2016 Industry Report

Dentists in Canada

Prepared by
Welch LLP
www.welchllp.com

The information contained in this report has been sourced from IBISWorld Inc - IBISWorld Industry Report 62121CA.

Welch LLP

Table of Contents

Industry Definition

This industry comprises establishments of licensed dentists primarily engaged in the private or group practice of general or specialized dentistry or dental surgery. Offices of dentists, especially walk-in centres that accept patients without appointment and that often have extended office hours, are sometimes called clinics or dental centres.

In this report you will find information on the current state, trends and future growth of your industry to help gain a better understanding of the Dentists industry in Canada. The information within this document has been sourced by IBISWorld.

Key Statistics

4 to 6x EBITDA

Dental Practice Valuation Metrics

(Earnings before interest, tax, depreciation and appreciation)

Call WelchGroup Consulting 613.236.9191
to learn more about the value of your practice

Over the next five years, the Dentists industry is expected to experience continued growth, driven by increasing public spending on dental services and increased awareness of the importance of good oral health.

17,675
# of Businesses

$13.7B
Total Revenue

1.6%
Annual Growth 2011-16

$4.0B
Salary Expenses

1.4%
Projected Annual Growth 2016-21

$2.0B
Total Profits

Industry **Landscape**

Over the next five years, dentists are expected to rely more on patients' out-of-pocket spending, rather than health insurance providers' reimbursements. According to the Ontario Dental Association's 2012 Economic Report to the Dental Profession (latest data available), over the next decade, out-of-pocket spending, rather than third-party insurers, is expected to fund a greater share of dental costs. Out-of-pocket costs are expected to approach 55% of total dental expenditures, whereas private insurers will fund the remaining 45%. Overall, dental spending is largely shaped by dental care utilization rates and consumers' out-of-pocket costs for the healthcare sector as a whole. Excluding prescription drug costs, dental expenditures comprise 60.6% of total healthcare spending. Over the next five years, the industry will likely be more susceptible to fluctuations in consumer demand, in line with industry services increasingly being funded by consumers' out-of-pocket resources.

In the next five years, the dentist-to-patient ratio is expected to rise, thus intensifying industry competition. As a result, many dental practices will structure their fees to meet the needs of patients and secure strong patient retention rates. Furthermore, industry revenue growth will likely vary across provinces and territories. For example, Newfoundland and Saskatchewan have relatively low dentist-to-patient ratios, while Saskatchewan has the second-highest per capita income, thus presenting opportunities for dental practices to cater to demand in these provinces. Conversely, Ontario and British Columbia have a high dentist-to-patient ratio, which will result in these markets being considered relatively mature by potential new dental practices. To limit exposure to competition, dentists may locate their practices in rural areas. As a result, the number of industry enterprises is expected to increase at an annualized rate of 2% to 19,467 in the five years to 2021 in Canada. In particular, the emergence of mobile dental hygiene practices will characterize the industry's landscape, as many dentists enter the industry to provide care to rural areas in addition to having brick-and-mortar establishments in urban areas.

Revenue Volatility

The Dentists industry is characterized by a low level of revenue volatility. While oral health services are considered relatively vital for patients' health, the industry is still subject to moderate fluctuations in revenue. It was reported that 17% of Canadians did not visit a dentist due to the cost of dental care. As a result, industry revenue may plummet due to Canadian consumers' low per-capita disposable income and the need to pay for industry services out-of-pocket. Additionally, preventive oral health behaviours have lowered the demand for dental care slightly. These trends have resulted in a fluctuation in demand that is in line with the prevalence of preventive behaviours, as well as whether consumers can incur out-of-pocket costs or have access to employer-provided dental coverage.

Industry Structure

Competition	*Medium*
Concentration	*Low*
Life Cycle Stage	*Growth*
Capital Intensity	*Low*
Regulation & Policy	*Medium*
Technology Change	*Medium*
Industry Assistance	*Low*

Key External **Drivers**

Adults aged 65+

- An increase to the number of adults aged 65+ supports demand for dental care and presents an opportunity.
- According to 2009 data (latest data available) from the Oral Health Module of the Canadian Health Measures Survey, an estimated 6% of adult Canadians no longer have any natural teeth, spurring demand for dentures and implants.

Total health expenditure

- Rising total health expenditure may curb the number of individuals who visit their dentist, posing a potential threat.
- In 2009 (latest data available), according to the Canadian Health Measures Survey, 32% of Canadians had no dental insurance. As Canadians contend with high healthcare costs, they may limit their dental visits to cut out-of-pocket healthcare costs.

