

5th Annual National Roundtable for Dental Collaboration

***Looking ahead:
The future of the dental profession***

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Dental Practice Trends: *8 Permanent Game Changers*

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January 11, 2014

Eight Permanent Game Changers

The following “game changers” demonstrate that American dentists are in an entirely new situation and face an entirely new set of challenges.

Eight Permanent Game Changers

1. The Great Recession and Uninspiring Recovery
2. Changes in Consumer Purchasing Habits
3. Decrease in Insurance Reimbursements
4. Expansion of National Corporate Dental Centers
5. Opening of 15 New Dental Schools
6. Higher Dental School Student Loan Debt
7. Fewer Associate Opportunities for New Dentists
8. Dentists Practicing 8-10 Years Longer

1 - The Great Recession and Uninspiring Recovery

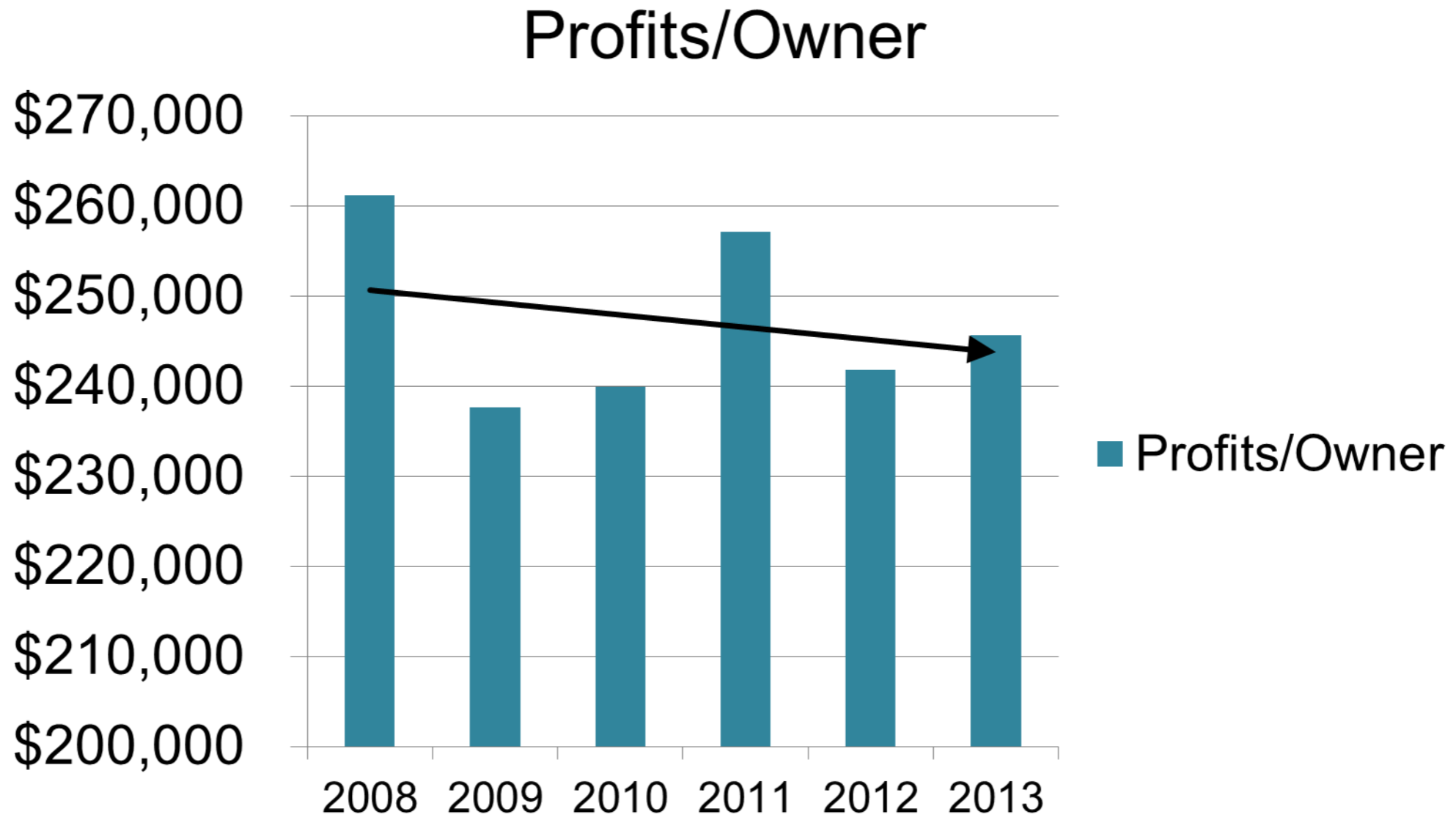
- This recession affected dentists more than any other downturn in the past 70 years.
- 75% of dental practices have suffered sustained declines that have not yet reversed during the recovery.
- Dentists' profits are unpredictable and down almost 8%, on average since 2008.
- ADA survey shows Dentists' Economic Confidence in Q4 2013 is down from Q3.
- Positively, 59% of practices report increased production in first half of 2013, but at a cost of increased overhead.
- Practice profitability was up a modest 1.56% in 2013.

