

EQUITY RESEARCH

March 25, 2022

Earnings Update

DENTALCORP HOLDINGS LTD.

Controlling The Controllable

Our Conclusion

dentalcorp reported a fourth quarter that showed continued progress on key initiatives, but also underscored the short-term pressures that COVID continues to have on the business. Headline numbers were in line with the January pre-release and the acquisition program remains on track with larger acquisitions in the quarter, putting some upward pressure on multiples. While COVID pressures in the first six weeks of Q1 will impact same-practice sales growth, the M&A program should continue to drive 20%+ revenue growth. We retain our Outperformer rating and \$20 price target.

Key Points

Margin Profile: Adjusted EBITDA margins of 18.4% were in line with expectations but did include \$8.7 million in COVID adjustments. Excluding the COVID adjustments, margins would have been 320 bps worse at 15.2%. Gross margins in the quarter were 45.7%, down 370 bps sequentially. Gross margin pressure was a result of COVID mitigation measures taken in 2020 which impacted cost of sales in the quarter. While the adjustment does raise some questions around the trajectory of gross margins and the transitory nature of the adjustment to EBITDA, management expects the one-time impact to be isolated to the fourth quarter.

Multiples Up On Larger Deal Sizes: dentalcorp completed 13 practice acquisitions in the quarter, adding \$10.4 million in annual adjusted EBITDA. Total consideration of \$79 million implies an average acquisition multiple of 7.6x, up from 6.7x in Q3 and 6.5x in Q2. The uptick was a result of larger practice acquisitions in the quarter, with average EBITDA/practice of \$800k vs. a typical single practice location at closer to \$600k. We continue to expect dentalcorp to be active on larger acquisitions in H1/22, and believe those deals are likely to be completed at high-single-digit multiples.

Ortho Acceleration Update: Momentum remains solid on the orthodontics rollout, with 202 clinics currently enabled for ortho work, up 54% from the prior year. That pace of 71 practices/year is expected to continue into 2022, with an opportunity for practices that are fully operational to add 5%-6% to annual revenues. dentalcorp also announced an expanded partnership with Align, giving practices better access to product training and improving the margin potential from the deal. We expect the arrangement to also have a positive impact on the pace of the rollout for new clinics.

Federal Dental Care Announcement: Management weighted in on a recent joint proposal between the Federal Liberals and NDP to expand access to dental care. Specifics on the plan remain limited, and management ultimately expects that the program will expand on the provincial subsidy programs already in place. We see the announcement as an incremental benefit as it could expand the total Canadian market, but also raises questions around reimbursement levels and their impact on insurance provider reimbursement.

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Outperformer

DNTL-TSX, Sector: Health Care

Current Price (3/25/22): C\$15.19

Price Target (12-18 mos.): C\$20.00

CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
Revenue(mln)	666.24A	1,030.84A	1,250.21E	1,495.84E
Prior		1,029.42E	1,250.17E	1,498.68E
Adj. EBITDA(mln)	114.8A	191.8A	237.7E	297.8E
Prior		192.3E	237.4E	298.1E

Revenue(mln)	Q1	Q2	Q3	Q4
2022	274.50E	324.07E	315.06E	336.58E
Prior	271.50E	325.83E	316.82E	336.01E
2021	247.05A	261.06A	250.24A	272.50A
Prior				271.08E

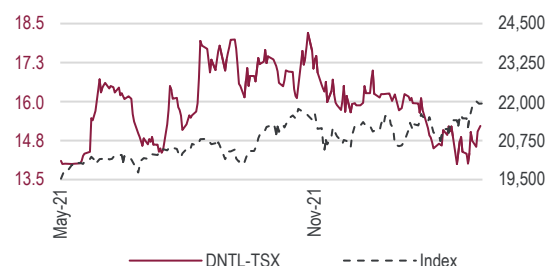
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2022	50.2E	61.3E	60.7E	65.5E
Prior	49.6E	61.7E	61.3E	64.9E
2021	46.6A	48.9A	46.2A	50.1A
Prior	47.4A			49.8E

Valuation	2020	2021	2022	2023
EV/EBITDA	33.9x	20.3x	16.4x	13.1x
P/FCF				

Stock Performance and Key Indicators

Avg. Dly. Vol.:	153K	Shares O/S:	175.6M
Market Cap.:	C\$2,666M	Float:	81.0M
52-wk Range:	C\$13.98 - C\$18.20	Div. / Yield:	C\$0.00/0.00%

TSX Composite Index vs. DNTL-TSX



(Source: FactSet)

All figures in Canadian dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 4. For required regulatory disclosures please refer to "Important Disclosures" beginning on page 5.

