

Clearview

Dental Market

Despite the pandemic halting services during part of 2020, the sector has shown resilience through 2021 and the market remains highly fragmented and is ripe for consolidation into 2022.

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Market overview

Market segmentation

The dental market in the UK continues to be fragmented with 12,085 registered dental companies and 14,340 dental practices in total. 96.9% of dental companies employ fewer than 20 staff and on average, dental companies operate 1.18 practices each leaving considerable scope for consolidation¹. Significant opportunities exist for small and medium sized businesses to achieve strong returns through consolidation and growth.

Market size

Expenditure on dental services is estimated to have been €8.2bn (£7.0bn) in 2020, down 31% from €11.6bn (£10.1bn) in 2019. The decline is due to the halting of almost all dental services for four months between March and July 2020 as part of the UK response to COVID-19. Prior to this, dental services expenditure had been increasing year-on-year, growing from €10.9bn (£9.4bn) in 2016 to €11.6bn (£10.1bn) in 2019, a cumulative annual growth rate of 2.4% per annum. As the economy recovers, a significant 15% increase in 2021 to €9.4bn (£8.1bn) is forecast as COVID-19 precautions look set to be mostly, if not fully, removed for the last quarter of the year.

The value of the dental market in 2020 was split almost equally between public and private sector, with the private sector being valued at €4.2bn (£3.6bn) compared to €4.1bn (£3.5bn) for NHS dental services.² This is in contrast to 2018, when private sector spend totalled €7.3bn (£6.2bn) compared to €4.6bn (£3.9bn) for the public sector.

Contraction in sector spend is primarily due to the private sector.

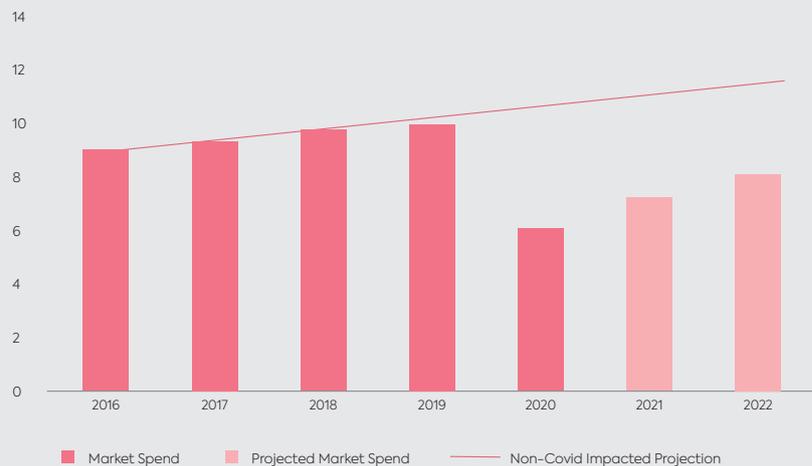
As the market continues to recover in the way that it has done so far in 2021, a private sector bounce back to pre-COVID-19 levels is anticipated. Whilst the shape and length of this recovery is still difficult to determine, a “U” shaped recovery appears more likely than a “V”.

Though the value mix in the dental market shifted towards the public sector in 2020, this does not appear to reflect a shift in demand but rather reflects the persistence of NHS funding during an economic crisis. Results from NHS England’s most recent GP patient survey indicates that the proportion of

respondents opting for private dental care instead of NHS care was largely consistent with the previous three years, lower by just 1.7%. GP patient survey data is taken between January and March meaning the 2020 responses are not impacted by COVID-19 suggesting that COVID-19 has not tangibly altered consumer attitudes towards dental care.

The total number of respondents opting for private medical care over public sits at just over a third (34.3%) when factoring in individuals that stayed with their existing dentist when they changed from public to private. This is down 3.1% from 37.4% in 2020.³