1 - The Great Recession and Uninspiring Recovery

Why This Matters

1. Through the past seven recessions, Dentists were barely affected, if at all.
 - 1960-61, 1969-70, 1973-75, 1980, 1981-82, 1990-91, 2001
2. This is the first time in the memory of practicing dentists, that they have been seriously hit by a recession.
3. The effect of the macro economy (up or down) is hitting dental practices 12-18 months later than the general market.

1 - The Great Recession and Uninspiring Recovery



Source: Levin Group Data Center & Analysis

2 – Changes in Consumer Purchasing Habits

- Consumers at all but the highest few percentiles are making far fewer impulse purchases.
- This change has created downward pressure on case acceptance in dental practices.
- The fees of the average accepted case are lower than the pre-recession era.
- More patients are settling for less than optimal treatment.
- Personal investment portfolio gains were anemic 2008 – 2012, and many Americans were “out of the market” for 2013 stock market rebound.

2 – Changes in Consumer Purchasing Habits

Why This Matters

“We don’t believe consumers are going to go back to their old, carefree, pre-recession habits. Value-hunting has become routine. . . .”

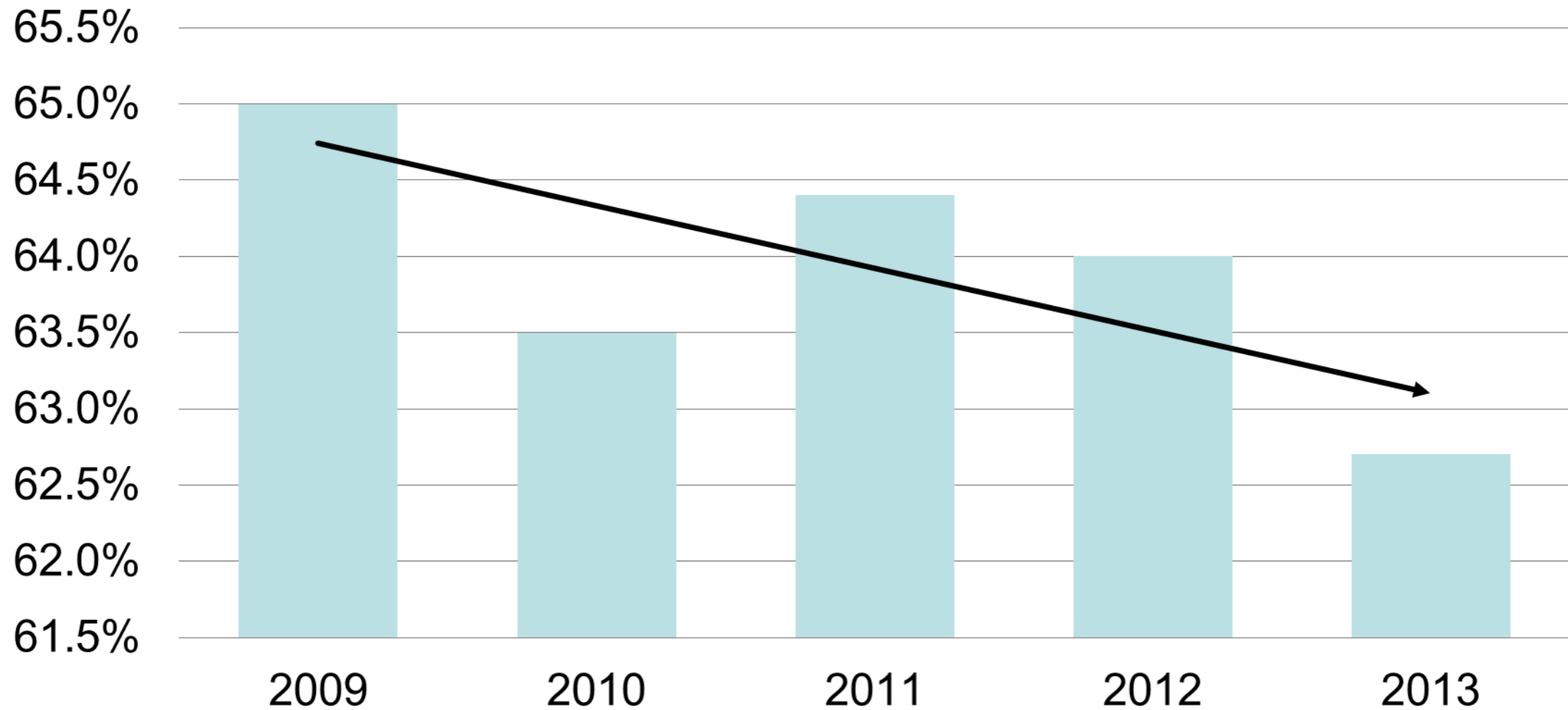
The Post Recession Consumer: Describing the American Shopper
McKinsey & Company, April 2012.

