

Dental Services

Q1 2024

Market Update

Significant transaction activity in the dental services market remained depressed in Q1 2024, driven primarily by macroeconomic trends. Investors executed on three platform-formation or recapitalization transactions and well-capitalized DSOs completed multiple mid-sized acquisitions, however DSOs generally focused on organic initiatives, de novo clinic openings, and small-group acquisitions in Q1.

The decrease in medium and large-asset transaction volume can be tied primarily to prolonged elevated interest rates and operational headwinds driving margin compression, such as increased labor costs. Higher interest rates make M&A less accretive and increasing cash interest expenses have driven many DSOs to focus on margin improvement and deleveraging initiatives to improve cash flow. Similarly, many attractive DSOs that would have normally considered a transaction in Q1 2024 have responded to the perceived decrease in optionality and valuations due to these dynamics and have decided to postpone their transaction processes until rates begin to normalize.

Despite these headwinds, most DSOs are still investing in various growth initiatives. Many groups including Heartland and MB2 have maintained historical small-group M&A volume, with MB2 averaging 15+ add on transactions per month. Other groups across the DSO spectrum such as Sage Dental, North American Dental Group, Abra Health, and Beacon Oral Specialists have successfully opened new de novo clinics in Q1. As noted below, a handful of new sponsors and existing DSOs did complete significant transactions as well.

Many experienced private equity sponsors have maintained their thesis in the dental space, and the lower volume of high-quality assets in market has supported strong valuations for select groups that have approached the market. Provident anticipates this trend to continue in the near-term, followed by an influx of medium- and large-scale assets testing the market as rates decrease and operational initiatives are realized later in 2024.

Select Transactions

Month	Investor	Target	Location(s)	State(s)
February			9	TX
February		4 Practices in 3 New States	6	NY, PA, VT
February			69	National
February			50+	National
January			7	PA
January			6	VA

Provident Industry Coverage Team

Michael Patton
Managing Director
(617) 226-4205
mpatton@providenthp.com

Ajeya Shekar
Director
(617) 226-4251
ashekar@providenthp.com

Scott Davis
Managing Director
(617) 226-4259
sdavis@providenthp.com

Chris Schlesinger
Vice President
(617) 226-4254
cschlesinger@providenthp.com

Upcoming Conference

Dykema DSO Conference

Ajeya Shekar and Chris Schlesinger will be attending Dykema 2024 in Denver, CO from July 10-12. Please contact the Provident team if you will be in attendance.