Who We Are

Edgemont Partners is a premier investment bank that provides merger & acquisition advisory and growth capital raising services exclusively to healthcare companies. We focus solely on providing expert strategic advice and transaction execution, bringing a steadfast commitment to our clients, driven always by what is in their best interest. This dedication enables us to deliver independent conflict-free advice, to serve as trusted advisors to healthcare entrepreneurs, management teams and investors, and to execute with exceptional results.

In March 2023, Waller Lansden Dortch & Davis combined with Holland & Knight creating the largest group of healthcare lawyers in the country (based on Modern Healthcare rankings). For more than 25 years, Waller was recognized in the dental industry as a go-to law firm for general counsel and matters involving M&A, finance, real estate, labor & employment, litigation, regulatory compliance, tax, restructuring and more. With the Holland & Knight combination, the firm will now offer expanded capabilities and geographic reach for clients in the dental industry.

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The U.S. DSO market is in the middle to late stages of a multi-decade consolidation trend that continues to attract large amounts of capital and investor interest. Private equity firms remain eager to roll up the fragmented sector given strong industry fundamentals, significant market size, and resilience to economic cycles.

**STATE OF THE DENTAL SERVICE ORGANIZATIONS (DSO) MARKET**

The 100-plus private equity-backed platforms actively consolidating the industry creates a deep pool of buyers driving purchase prices to record levels. Investor interest is further buoyed by case studies of successful returns realized by the early-cycle consolidators. These enthusiastic buyers are finding willing sellers in dental practice owners that are receiving attractive valuations at a time when the challenges of practice management and ownership continue to increase.

- Wage Increases
- Labor Shortages
- Mixed Reimbursement Environment
- High Provider Turnover
- Changes in Patient Behavior
- Increased Competition

2021 and 2022 were record years for DSO M&A, with ~20 new platform transactions in each year. We expect to see robust M&A activity continue in 2023 and 2024 with over 20 private equity platforms considering exits. Four key phenomena are driving deal-making:

### Anticipated Trends in 2023

<table>
<thead>
<tr>
<th>Continued Growth in Specialty</th>
<th>Consolidation Among and Between Private Equity Platforms</th>
<th>Pediatric and Medicaid Models Generating Strong Interest</th>
<th>Operational Improvements and Customer Focus</th>
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<tbody>
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<td><strong>Increased Demand for Specialty Procedures:</strong> The demand for specialized dental procedures is growing as patients become more aware of the options available to them and seek out more precise and effective treatment</td>
<td><strong>Challenging Operating Environment:</strong> Post-COVID impacts including higher wages, provider turnover, and choppy financing markets are fueling greater interest in platform consolidation</td>
<td><strong>Growing Demand for Pediatric Services:</strong> Pediatric dentistry is becoming increasingly popular as parents seek specialized care for their children’s oral health</td>
<td><strong>Streamlining Processes:</strong> Streamlining processes and improving efficiency allows groups to better serve their patients and reduce costs</td>
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<td><strong>Investor Interest in Consolidating Specialty Practices:</strong> Investors are compelled by the opportunity to consolidate less trafficked specialties (e.g., ortho, oral surgery, endo) as already achieved in general dentistry</td>
<td><strong>Desire for Scale:</strong> Larger platforms can fund more growth investments, target larger acquisitions, rationalize corporate expenses over a larger practice base, and at times access better and deeper management resources</td>
<td><strong>Medicaid Expansion:</strong> The expansion of Medicaid coverage is supporting demand for Medicaid-focused dental practices</td>
<td><strong>Investment in Technology:</strong> Investments in technology enable the automation of administrative tasks, improving patient experiences and enhancing the quality of care</td>
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<td><strong>Increase in Reimbursement Rates:</strong> Reimbursement rates for pediatric and Medicaid services are increasing, adding to investor appeal</td>
<td><strong>Improved Accessibility:</strong> Improving accessibility for patients, through extended hours, online scheduling, and other convenience-enhancing initiatives</td>
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**Source:** ADA, Precedence Research, Cigna, CDC, NHCS, Edgemont and Holland & Knight proprietary intelligence.

Edgemont Capital Partners, L.P. is a registered broker-dealer and member of FINRA and SIPC
The dental sector continues to benefit from significant tailwinds and strong investor interest, particularly within the pediatric and specialty space.

Recent M&A Activity

- With 100-plus platforms backed by private equity, the DSO sector remains attractive for investors given the sector’s strong macro tailwinds and continued fragmentation.
- The emergence of pediatric and specialty focused models has captured an increasing share of deal volume over the past two years.
- Investors employ a variety of ownership models based on legal, managerial, and financial considerations, but ensuring alignment between physicians and investors is always a key consideration.

**Market Sizing**

The dental market is expected to grow to $196 billion by 2027, driven by a growing need for dental care and lower barriers to entry for aspiring dentists compared to other physician specialties.

**U.S. Dental Industry Total Market Size**

The growth in the dental industry is supported by the expanding payor coverage, growing elderly population, and rising disposable incomes.

- The industry is benefiting from advancements in technology, including digital dentistry, which enables more precise restorations and reduces the need for physical impressions and manual adjustments.
- The increasing availability of dental insurance and financing options is making dental services more accessible and affordable, particularly among underserved populations.

**Specialty Physicians per 100,000 Population in the U.S.**

Dental schools typically require fewer years of training and education than other physician specialties, enabling aspiring providers to begin practicing more quickly.

