions exist over the economic deliverability of such a contract, and the uncertainty that this is creating may drive dentists towards provision of private services at the expense of the NHS.

Brexit is also expected to impact on the delivery of NHS dentistry in the UK, with a reported 16% of dentists practicing in the UK having qualified in the European Economic Area (EEA), and 32% of recently surveyed EEA-qualified dentists considering leaving the UK in the next few years⁵.

However, in the short term, the private dental market is unlikely to experience the same issues as the NHS, with a potential upside being restriction to access of NHS

funded dental care which could force the population to turn to private dental treatment in the medium to long term.

Increased medical tourism could provide a further boost to the private dental sector as a consequence of Brexit, as any further devaluation of the Pound would make the UK an attractive destination for overseas patients looking to capitalise on favourable exchange rates and world-class private dental care. Dental groups with great workforce management, and retention and recruitment policies that can attract dentists, technicians, nurses, and hygienists, will be in high demand.

The above factors suggest that the growth of private dentistry in the UK is likely to remain strong in the coming years. While buyers have historically been drawn to the reliability of NHS-led practices for their stability and visibility of earnings, this is likely to change over the next few years as private equity investors and large corporate groups seek profitable growth and reliable income streams.

As such we could see a move towards more investment in entirely private or mixed dental practises by investors in order to protect themselves against a possible downturn in GDP.

3. ONS National population projections: 2016-based projections, methodology

4. Dental contract reform – evaluation of the first year of prototyping 2016-17, Department of Health & Social Care

5. GDC 2017 annual report

Pan-European consolidators

The dental market across Europe is also highly fragmented, presenting a significant investment opportunity for both private equity investors and strategic buyers from similar or adjacent healthcare clinical services.

Buyers are attracted by the valuations being achieved in the market, with a high volume of transactions reaching low to medium double-digit multiples, and even high double-digit multiples for the largest assets. Continued pan-European consolidation is therefore likely, with buyers expected to follow Colosseum Dental (headquartered in Switzerland) and Dentix (headquartered in Spain) by investing in high-quality UK dental businesses.

The UK is a hotspot for pan-European consolidators to consider in the near future due to a combination of favourable market dynamics and currency gains against the Pound, and we expect to see heightened overseas interest as shown by the following M&A activity.

Notable pan-European deals (UK activity):

- **Portman Dental Care (UK)**, a privately led dental group, was acquired by **Core Equity** a Belgian private equity firm in June 2018 for £300m (€353m), representing an estimated 15x EBITDA multiple based on a forward looking EBITDA or an estimated 20x historical EBITDA multiple.

- **Jacobs Holdings**, a Swiss investment firm, is an active consolidator across the European market. Its first acquisition in the European dental market was **Colosseum Smile Group (Norway)**, the leading provider of dental services in Scandinavia with 52 clinics in Norway, Sweden and Denmark, in January 2017. This was followed by the acquisition of **Southern Dental Limited (UK)** in April 2017 and **Swiss Smile (Switzerland)** in June 2017. The rebranded **Colosseum Dental Group (Norway)** then acquired **Oral Hammaslääkärit (Finland)** in October 2017. Oral was the leading Finnish private dental chain with 63 clinics and revenue of close to €100m at the time of acquisition, with the combined group now standing at 279 practices across Europe.

Leading pan-European consolidators



Bupa



Colosseum Dental



Dentix



Curaeos



European Dental Group

Dental Practices



Significant Pan-European consolidators with current dental practice locations
Source: Clearwater International research

- In April 2017 **Universal Partners Limited**, a Mauritian investment firm, acquired a minority stake in **Dentex Healthcare Group (UK)**, with the investment potentially reaching £15m (€17.6m) for a 49% stake in the company.

Notable pan-European deals (non-UK activity):

