

MS Capital Market News:  
*Outlining Trends in the Dental Laboratory Industry*



Summer 2019

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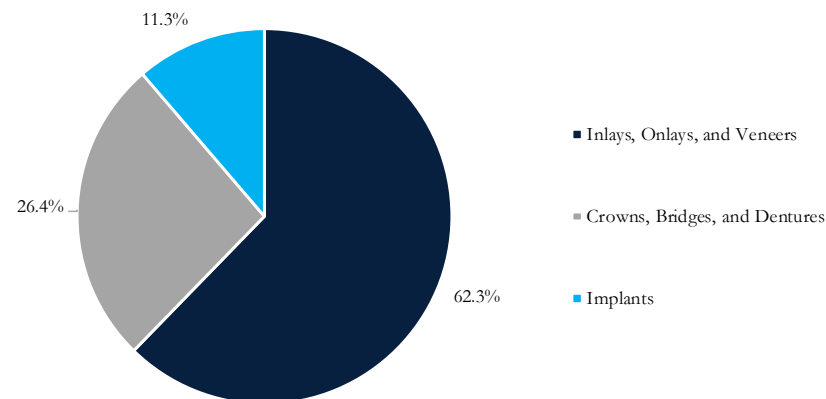
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# Dental Laboratories in the US

## Dental Laboratories Sector Highlights

- 2019 revenue: \$5.2 billion
- 2019 profit: \$350.0 million
- Annual growth 2014 – 2019: 0.1%
- Annual growth projected 2019 – 2024: 2.3%
- Key industry drivers: number of people with private health insurance, per capita disposable income, federal funding for Medicare and Medicaid, number of adults aged 65 and older, and the trade-weighted index.

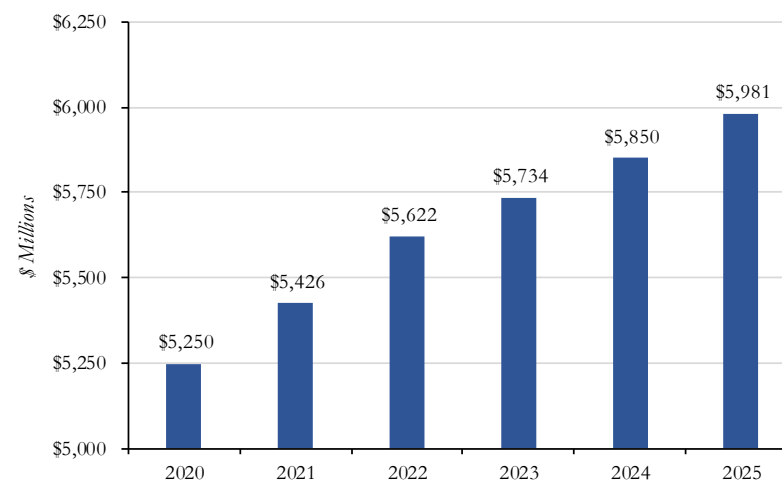
## Products and Services Segmentation



## Dental Laboratories Sector Observations & Outlook

- Technological changes in the Dental Laboratories industry, specifically computer-aided design and computer-aided manufacturing systems, improved the overall quality of products and services offered by industry operators over the five years to 2019.
- Over the five years to 2024, the Dental Laboratories industry is expected to benefit from an increasingly insured population, which will increase access to dental insurance and, as a result, bolster industry revenue.
- Import competition is anticipated to remain high, posing a threat to industry operators and slowing growth in industry participation. Over the next five years, the value of imports is anticipated to increase an annualized 10.7% to \$1.1 billion in 2024.