Per capita disposable income

- A rise in per capita disposable income benefits the industry.
- According to data from the Canadian Institute of Health Information, only 6.1% of total dental spending is financed by the public sector. As a result, the industry is highly dependent on whether consumers can allocate out-of-pocket expenditures towards dental care.

Per capita soft drink consumption

- As the per capita soft drink consumption increases it could lead to increased need for dental services.
- Drinking high-sugar or diet soft drinks can have negative effects on oral health, potentially leading to tooth decay, erosion of the enamel and cavities.

Products & **Markets**

Demand Determinants

Demand for the Dentists industry's services is influenced by numerous factors, including the prevalence of oral ailments, consumer awareness of oral health, and the level of private insurance coverage for dental services. An individual's ability to afford dental care is another key demand determinant.

The introduction of new dental technologies also determines the type of care that individuals demand. For example, due to the improvements in dental techniques and the advent of fluoride, the prevalence of tooth decay is declining, particularly among children. However, the high prevalence of periodontal disease will support demand for industry services. Additionally, the introduction of new medical technologies, particularly technologies that lower patients' anxiety, will bolster consumer demand for more dental treatments. Both the increase in average lifespan and the introduction of new medical technologies that allow even the elderly to keep their natural teeth longer will contribute to robust demand for preventive and restorative services, whereas demand for extractions and false teeth will decline.

Products & Services

35%	23%	12%	10%	9%	12%
Restorative	Preventive	Surgery	Urgent need	Periodontics	Other

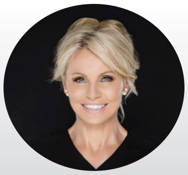
Major Markets Segmentation

37%	26%	13%	12%	12%	$13.7B
Ages 30-54	Ages < 19	Ages 20-29	Ages 55-64	Ages 65 <	Total Revenue

Canadian Dental Business Locations (%)

43%	21%	15%	12%	5.1%	3%
Ontario	Quebec	British Columbia	Alberta	Eastern Canada	Manitoba

Competitive **Landscape**



" The key to a successful dental practice is to deliver excellent clinical oral health care and a high level of professionalism with an empathetic, compassionate personal touch. It is imperative to foster a unique environment to attract and retain patients as well as encourage referrals." - *Dr. Tanya Bracanovich, Sparks Dental Clinic*

Top 5 Key Success Factors for the industry

1. Ensure appropriate pricing policy
Dentists must price services in accordance with a client's ability to pay, industry norms and time requirements per service.

2. Maintain excellent customer relations
The development of good patient relations is essential to obtain a loyal customer base and referral business.

3. Develop strong internal processes
The presence of practice and client management systems improves productivity and profitability. As patient treatment is so heavily dependent upon instruments, managing them in the safest, most efficient manner is a key element in productivity.

4. Adapt quickly to changing technology
The rapid introduction of new technology may assist the practice to quickly increase the range of services provided and improve productivity.

5. Allow easy access for clients
Location has proven to be extremely important in generating new patient referrals and encouraging patients to return.

Cost Structure

Over the past five years, many dentists that had solo practitioner practices joined Dental Practice Management Companies (DPMCs), which allowed dental practices to share administrative costs. In addition, DPMCs can cut costs related to negotiating dental insurance contracts, collection and reimbursements, bolstering industry profitability.

	Industry Costs				
14%	**30%**	**12%**	**6%**	**3%**	**35%**
Profit	Wages	Purchases	Rent & Utilities	Depreciation	Other

Over the past five years, many dentists have specialized in a particular dental field, adding to wage costs. For example, dentists may specialize as an oral and maxillofacial surgery, public health, orthodontics, etc. Furthermore, due to the high level of skill required to provide tooth repairs, oral health and disease screenings and maintenance, dentists have been able to garner higher wages.

Competitive **Landscape** (cont.)

Competition in this industry is medium and the trend is increasing.

Internal Competition

Overall, dental practices largely compete on the basis of price. Since the public sector accounts for a small share of total dental expenditures, many patients who receive dental care pay for these services out-of-pocket. As a result, dental practices that can offer relatively low-cost industry services will fare well. Additionally, dentists compete on the basis of reputation. For example, dental practices that have a favourable reputation for providing high-quality aesthetic improvements for patients, which is particularly vital for cosmetic dental procedures, will realize success.