3 – Decrease in Insurance Reimbursements

- Major dental insurance companies are cutting reimbursements by 4-15% in states from coast to coast.
- Trend will continue.

3 – Decrease in Insurance Reimbursements

Fees Collected at Time of Service



4 – Expansion of DSO's

- For practice-owning GPs, DSO's represent tough competition.
- For young dentists, employment at these centers can offer distinct advantages over owning a solo practice
 - 24% of dental school graduates go to work for DSO's.
- More DSO locations are opening all over the country with a variety of business models and target demographics.
- DSO's are becoming very efficient with professional corporate management, in-house training “universities” and other benefits for participating dentists.

4 – Expansion of DSO's

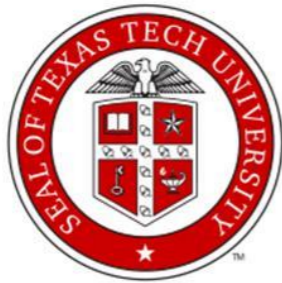
- **2006**: 38 DSOs held 5% of the dental services market.
- **2012**: 51 DSOs hold 10% of the dental services market.
- **2018**: 70 DSOs will have 20% of the dental services market.
 - The top 5 DSOs will have an 8% combined market share.
 - The next 10 DSOs will have a 5% combined market share.

Source: Levin Group Data Center & Analysis

5 – Opening of 15 New Dental Schools

- 15 US dental schools have recently opened or are planned to open in the next few years leading to:
 - Greatly increased competition in large metro areas.
 - More dentists joining DSOs or creating their own large practices through M&A.
 - More “fee wars” in suburban and urban regions.