## Dental Laboratories Expected Revenue Growth

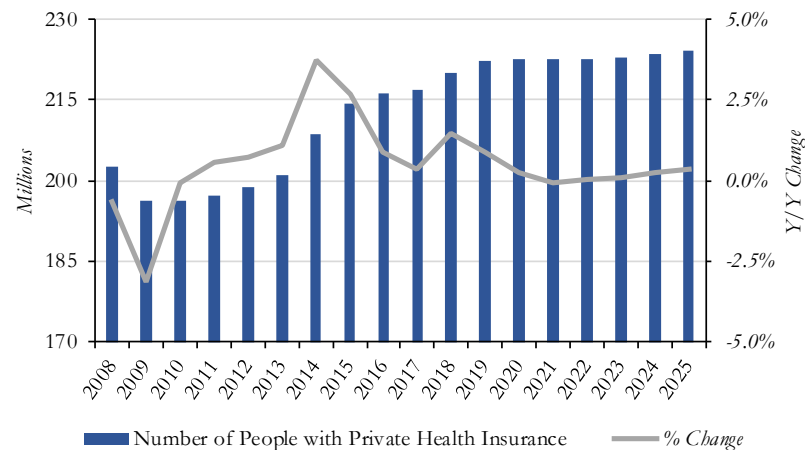


# Key Industry Drivers

## Number of People with Private Health Insurance

- Estimated value in 2019: 221.1 million
- 2014-2019 Compound Growth: 1.3%
- Forecast value in 2024: 223.5 million
- 2019-2024 Compound Growth: 0.1%
- This report tracks the number of people covered by private health insurance in the United States. The data includes coverage either provided by employers or purchased directly from an insurer or a health maintenance organization. The data does not include government-provided health insurance such as Medicaid, Medicare and military health care.

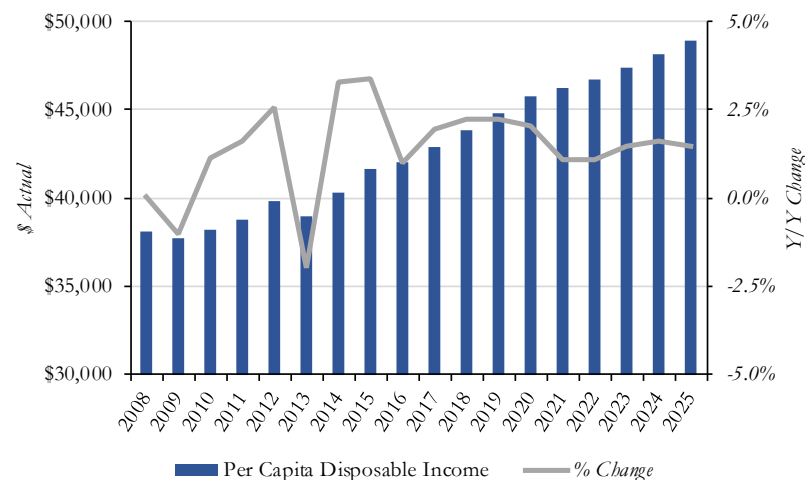
## Number of People with Private Health Insurance



## Per Capita Disposable Income

- Estimated value in 2019: \$44,804.66
- 2014-2019 Compound Growth: 2.2%
- Forecast value in 2024: \$48,182.83
- 2019-2024 Compound Growth: 1.5%
- Per capita disposable income determines an individual's ability to purchase goods or services. It is calculated by taking income earned from all sources (wages, government transfers, rental income etc.) minus taxes, savings and some non-tax payments (e.g. fines, forfeitures and donations) and dividing by the total US population.
- The data for this report is in chained 2012 dollars.