- **KKR**, a US private equity firm, acquired a majority stake in **Dentix** (Spain) in December 2019.
- **Bridgepoint Development Capital**, a private equity firm that operates across the UK, France and Nordics, acquired **Oris Dental Holdings AS (Norway)** from Serendipity Partners, a Norwegian private equity firm, in December 2019. Oris Dental is a leading dental care provider with 25 dental clinics and 4 dental laboratories across Norway.
- **Advent International**, a US private equity firm, acquired **Vitaldent (Spain/Italy)** in June 2019 ahead of a possible IPO. Vitaldent is one of the largest dental chain networks in Europe, operating both owned and franchised dental practices across Spain and Italy. Advent is expected to continue consolidating attractive European players and is currently evaluating a number of UK assets including Mydentist.
- **Terveystalo**, a Finnish healthcare company, acquired the Finnish healthcare operations of **Attendo AB**, a Swedish healthcare business for €233m in December 2018. The healthcare operations reported historical revenue of €235m and EBITDA of €20m, representing a historical EBITDA multiple of 11.7x.
- European private equity firm **Nordic Capital (Sweden)** acquired three separate dental companies from **Hesira (Switzerland/Netherlands)** in February 2018 for €416m, representing a 16x EBITDA multiple. The acquisition included 88 clinics in the Netherlands, 22 sites in Switzerland, Germany's largest dental laboratory, and six further clinics in Cologne.
- **EQT Partners AB**, a Swedish private equity firm, acquired **Curaeos B.V. (Netherlands)** in December 2017 for a multiple of c.16–18x EBITDA. Curaeos is a vertically integrated dental services provider with 220 clinics spread across the Netherlands, Belgium, Denmark, Germany and Italy.
- **BC Partners**, a UK-based private equity firm, acquired **DentalPro (Italy)** in May 2017 for €471m. On acquisition DentalPro operated 112 clinics across Italy with reported EBITDA of €30m representing a historical EBITDA multiple of 15.6x.
- Independent healthcare investment firm Archimed sold the Italian dental services chain **Primo Group s.r.l.** to private equity company **Aksia Group SGR S.p.A. (Italy)**, for an undisclosed amount. Primo Group is based in Turin, and has 50 directly owned dental clinics.
- **Synergy Dental Care** acquired **AR Fee Dental Practice**, bringing the total number of practices in the group to nine.
- **Archimed SAS**, a French private equity firm, acquired **Medidental s.r.l (Italy)**.

Notable UK deals

- **G Square Healthcare Private Equity** acquired a majority stake in **Dental Care Group** in April 2019. At the time of acquisition DCG comprised 21 practices in the East, and South East of England, and in the year ending March 2018, it generated a gross profit of £7.7m (€9m) from revenues of £15.7m (€18.5m).
- **Apposite Capital** invested in **Riverdale Healthcare**, a mixed NHS and private dental investment group in January 2019. As part of the transaction, **Riverdale** acquired **Alpha Vitality Group**, an 11 practice dental group operating in the North East of England, and also recently acquired **Archway Dental Practice** and **Hebburn and Pelaw dental practices**, both of which strengthened the Group's position in the North East. The Group now owns 17 practices in total.
- In September 2017 **CBPE Capital LLP** acquired a majority stake in **Roderick's Dental Limited**, the UK-based provider of NHS, private and specialist dental services. In the year to 31 March 2017 Roderick's generated revenue of £51m (€60m) and EBITDA of £5.8m (€6.8m).



- **August Private Equity** entered the dental market in May 2017 with an investment in **Genden Holdings Limited** (trading as Dental Partners) which operated 10 practices across the UK. In the year to 31 March 2017 Genden Holdings Limited generated £8.4m (€9.9m) of revenue and EBITDA of £1.2m (€1.4m). August subsequently acquired Dinnington & High Green Dental practices in December 2017 for £5.8m (€6.8m), along with a further 15 practices in the last 3 months, including Dental Sense and Mews Dental Clinic in Surrey, Crystal Peaks dental practice in Sheffield, Marjory Lees dental practice in Oldham and McDaid Dental Care in Nottingham. The Group now totals 56 dental practices across the UK.
- Over the past few years **Bupa** has acquired 85 dental practices. Significant recent acquisitions include:
 - **Oasis Healthcare Limited** in February 2017 for an enterprise value of £835m (€982m), which represented a 19.4x forward EBITDA multiple. Oasis Healthcare was previously owned by Bridgepoint, the European private equity group, with the sale representing a 4x return on their initial investment made in 2013
 - **Avsan Holdings Limited** in December 2017, which contained 16 practices across Scotland and England
 - **Total Dentalcare Group** in May 2019. The group consisted of four practices which provide a mixture of NHS and private dentistry and offer a range of general, cosmetic and specialist treatments including same day implant treatments

Looking ahead

The fragmented UK dental market will generate significant opportunities for investors with increasingly positive market drivers. These include favourable demographics as the UK population increases in size and ages and the rapid growth of lucrative private dentistry which remains underpinned by evergreen NHS contracts.

A high volume of recent transactions have demanded low to medium double-digit multiples being paid for dental groups, with some larger scale groups even commanding high double-digit multiples. The impressive EBITDA multiples paid for some of these dental assets is due to a combination of:

- Scale
- Pro-forma buy and build pipeline
- Mixture of NHS and non-NHS offering
- Location of practices that give access to high footfall of patients

The dental market will continue to be an attractive market for private equity investors, given the opportunity to grow rapidly through roll-out and consolidation and the attractive valuation multiples achievable for dental groups of significant size and scale. Pan-European consolidators will also play an increasingly important role in the UK market, attracted by favourable exchange rates and the additional synergies a large multinational operator can achieve.

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