5 – Opening of 15 New Dental Schools

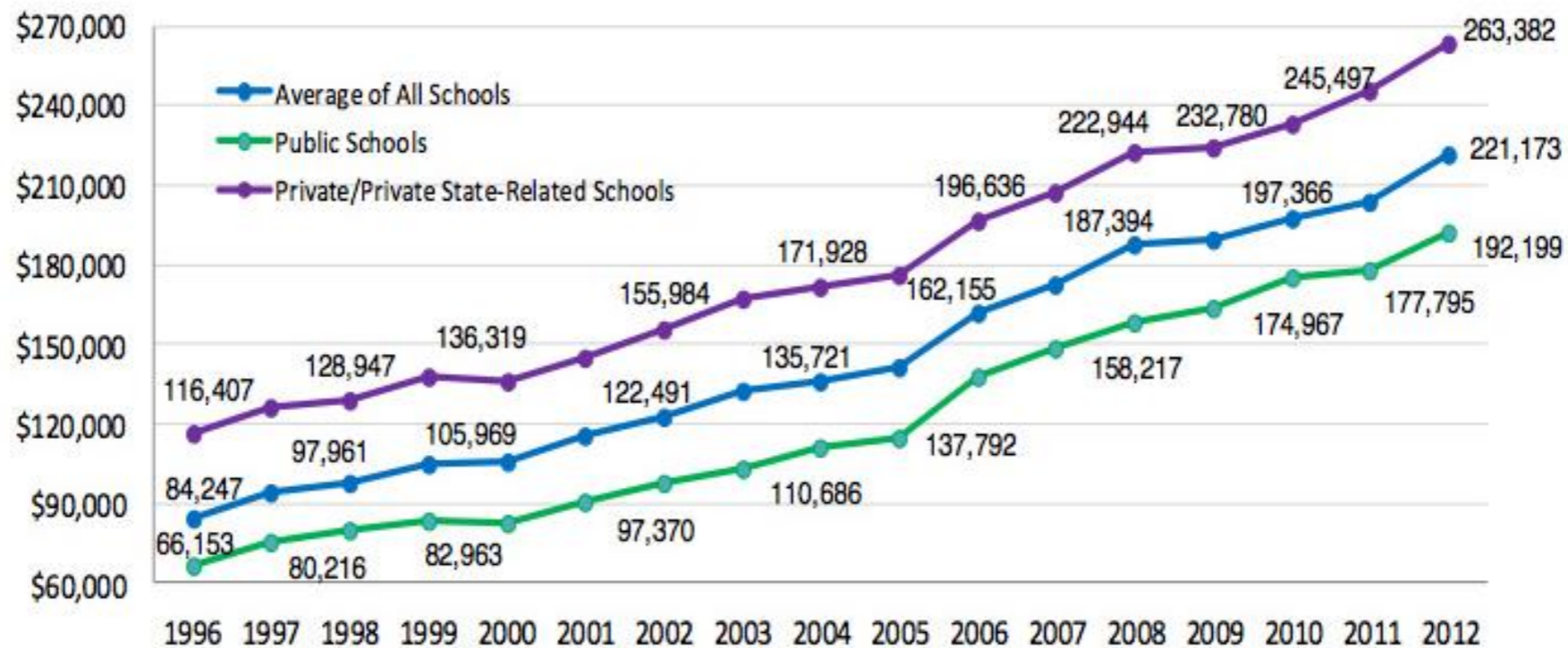


6 – Higher Dental School Student Loan Debt

- Many new doctors find themselves overwhelmed by their debt at graduation.
- The average new dentist is carrying more than \$250,000 of debt.
- This intimidates many graduates away from investing in a practice of their own.
- Approximately 50% of dental school graduates are deferring practice ownership, if not avoiding it altogether.
- Fewer new dentists start/buy-out solo practices each year.

6 – Higher Dental School Student Loan Debt

Average Educational Debt Among Graduating Students with Debt by Type of School, 1996-2012 (Current Dollars)