## Per Capita Disposable Income



# Key Industry Drivers

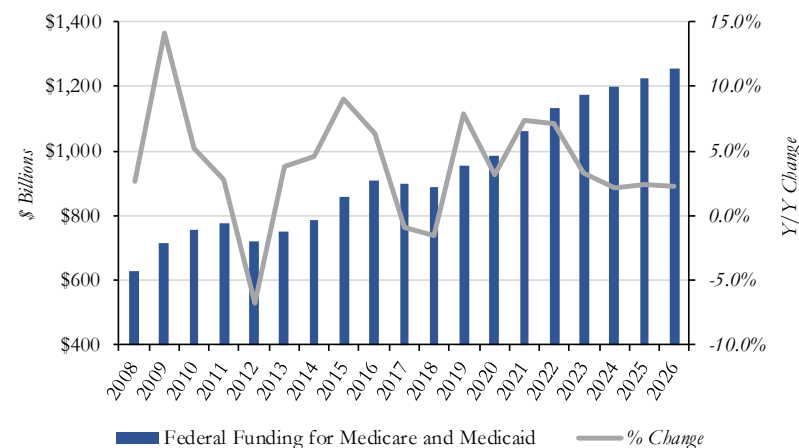
## Federal Funding for Medicaid

- Estimated value in 2019: \$986.30 billion
- 2015-2020 Growth: 2.9%
- Forecast value in 2024: \$1225.7 billion
- 2020-2025 Growth: 4.4%
- Medicare and Medicaid are programs that provide free or subsidized medical and health-related services. Medicaid eligibility varies from state to state but is geared toward people with low incomes. Meanwhile, Medicare covers almost everyone 65 or older, as well as a subset of people on Social Security disability and some people with permanent kidney failure. Funding for Medicare and Medicaid is part of the mandatory spending within the annual White House budget. The data for this report is sourced presented in chained 2012 dollars.

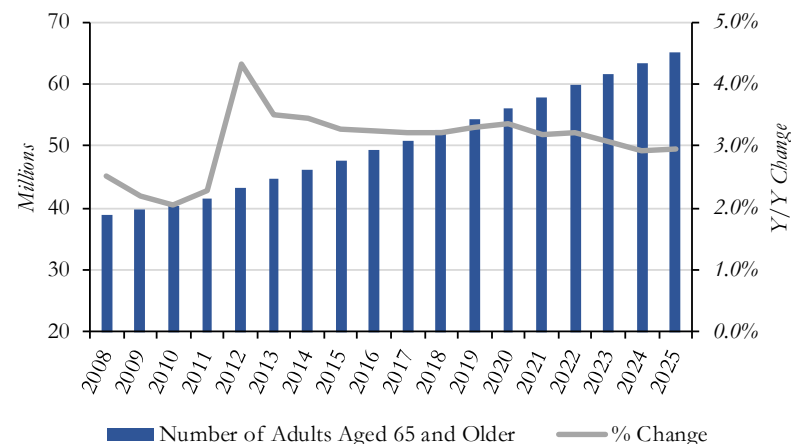
## Number of Adults Aged 65 and Older

- Estimated value in 2019: 54.2 million people
- 2013-2018 Compound Growth: 3.2%
- Forecast value in 2024: 63.4 million people
- 2019-2024 Compound Growth: 3.2%
- The estimates provided refer to the population as of July 1st for that year. The forecasts in this report assume that fertility rates will continue to decline and that there will be a modest decline in the overall rate of net international migration.