Size of Dental Market, 2016-2022



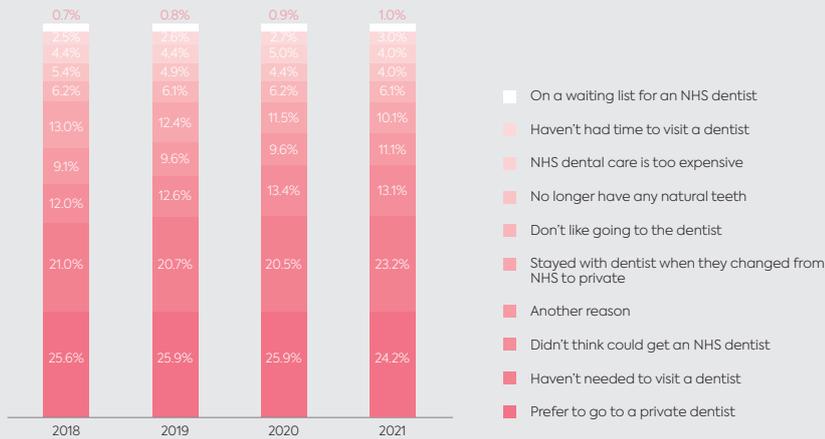
Source: Mintel, "UK Dentistry Market Report 2021". 2021.

1. Office for National Statistics (henceforth ONS). "Dataset: UK Business: Activity, Size and Location". 2020.

2. Westgarth, D., 'How Much Longer Does NHS Dentistry Have Left?', *BDJ in Practice* 33(5), 12-15. 2020.

3. NHS England, "Summary of the Dental Results from the GP Patient Survey; January to March 2021, England". 2021.

Proportion of respondents who did not try to get an NHS appointment in the last two years by reason for not trying, 2018 - 2021



Source: NHS England, "Summary of Dental Results": 2021

COVID-19 implications

Due to the high aerosol environment present in the dental industry, the UK government imposed significant restrictions on the procedures that could be performed during Summer of 2020. The British Dental Association estimates that this resulted in 19 million appointments being delayed or cancelled in 2020 of an expected total of 40 million.^{4,5}

Long periods of no income generation affected practices disproportionately, with those offering exclusively or higher levels of NHS services typically finding support easier to obtain as NHS payments largely continued at the usual rate with varying levels of reductions applied. Practices offering wholly private services or those with a heavy reliance on private service revenues had to rely on their eligibility for government support packages available to employers and business owners.

Of those private sector dental practices that applied to secure Coronavirus Business Interruption Loans, as many as 93.4% were unable to secure credit of which 46.7% reported being forced to secure other loans subject to commercial rates, further impacting the bottom line.⁶

In 2021, risk of insolvency remains low and continues to reduce as treatment volumes return to normal, but financial strain for many practices is still anticipated as governmental support is withdrawn creating further opportunities for large consolidators to make economical acquisitions.

4. British Dental Association, "Dentists Slam Wrongheaded NHS Charge Hike in Middle of Pandemic": 2020.

5. Mintel, "UK Dentistry": 2021.

6. British Dental Association, "Practices Weeks From Collapse Without Rapid Action From Government": 2020.





Brexit implications

Whilst Brexit implications are pervasive across all sectors, the dental services sector has inherent protections due to strong customer preferences for local services, which limits the effectiveness of international competition. Whilst end-customer demand is unlikely to change due to Brexit, supply chains will be affected. Leaving the EU may create stagnation in certain supply chains and could lead to price increases ultimately adding to margin pressure. The longer-term impact of Brexit is still yet to be seen but dental businesses with more agility and economies of scale are likely to perform well through this next period and may have opportunities to make strategic acquisitions as a result.

Favourable demographics

The population of the UK continues to increase in size and age which supports a growing need for dental services in the UK. The population grew 0.5% between 2018 and 2019 to 66.8m and is anticipated to exceed 70m by 2031. The fastest growing age group within this is the over 65s who are anticipated to account for 25% of the UK population by 2050 compared to 18% today.⁷

This growing age group requires higher volumes of remedial and restorative work when compared with younger groups as well as requiring more frequent check-ups. Continued increases in oral hygiene awareness is expected to drive growth across all age groups.