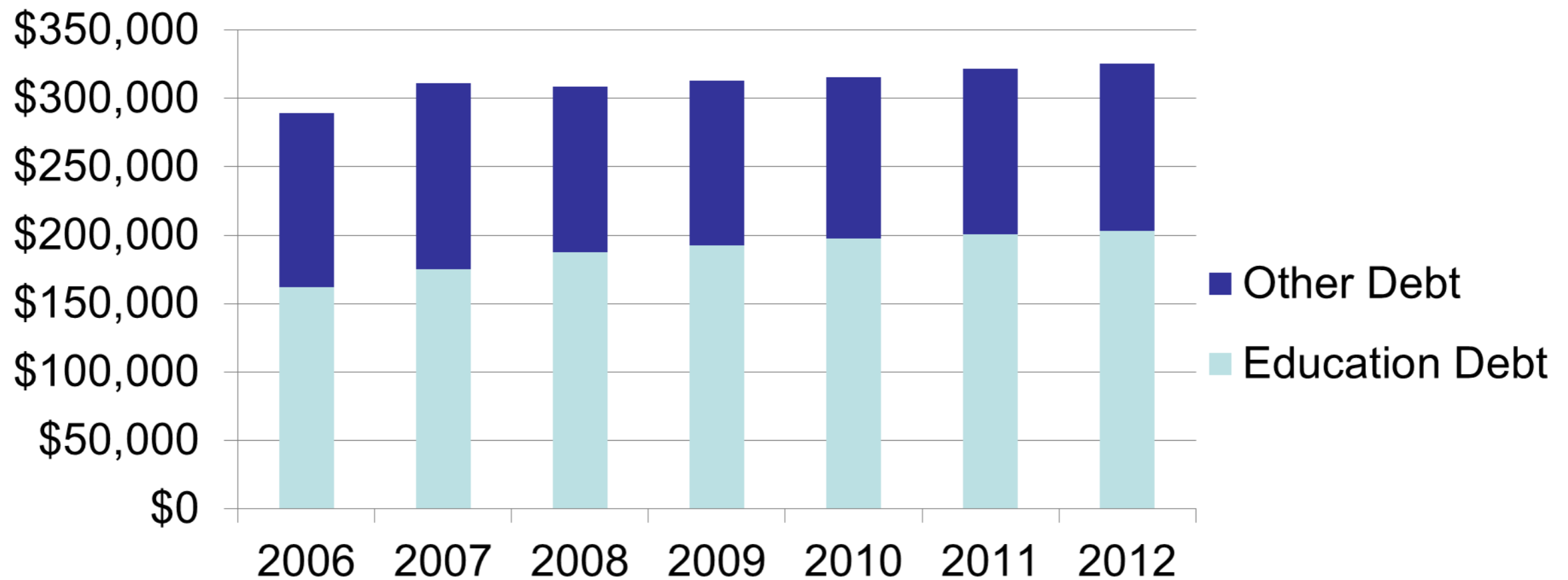


Source: American Dental Education Association, Survey of Dental School Seniors, 2012 Graduating Class

Note: Educational debt is the sum of undergraduate debt and dental school debt of only those respondents who have debt.

6 – Higher Dental School Student Loan Debt

Total Average Debt of New Graduates with Debt



Source: ADEA, ADA, Levin Group Data Center & Analysis

7 – Fewer Associate Opportunities for New Dentists

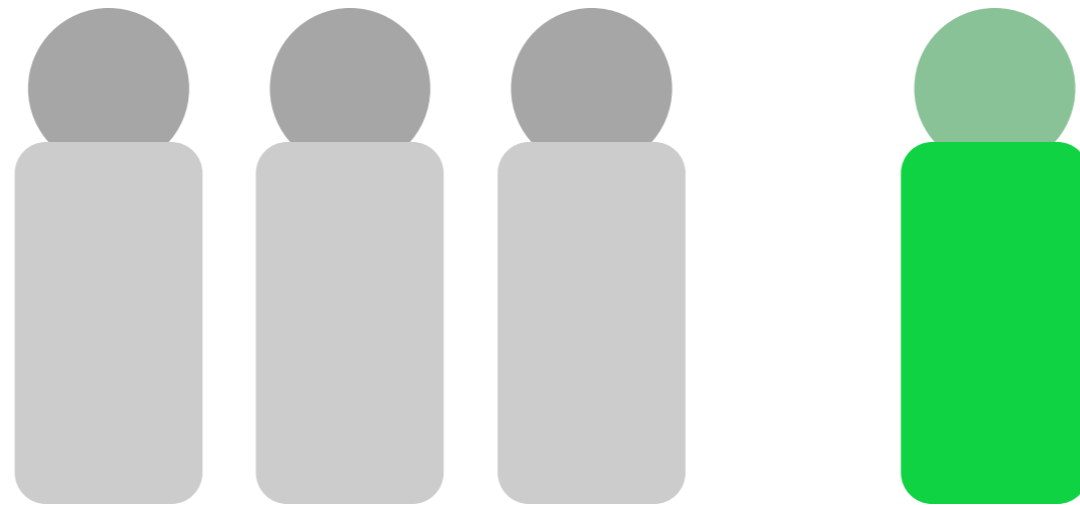
- Fewer established practices have the ability to expand and thus can not justify hiring an associate.
- This forces more young dentists to either work for DSO's, accept part-time/contract work or practice in underserved rural areas.

8 – Dentists Are Practicing 8 - 10 Years Longer

- Graduating dental school no longer ensures a lifetime of comfort and a pleasant retirement in one's 50s.
- Dentists are now forced to practice almost a decade longer than they've planned because of decreasing practice value at sale and damaged retirement portfolios.