- The shorter path to licensure makes pursuing a career in dentistry a more financially viable and accessible option compared to other specialties.
- On average, patients tend to visit their dentist more frequently than other physician types.
- Dental practices typically have a stable and predictable cash flow, lending to a relatively safe investment for dentists and institutions alike.

Reimbursement Trends

Reimbursement levels have been on a stable trajectory over the last twelve months, with private insurance and out-of-pocket payments continuing to dominate the dental payor mix.

- Increased by more than 10%
- Increased by 1-10%
- Stayed about the same
- Decreased by 1-10%
- Decreased by more than 10%
- Does not participate in any insurance networks

CORPORATE PRACTICE OF DENTISTRY LANDSCAPE

DSOs must navigate a patchwork of state laws, from corporate practice & fee-splitting to non-compete laws.

- Legal design of DSO models must, at the outset, anticipate geographic expansion to avoid hindering growth
- Challenging states often have the most white space (e.g., North Carolina) – strong compliance is a competitive advantage
- New or pending legislation could further regulate non-competes and private equity investments in multiple states, exposing vulnerabilities of some DSO models

PREPARING FOR A SALE

Preparing for a sale involves organizing financial and legal records, articulating a clear value proposition, building a strong management team, and identifying potential buyers, all with the goal of maximizing value and achieving a successful result.

Checklist For Getting Ahead of a Sale Process

- Invest in “catch-up bookkeeping” to improve monthly bookkeeping processes, including invoicing, billing, coding, and accruals, reduce general ledger accounts, transition to accrual basis accounting, and standardize costing
- Clean up hidden liabilities such as below-market rate loans, contingent liability insurance, unremedied environmental problems, unresolved tax issues, warranties, and litigation issues
- Run a security risk assessment with a third-party cybersecurity due diligence company to ensure there is no risk of a data breach

Top 3 Legal Issues Right Now

1. **Earnout vs. Productivity Bonus**: Some DSOs will rely on employment bonuses vs. earnouts. This can have severe tax consequences for both buyers and sellers.
2. **Medicaid**: Medicaid-based practices are witnessing renewed interest driven by expansion and rate growth, but regulatory scrutiny is poised to follow.
3. **Death of the “JV” model**: Growing lender aversion to “Joint Venture” or “Sub-DSO” models has forced innovation to achieve similar retention objectives.

Source: ADA/HPI, Dental Economics, Marwood Group, Edgemont and Holland & Knight proprietary intelligence.
Established in 2001, Edgemont Partners is a healthcare investment banking firm, and a leading advisor to mid-sized and large physician services groups, having successfully generated over $2.1 billion in cash proceeds at closing for our physician services clients. In Edgemont’s history, the firm has executed 195+ transactions with an aggregate value of $90B+. In Edgemont’s history, the firm has executed 195+ transactions with an aggregate value of $90B+.

Recent Dental Sector Transactions

**Project Redwood**
- PE-Backed DSO
- Sell-Side – In-Process

**Project Patriot**
- PE-Backed DSO
- Sell-Side – In-Process

**Amazing Dental**
- acquired by Great Expressions Dental Centers

**BLU SEA CAPITAL**
- partnered with Simko Specialty Dental

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**Representative Physician Services Transactions**

- **West Dermatology**
  - merged with **Platinum Dermatology**
  - acquired by **Solaris Health**
  - acquired by **SightMD**

- **Tennessee Retina**
  - acquired by **Retina**
  - acquired by **SightMD**

- **Spine and Pain**
  - acquired by **HOPCo**
  - recapitalized by **NEW HARBOR**

- **DRP + CRA**
  - recapitalized by **Envision**
  - acquired by **Envision**

- **Northside Emergency Associates**
  - acquired by **West Dermatology**

- **Quigley Eye**
  - acquired by **HOPCo**
  - recapitalized by **NEW HARBOR**

- **Dental365**
  - acquired by **Beacon Dental**

- **Sonrava Health**
  - acquired by **Great Expressions Dental Centers**

- **AMERIGLO**
  - acquired by **Community Dental Partners**

- **Affordable Care**
  - acquired by **Tailwind**

- **Lone Peak**
  - acquired by **BPOC**

- **DDS Dentures & Implants Solution**
  - acquired by **TruFamily Dental**

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**HOLLAND & KNIGHT**

With more than 2,000 attorneys across 35 offices, the newly combined Holland & Knight firm offers clients in the dental industry the full suite of legal services, including M&A, finance, real estate, labor & employment, litigation, regulatory compliance, tax, restructuring and more.

Recent Dental Sector Transactions

**Mid-Atlantic Dental Group**
- acquired by **Great Expressions Dental Centers**

**Beacon Dental**
- acquired by **Sonrava Health**

**AMERIGLO**
- acquired by **Community Dental Partners**

**AFFORDABLE CARE**
- acquired by **Tailwind**

**Lone Peak**
- acquired by **BPOC**

**TruFamily Dental**
- acquired by **Sonrava Health**

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**Representative DSO Clients**

- **SAGE Dental**
- **Lightwave**
- **Riccobene Associates**
- **SPECIALTY1**
- **AFFORDABLE DENTURES & IMPLANTS**
- **Smile Brands Inc.**
- **Plum Dental**
- **Imagen Dental**

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We welcome the opportunity to discuss with practice owners and their management teams key market trends in dental services, as well as transaction preparation and other considerations.