## Federal Funding for Medicaid



## Number of Adults Aged 65 and Older

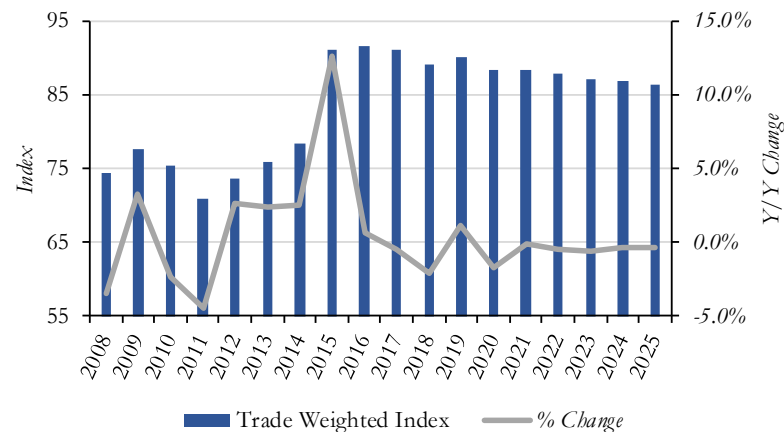


# Key Industry Drivers

## Trade Weighted Index

- Estimated value in 2019: 90.1 Index Points
- 2014-2019 Compound Growth: 2.8%
- Forecast value in 2024: 86.7 Index Points
- 2019-2024 Compound Growth: -0.8%
- The trade-weighted index (TWI), also known as the real broad index, measures the strength of the US dollar relative to the currencies of the nation's trading partners. Weightings are determined by the share of trade with each country, with the five largest allocated to the Euro, Canadian dollar, Chinese yuan, Japanese yen and Mexican peso. These five currencies account for over two-thirds of the TWI.
- The data for this report is price adjusted (i.e. real).

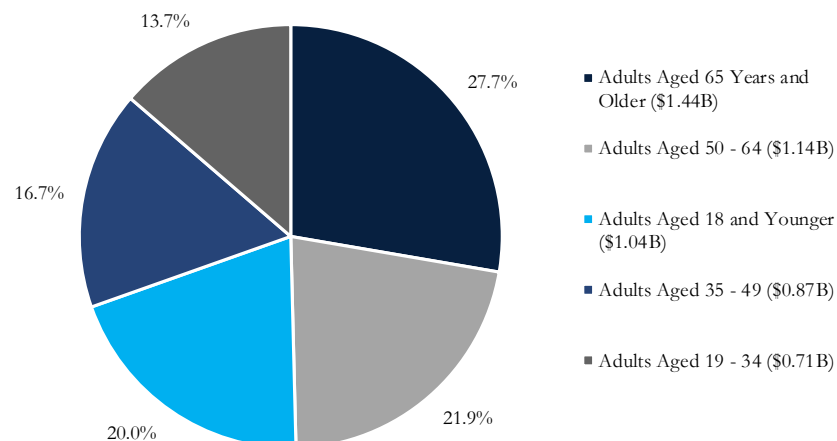
## Trade Weighted Index



## Major Market Segmentation

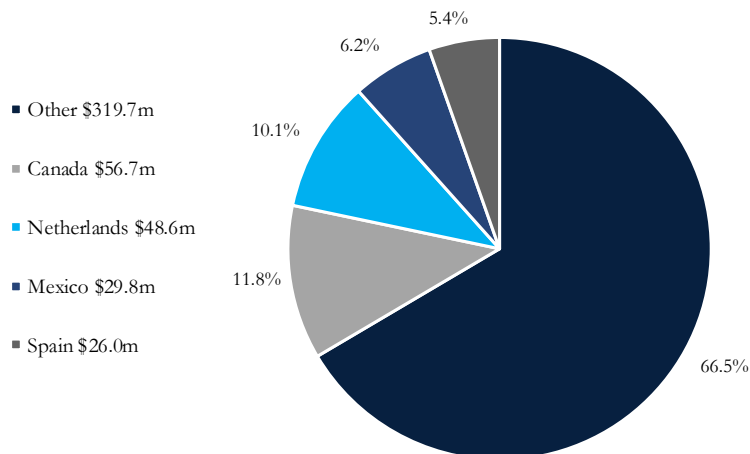
- The majority of industry revenue is anticipated to come from older adults. In 2019, adults over the age of 65 are anticipated to account for the largest share of revenue, at an estimated 27.7%. Older adults need frequent and more serious dental interventions, which increases demand for industry products such as dentures, crowns and implants. As people age, they are more and more likely to lose permanent teeth. Demand from this age cohort is anticipated to have increased during the period as the number of adults aged 65 has increased at an annualized rate of 3.2%.