Dentalcorp Holdings Ltd. (DNTL-TSX) — Outperformer

Price (3/25/22) C\$15.19 12-18 mo. Price Target C\$20.00

Sector: Health Care

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Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	(13.2%)	54.7%	21.3%	19.6%
Per Share Data	2020	2021	2022E	2023E
EPS	(1.89)	(1.22)	(0.35)	(0.36)
Diluted EPS	(1.89)	(1.16)	(0.33)	(0.34)
Wgt Avg # of Shares	89,420.1	131,790.1	177,117.3	180,846.0
FD Number of Shares	89,420.1	138,030.2	185,857.2	189,585.9
Income Statement	2020	2021	2022E	2023E
Revenue	666	1,031	1,250	1,496
Cost of Goods Sold	345	535	628	746
Gross Profit	322	495	622	750
SG&A	229	343	387	455
Adj. EBITDA	115	192	238	298
Adj EBITDA Margin	17.2%	18.6%	19.0%	19.9%
EBITDAR	87	171	203	263
D&A	139	159	168	200
thereof Depreciation	72	104	86	103
thereof Amortization	66	55	81	97
Net Income	(169)	(160)	(62)	(65)
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	(32)	55	174	173
Capex	(17)	(15)	(22)	(22)
Acquisit & Invest	(126)	(235)	(277)	(255)
Net CFI	(154)	(263)	(323)	(301)
Net CFF	202	248	163	42
Net Cash Flow	16	40	13	(86)
Free Cash Flow	(65)	19	130	130
Cash at Begin of Yr	85	102	142	155
Cash at End of Yr	102	142	155	69
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	102	142	155	69
Total Current Assets	202	264	286	220
Intangible Assets	334	345	417	462
Goodwill	1,633	1,810	1,949	2,076
Total Assets	2,565	2,838	3,027	3,072
ST Int-Bearing Debt	11	0	0	0
Tot Curr Liab	155	171	209	230
LT Int-Bearing Debt	1,408	894	963	1,027
Total Liabilities	1,993	1,324	1,437	1,525
Common Stock	892	1,918	2,033	2,033
Shareholders' Equity	572	1,514	1,589	1,547

Source: FactSet, Company Reports & CIBC World Markets Inc.

Company Profile

dentalcorp is Canada's largest network of dental practices having acquired over 445 practices across the country.

Investment Thesis

Our thesis is based on dentalcorp's highly repeatable M&A program, the attractiveness of the Canadian dental space, and initiatives to improve same practice sales growth and expand margins.

Price Target (Base Case): C\$20.00

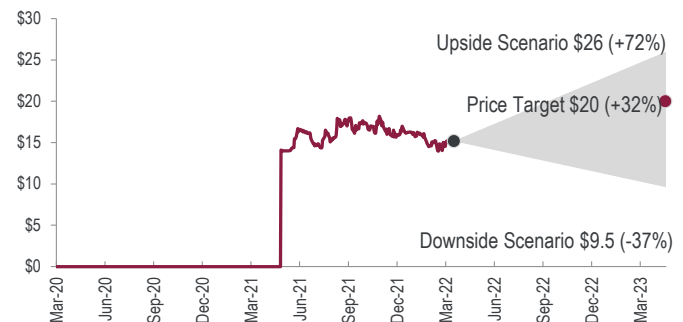
Our price target is calculated using 3.5% same practice sales growth, 19.4% Adjusted EBITDA margins and a 16x EV/Pre-IFRS 16 EBITDA multiple.

Upside Scenario: C\$26.00

Our upside scenario is calculated using 5% same practice sales growth, 20% Adjusted EBITDA margins and an 19.0x EV/Pre-IFRS 16 EBITDA multiple.

Downside Scenario: C\$9.50

Our downside scenario is calculated using 0.0% same practice sales growth, 16.5% Adjusted EBITDA margins and a 11.0x EV/Pre-IFRS 16 EBITDA multiple.



Financial Summary

Financial Results: dentalcorp reported revenue of \$271 million, in line with pre-released expectation of ~20% Y/Y growth. Adjusted EBITDA in the quarter was \$50 million at margins of 18.4%, also in line with pre-released expectations. Rent expenses were \$8.7 million in the quarter, leading to pre-IFRS 16 EBITDA of \$41.4 million.

Exhibit 1: dentalcorp – Financial Summary, FQ4/21

	Q4-F2021			Q4-F2020	Y/Y%	Q3-F2021	Q/Q%
	Actual	CIBC	Cons				
Consolidated							
Revenue (\$MM)	273	271	271	226	21%	250	9%
Adjusted EBITDA (\$MM)	50	50	50	32.7	53%	46	9%
EBITDA Margin - Net	18.4%	18.4%	18.3%	14.5%	27%	18.4%	0%

Source: Company reports, FactSet and CIBC World Markets Inc.

Changes To Our Model: With in-line results from the quarter and pre-released numbers, we have made minimal changes to our model.

Exhibit 2: dentalcorp – Changes To Our Model – 2021A - 2023E

	Revenues (\$MM)	EBITDA (\$MM)	Acquired EBITDA (\$MM)	Cash Flow From Operations (\$MM)
2021A	1,031	191.8	43	55
2022E				
CIBC est. – new	1,250	238	48	174
CIBC est. – prior	1,250	237	49	175
Consensus	1,257	242	NA	180
2023E				
CIBC est. – new	1,496	298	49	173
CIBC est. – prior	1,499	298	51	173
Consensus	1,469	291	NA	212

Source: Company reports, FactSet and CIBC World Markets Inc.

Price Target Calculation

We derive our price target of C\$20.00 by applying a 16x EV/EBITDA multiple on our 2023E Pre-IFRS16 EBITDA estimate, based on the current capital structure. The 16x multiple is in line with other fragmented acquisition peers.

Key Risks To Price Target

The primary risks to our price target include the following: 1) increasing DSO competition; 2) limited ability to drive margin expansion; 3) decline in same-practice sales; 4) pricing pressure; 5) a shift in industry participants' views on DSOs, 6) reduced quality of dental work as network grows, and 7) changing government regulation

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None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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