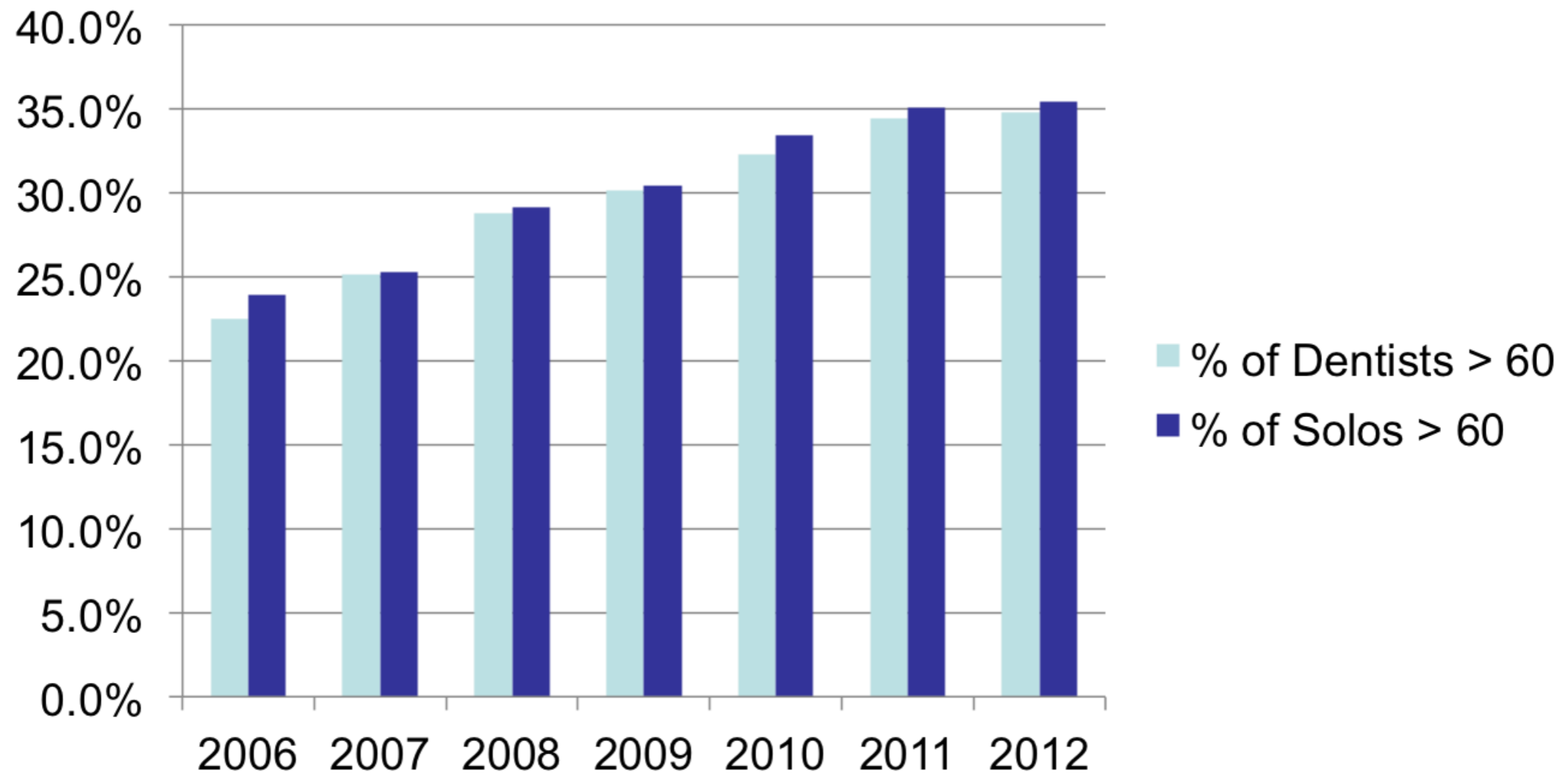
8 – Dentists Are Practicing 8 - 10 Years Longer

- There is only one young dentist aiming to buy a solo practice for every 4 retiring solos looking to sell their practice.
- This is a buyers' market and many DSO's are aggressively taking advantage of the opportunity.