Cosmetic treatments

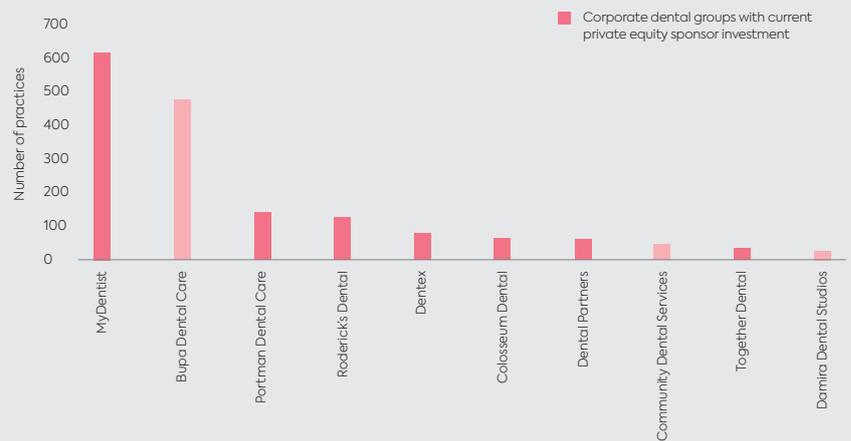
Cosmetic dental treatments offer a strong growth opportunity for the private dental sector as a market which is still largely untapped and could generate significant additional revenues from existing customers.

Growth in social media adoption has been linked to increased instances of body dissatisfaction, particularly in young people which appears to be driving awareness and adoption of surgical and non-surgical treatments in the UK.⁸ As cosmetic dental products become increasingly more affordable and visible to customers, demand for these products is only likely to increase. A 2020 parliamentary study found that 70% of UK adults had seen cosmetic dental adverts through social media compared to just 50% for non-dental cosmetic procedures. The same study found that as many as 28% of under 18s reported themselves and their friends considering cosmetic dental treatments compared to 15% for sunbeds. Dental businesses like SmileDirectClub Inc have harnessed these trends. SmileDirectClub offers convenient, at-home teeth alignment products for comparatively low cost when compared with in practice solutions. The business leverages social media and social media influencers to promote its products which has facilitated revenue growth from \$140m to \$612m between 2017 and LTM-Mar 2021, a cumulative annual growth rate of 57.4%. Products requiring professional dental involvement remain highly popular as well with companies like Align Technologies Inc., creators of Invisalign, seeing revenues increase from \$1.1bn in 2016 to \$3.5bn in the LTM-Jun 2021, a cumulative annual growth rate of 29.6%.

Private equity

Private equity investors have continued to shape the top end of the dental sector with a majority of the largest corporate groups in the UK being private equity backed. Recent transactions indicate that this is unlikely to change in the near future. The highly scalable nature of dental services through regional expansion and the strong returns achievable from scaling makes the dental industry highly attractive to equity investors seeking a buy and build platform. The 10 largest dental groups have remained largely unchanged in the last 12 months although Damira Dental Studios have joined the list replacing Genix Healthcare. Together Dental also replaces The Dental Care Group as it is rebranded under G Square. Within the top eight, Dentex was the biggest mover, over taking Colosseum Dental as the latter targets other European markets for growth.

Top 10 UK dental groups based on number of practices, 2021



Source: Data from company websites and annual accounts



7. ONS, "Overview of the UK Population: January 2021". 2021.

8. Jarman, H. K. et. al. "Social Media, Body Satisfaction and Well-Being Among Adolescents: A Mediation Model of Appearance-Ideal Internalization and Comparison". *Body Image* 36, 139-148. 2020.

Notable M&A activity

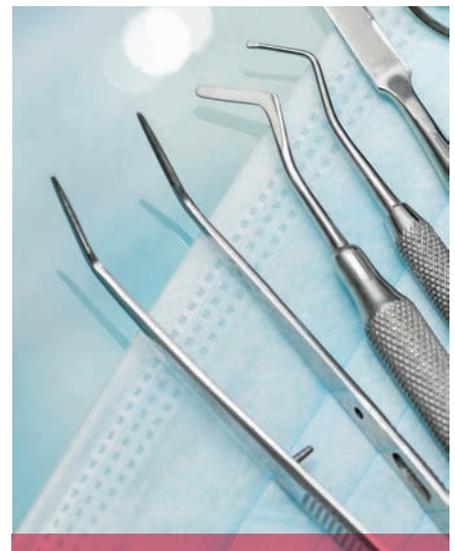
Notable deals in recent months:

- Pan-European dental consolidator, **Colosseum Dental Group** acquired **Curaeos**, a Netherlands-based dental care provider from **EQT Partners** in August 2021. The size of transaction was not disclosed but is thought to be under €600m off an EBITDA of €30–35m resulting in a multiple of 17.1 – 20.0x. Curaeos itself has operations in the Netherlands, Germany, Italy, Belgium, and Denmark
- In July 2021, an undisclosed minority stake in **Dentius Belgielei**, a dental services company based in Belgium, was acquired by **Florac SAS**, a private equity firm based in France, for consideration of €45m
- UK-based venture capital firm, **Intermediate Capital Group**, acquired **Godt Smil**, a Danish chain of dental clinics, from the Danish private equity firm, **Maj Invest Equity**. The transaction was announced at the end of June for an undisclosed sum
- In May 2021, **IDH Group**, a dental service provider with reported revenues in excess of €702m (£600m) in 2020, was acquired by **Paloma Capital Partners**, a UK-based private equity firm that has held a minority stake in the business since 2011. US-based private equity business, **The Carlyle Group**, sold its 57.5% stake for an undisclosed fee. The deal is thought to have valued the business at €819m (£700m), 10.0x adjusted EBITDA

Notable UK deals:

- **The Real Good Dental Company**, a dental services provider based in the UK, was acquired by private equity firms **TriSpan** and **Keyhaven Capital Partners** in July 2021
- **VIDA Dentistry**, a high end private dental practice, was acquired by **The Dental Management Partners** in June 2021 for an undisclosed fee
- **IDH Group** was acquired **Paloma Capital** as discussed above
- **Dentex Healthcare Group** acquired **Martin Docking Limited** and **Dental Precision**, that offer dental treatment and care services, in August 2021 for an undisclosed fee
- **Clyde Dental Practice** acquired a number of dental practices in recent months, picking up **McIntyre Corbet & Associates**, **Fairmilehead Dental Practice**, **Short's Dental**, **Stewarton Street Dental Practice**, **F J Murphy BDS MJD**, **Dental Care Perth Limited**, **Sandgate Dentistry** and **Grays Dental Practice** between October 2020 and April 2021
- **Portman Healthcare** acquired **TDSML Limited (t/a The Dental Surgery)** in March 2021 for an undisclosed fee
- **Riverdale Healthcare Limited**, a dental service provider has made a number of recent acquisitions including:
 - The acquisition **Village Dental Practice**, **The Grange Dental Centre**, and **Westland Dental Studio** in February 2021
 - Dental care service provider, **InDental Practice Limited** in January 2021

- **Opposite Capital's** dentistry investment group portfolio company, **Riverdale Healthcare**, made two bolt-on acquisitions in 2020. **J R P Jones & Associates**, a dental services provider, was acquired for an undisclosed consideration in October 2020. Earlier in the year, Riverdale also acquired **Framwellgate Dental Surgery** for an undisclosed sum
- **Bupa Dental Care** has continued to make acquisitions in the dental sector, most recently the acquisition of **Shaw & Associates Dental Surgeons** for €9m (£7.5m) November 2019. Shaw & Associates had two locations in Yorkshire and generated revenues of €3.4m (£2.9m) leading to a multiple of 2.9x revenue
- **Houston Dental Group** was acquired by **Alliance Dental Care** in June 2019 for an undisclosed fee. The transaction forms part of Alliance's strategy to grow their geographic reach into the Southwest of England



Pan-European consolidators

Whilst the UK healthcare market is unique in several ways, many of the same market dynamics present in the UK also exist in Europe. The European market remains highly fragmented creating significant opportunities for consolidators in similar or adjacent countries to invest.

Despite Brexit, the UK is expected to remain a core market for European dental consolidators with Bupa, Colosseum Dental and European Dental Group already having a number of practices in the UK.

Notable European deals:

- **Dentius Belgielei** was acquired by **Florac** as discussed above
- In June 2021, German-based private equity firm **Hannover Finanz** completed the domestic acquisition of **Dental Direkt**, a supplier for dental laboratories specialising in implant components. The transaction fee was not disclosed

• European dental consolidator, **Colosseum Dental Group**, made number of acquisitions recently including:

- The acquisition of **Curaeos** as discussed earlier
- A majority stake in **Miro Srl**, an Italy-based dental treatment clinic. The transaction completed in May 2021 for an undisclosed sum
- **Tandlaejerne Bertheisen & Valdmarsson**, a Danish dental clinic operator in May 2021 for an undisclosed fee
- French dental care provider, **Dentelia**, for €31.6m (£27m) in January 2021
- **Oris Dental Holding**, a portfolio company of **Bridgepoint Advisers** acquired **Swedish Academy for Advanced Clinical Dentistry**, the Sweden-based provider of dentistry courses and operator of dental

clinics, for an undisclosed consideration in April 2021

- Pan-European consolidator, **Dentix**, filed for voluntary insolvency in October 2020. Its assets have been subsequently acquired by a number of businesses including:
 - **VitalDent**, backed by **Advent International**, acquired 76 clinics in Spain for c.£55m in April 2021
 - **DentalPro**, backed by **BC Partners**, acquired the Italian assets of the business in February 2021
- Private equity firm **Glide Healthcare Partners** acquired **Tandarts Today**, a dental clinic chain. Both businesses are based in the Netherlands and the value of the transaction made in April 2021 was not disclosed

Leading Pan-European consolidators

Dental Practices



Bupa



Colosseum Dental
backed by Jacobs Holding



European Dental Group
backed by Nordic Capital



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



Looking ahead

Ageing populations and growth in cosmetic dentistry are likely to support growth in the dental market over the longer term. In the immediate future, growth will be driven by recovery to pre-COVID levels of activity.

Although consolidation activities have been high within the sector, this has done little to unify a sector that remains highly fragmented. The good news for investors is that returns to scale from investment opportunities are still abundant in the market and further activity in the sector is set to continue at pace.

Recent deals in the sector have continued to attract multiples of 10x – 15x, with higher multiples being paid for dental businesses which have a demonstrable platform for growth.

Private equity interest in the sector is expected to remain high given the potential to scale rapidly. Pan-European consolidators will continue to invest in the UK, recognising that the impact of Brexit on the UK dental market will not affect growth.

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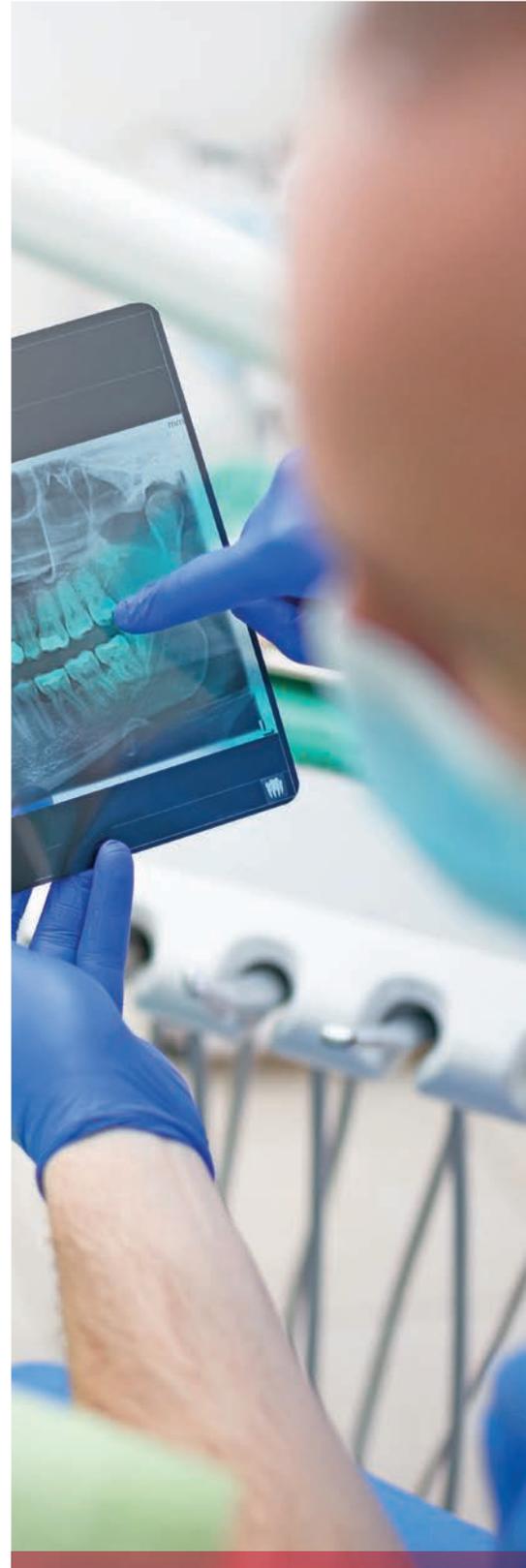
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