## Major Market Segmentation

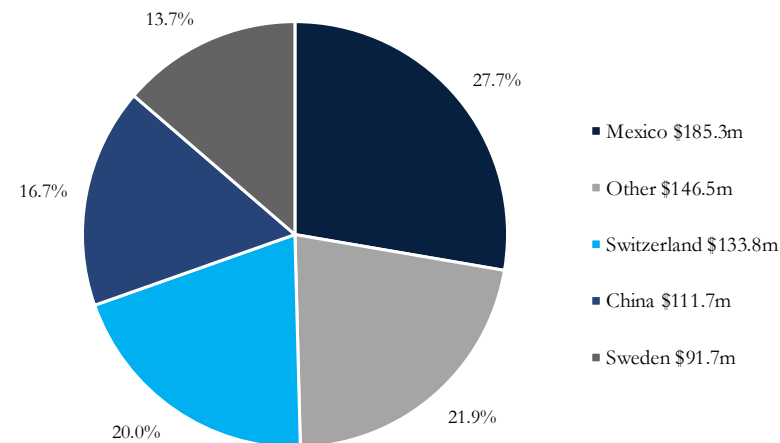


# International Trade

## Trade Exports



## Trade Imports



## International Trade Observations

- International trade for the Dental Laboratories industry has been increasing during the period. Increasingly, dentists are importing substitute products made abroad because they are significantly less expensive due to relaxed labor regulations and lower input costs. Demand for foreign made products has been compounded by an increase in the Trade-Weighted Index during the period. An increase in the index indicates a rising US dollar value, relative to its trading partners, making foreign purchased goods even more inexpensive. Consequently, imports have increased significantly during the period, increasing at an estimated annualized rate of 8.0% to \$668.8 million in 2019.

## International Trade Observations

- Dentists in the United States import products most often from Mexico, Switzerland, China and Sweden. In 2019, imports are estimated to account for 12.4% of total domestic demand, a figure that is anticipated to continue rising over the next five years.
- Regarding exports, the appreciation of the US dollar has had a negative effect. The relative low cost of foreign produced goods has put downward pressure on industry products manufactured in the United States. As a result, exports are estimated to decline an annualized 2.2% over the five years to 2019 to \$480.7 million in 2019. Demand for US made products is strongest in Canada, Netherlands, Spain and Mexico. In 2019, exports are estimated to account for 9.2% of total industry revenue.