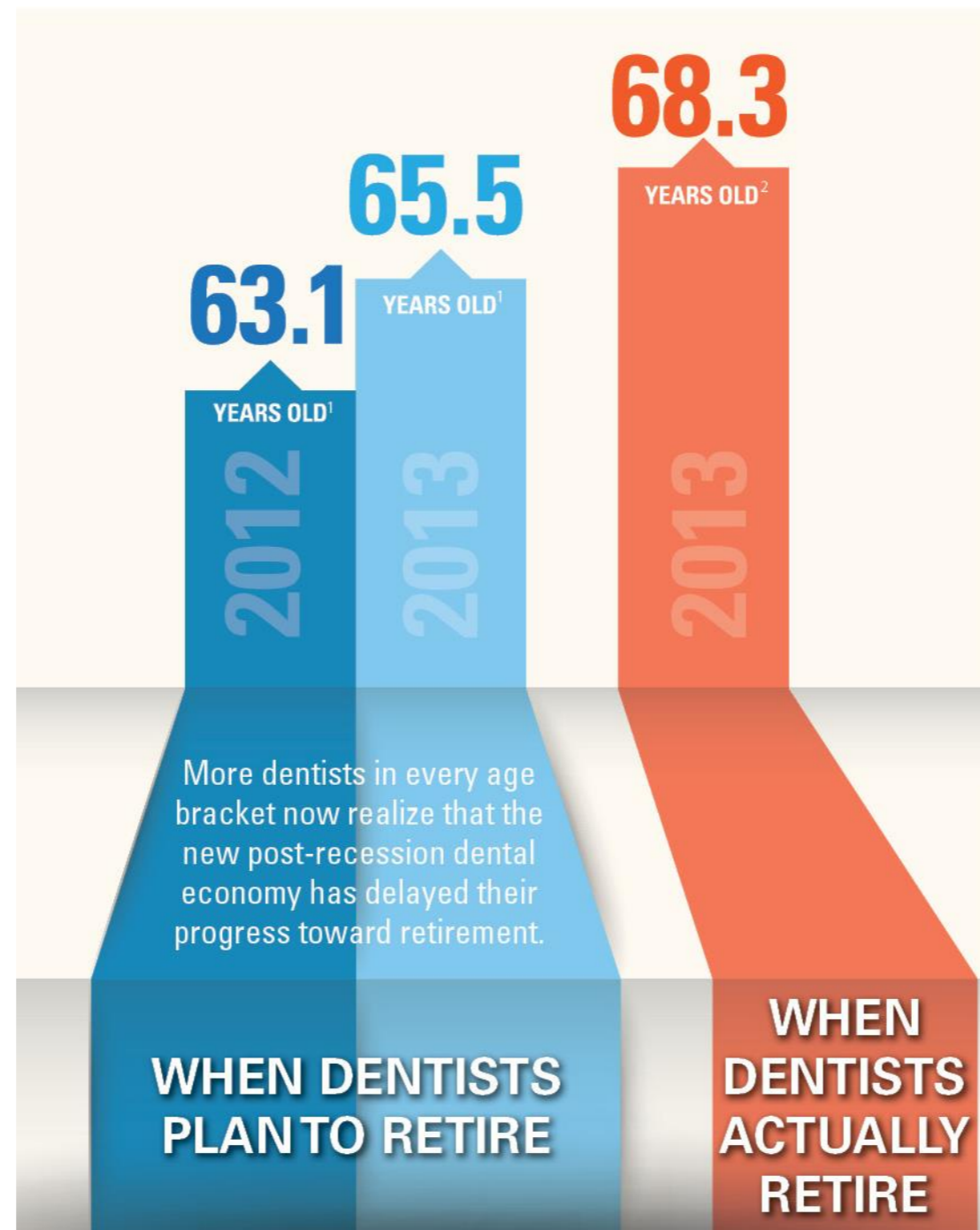
8 – Dentists Are Practicing 8 - 10 Years Longer

Dentist Over 60 Years Old



Source: ADA, Levin Group Data Center & Analysis

8 – Dentists Are Practicing 8 - 10 Years Longer



Source: ADA & Levin Group Data Center

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