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M&A ACTIVITY IN 2021:
**PREDICTIONS
FOR THE
DENTAL
INDUSTRY**

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Last year, M&A activity largely followed other business cycles, which experienced historic oscillations in response to the COVID-19 outbreak. So a white-hot start to the year came to a screeching halt in March, only to pick up some midyear as virus cases leveled out and as new pandemic protocols normalized. By the end of the year, M&A activity resembled a fairly normal year. We spotted some bargains among the transactions, but mostly we saw healthy sellers getting fair prices that ignored the pandemic, at least for the purposes of valuation.

That momentum from the end of last year, paired with increasingly positive news on virus containment, leaves us an optimistic outlook for 2021. To give a little more insight into why, here are six predictions for what we expect to see in the year ahead, both across the general market and specifically within the dental industry.



1. ACCELERATED M&A ACTIVITY

ACROSS THE MARKET

With the way M&A activity began to heat back up at the end of 2020, we expect the full-year activity for 2021 to meet or exceed 2019 levels.

IN YOUR INDUSTRY:

Most DSOs have returned to the market, as both customers and practices adjust to new health precautions and protocols. With practices ramping back up, so too will deal volume in the dental industry.

2. MORE LARGE TRANSACTIONS

ACROSS THE MARKET

Private equity investment accelerated through the 2010s and there are hundreds—if not thousands—of sponsor-backed companies nearing the end of their expected hold periods. As the year unfolds, given the lack of activity in 2020, coupled with previously planned 2021 exits, expect a surge of PE-owned company sales.

IN YOUR INDUSTRY

Dozens of sponsor-backed DSOs are in the later stages of their hold periods and will likely transact in the next 1-3 years; many would have exited in 2020 were it not for the pandemic. The acquisitions of Clear Choice, Midwest Dental, and MB2 are just the beginning.

3. FOURTH-QUARTER FRENZY

ACROSS THE MARKET

When we look at recent history, we're confident that the new Biden Administration's tax policy will spur sellers to act, leading to an even greater increase in deal flow in the second half of the year. There is historical precedent for this outlook. In 2012, following Barack Obama's reelection, we saw a similar trend, as sellers worried impending tax increases would cut into sale returns. In Q4 of 2012, Craig personally closed more, larger deals in tighter timelines than he otherwise would have imagined possible.

IN YOUR INDUSTRY

We don't see this activity limited to any one industry. Expect motivated sellers across the market.

4. INCREASE IN NEW INDUSTRY PARTICIPANTS

ACROSS THE MARKET

The increasing availability of private equity capital will lead to several newly recapitalized businesses that in the years to come will be hungry for acquisitions.

IN YOUR INDUSTRY:

Dental has been a busy space, as we've seen more movement into specialty practices like endodontics, oral surgery, and orthodontics (see more on specialization below in our sixth prediction). There's also been more minority investment and the formation of smaller platforms. With these new participants, there are still some outstanding questions and considerations for the year ahead. For example, should we expect buy-outs from doctors looking to retake a majority stake in practices currently backed by private equity partners?

5. THE PANDEMIC CONTINUES TO PLAY A ROLE

ACROSS THE MARKET

Over the course of 2020, valuations remained mostly unchanged, but due diligence did take on a new intensity. Most of this heightened scrutiny surrounded uncertainty about the permanence of a business' recovery, risk of a future surge causing businesses to shut down again, increased expenses associated with PPE and sanitization, and questions on how to adjust the shutdown out of the P&L. At this point, most feel confident that shutdowns are a thing of the past; however, the uncertainty still plays a role.

IN YOUR INDUSTRY

The majority of buyers are back and valuations have held steady for sellers who have demonstrated a full or nearly-full recovery. Covid-specific terms may be incorporated into the deal in order to mitigate the buyer's risk but otherwise we expect 2021 to be business as usual.

6. SPECIALISTS OVER GENERALISTS

ACROSS THE MARKET

We mostly see this specialization trend limited to the dental industry.

IN YOUR INDUSTRY

Expect a rise in specialty dental practice acquisitions. Endodontics, oral surgery, and orthodontics are three of the hottest areas in all of healthcare M&A. And last year, they were less impacted by the shutdown than general dentistry. With targets set on strong specialty practices, look for intense competition among a mix of buyers: from pure players, to multi-specialty DSOs, to private equity firms.

MORE ABOUT THE AUTHORS

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