## Select Comparable Transactions within the Sector

Date	Target	Buyer(s)	Target Business Description
10/4/18	Trident Dental Laboratories	National Dentex Corp.; GDC Holdings, Inc.	Part of GDC Holdings, Inc., Trident Dental Laboratories is an American company located in Hawthorne, CA. The firm provides dental laboratory services.
10/5/17	Albensi Dental Laboratory, Inc.	National Dentex Corp.; Affinity Capital Management; Welsh, Carson, Anderson & Stowe	Albensi Dental Laboratory, Inc. operates a dental laboratory. Its services include digital impressions, smile design, and visual education models. The company was founded in 1979 and is headquartered in Huntingdon, PA.
10/3/16	MicroDental Laboratories, Inc.	Modern Dental Group Ltd.	MicroDental Laboratories, Inc. manufactures custom dental restoration products. It operates dental laboratories. The firm also provides education courses. The company was founded in 1964 and is headquartered in Dublin, CA.
6/7/16	RTFP Dental, Inc.	MDI Acquisitions, Inc.; Modern Dental America Holding Ltd.	RTFP Dental, Inc. engages in the dental laboratory services. The company is headquartered in the Tory, MI.
6/2/16	Custom Automated Prosthetics LLC	Zahn Dental Co., Inc.	Custom Automated Prosthetics LLC manufactures and supplies computer-aided design and computer-aided manufacturing devices for dental laboratories. It offers 3D printers, milling machines, scanners, sintering furnaces, 3Shape dental systems, mills, scan and design equipment, 3D CAM software, and design services. The firm provides milling services for translucent zirconia, bridges, surgical guides, multi FZs, crowns, contour zirconia, zirconia frameworks and printed models. The company was founded by Robert Nazzal and Robert Cohen in 2010 and is headquartered in Stoneham, MA.
2/25/16	Brasseler USA, Inc.	Henry Schein, Inc.	Brasseler USA, Inc. engages in the manufacturing and selling of dental and surgical instruments. It offers rotary diamonds, carbides and polishers, endodontic, power handpiece systems, procedure kits, laboratory, hygiene and hand instruments, surgical instrumentation, medical power systems, saw blades, surgery burs, and accessories. The company was founded by Peter Brasseler in 1976 and is headquartered in Savannah, GA.
2/23/16	Dental Laboratory Milling Supplies LLC	Digital Dental Lab LLC	Provides dental laboratories services
7/9/15	Phoenix Dental Laboratory, Inc.	DTI Dental Technologies, Inc.; HealthpointCapital LLC	Part of BioHorizons, Inc., Phoenix Dental Laboratory, Inc. is a Canadian company located in Hamilton, ON. The firm provides dental services. On 09 Jul 15 DTI Dental Technologies, Inc. acquired Phoenix Dental Laboratory, Inc.
6/3/15	Jaslow Dental Laboratory, Inc.	Cornerstone Dental Labs	Part of Cornerstone Dental Labs, Jaslow Dental Laboratory, Inc. is an American company located in Jenkintown, PA. The firm manufactures dentures, artificial teeth, and orthodontic appliances.
11/7/14	Goodman Dental Lab, Inc.	Cornerstone Dental Labs	Goodman Dental Lab, Inc., part of Cornerstone Dental Labs, is a company headquartered in Treose, PA, that manufactures dentures, artificial teeth, and orthodontic appliances.

# Median EBITDA Multiples Trend

## Average Number of Months to Close Deals

2017	2018
8.7	9.3

## Breakdown of Cash at Close

	2017		2018	
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
Cash*	82%	86%	78%	85%
Seller Financing	10%	17%	10%	11%
Earn Out	0%	4%	1%	3%
Retained Equity	0%	4%	0%	4%

\* Combination of buyers equity and senior debt

## Advisor, Investor, and Executive Surveys

- 79% expect increased average number of deals in 2019 (up from 70% a year ago)
- 83% expect strong market to expire within the next 24 months (33% say its within 12)
- 19% of transactions valued below \$2M were business services – highest proportion
- 27% of transactions valued above \$2M were in manufacturing – highest proportion
- 66% of investors/buyers use adjusted EBITDA multiple when valuing privately-held businesses
- Top 3 reasons deals didn't close were valuation gap (36%), unreasonable seller/buyer demand (20%) and no market for business (11%)

EBITDA	Manufacturing	Construction & Engineering	Consumer Goods & Services	Wholesale & Distribution	Business Services	Basic Materials & Energy	Healthcare & Biotech	Information Technology	Financial Services	Media & Entertainment	Average
< \$1M	5.0x	3.5x	4.3x	5.5x	3.0x	5.0x	4.3x	7.0x	5.5x	4.0x	4.7x
\$1M - \$5M	5.5x	4.5x	5.5x	5.5x	4.8x	5.5x	5.5x	7.5x	6.0x	5.5x	5.6x
\$5M - \$10M	6.5x	5.0x	5.8x	5.8x	5.3x	6.0x	7.3x	8.0x	7.5x	6.0x	6.3x
\$10M - \$25M	7.5x	6.5x	6.5x	7.5x	6.0x	6.0x	7.5x	8.5x	7.8x	6.5x	7.0x

Sources: Pepperdine Private Capital Markets Report, PitchBook Data, GF Data M&A Report November 2018, Market Pulse