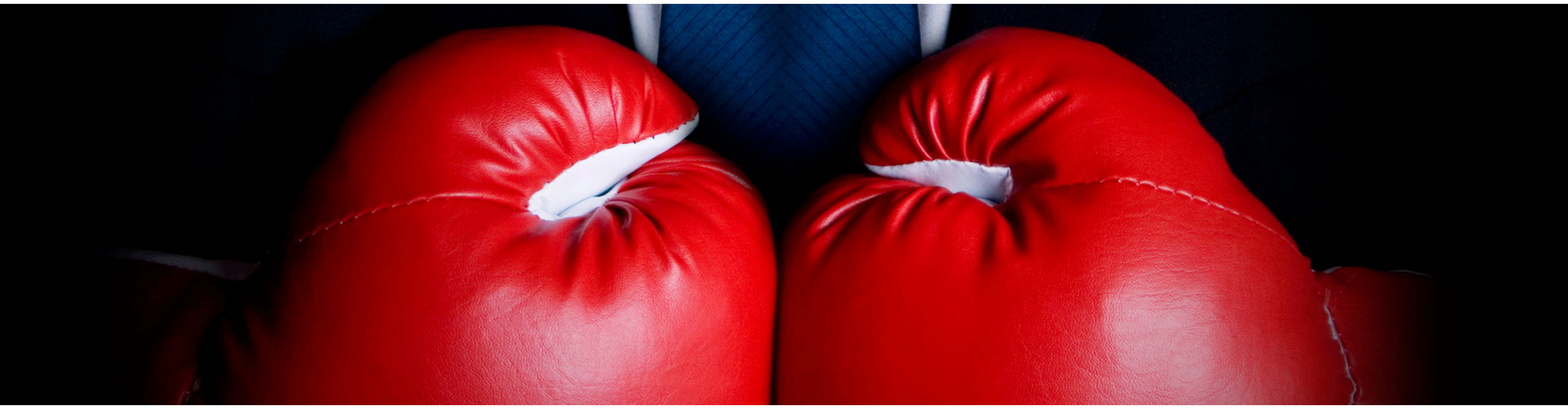
Competition also varies across provinces and territories. For example, many urban areas have a high concentration of dental practices, with high dentist-to-patient ratios translating to a high level of competition. Comparatively, many rural areas have less competition. Over the next five years, dental practices that offer the most up-to-date technologies will have a competitive advantage. For instance, dentists who offer vaccines that prevent tooth decay, offer medications or other methods that lower patient anxiety and use sophisticated materials and procedures to enhance a patient's tooth appearance will develop a high number of patient referrals.

External Competition

Dental practices are not subject to a high level of external competition, although dental practices may contend with competition from preventive care. For example, 73% of Canadians brush their teeth twice a day and 28% floss five times a week, according to data from the Canadian Dental Association report Dental Health Services in Canada, which may lower demand for dental care services.

Barriers to Entry

The Dentists industry exhibits moderate barriers to entry. Typically, barriers to entry include the capital outlay to purchase equipment, such as digital X-rays and equipment that provides infection control for patients. Furthermore, dental practices may grapple with attracting dentists, particularly specialized dentists. While the number of dentists has increased significantly over the past five years, according to Service Canada, the quota set for dentistry programs has provided an access barrier to dental professionals for potential industry entrants. Other factors, such as favourable reimbursements from health insurance providers, may also pose as a barrier to entry. For example, insurers examine utilization and fee guide increases, by province or territory, to determine dental reimbursements.



Rising **Awareness**

Campaigns that promoted awareness of oral health have stimulated industry revenue growth

Increased Number of Patients

Over the past five years, the many federal, provincial and territorial campaigns that promoted awareness of oral health have stimulated industry revenue growth. For example, Alberta's "Rethink Your Drink" campaign has encouraged Canadians to be wary of beverages with high sugar content, which can contribute to cavities. This program, a collaboration of dental, nutrition and school health providers, initially started as an oral health month campaign in April, but has become a province-wide initiative.

Although public sector spending only accounts for a small share of total expenditures for dental services; federal, provincial and territorial campaigns, which shed light on oral health issues, may incite more individuals to regularly receive care from the industry. For example, periodic reports from the Ontario Health Ministry outline the importance of access to publicly funded dental care services and preventative oral health practices, specifically in rural and First Nation communities. As more individuals have become aware of oral health ailments, including cavities, tooth decay and periodontal problems, an increased number of patients have visited the dentist over the past five years.

Geriatric **Practices**

More dental practices will focus on catering to geriatric patients

Geriatric Practices Exhibit Growth

Over the next five years, more dental practices will focus on catering to geriatric patients. According to the Economic Report to the Dental Profession, population demographics are expected to change considerably over the five-year period. In particular, the number of individuals aged 65 and over is expected to grow from 16% of the total population in 2016 to 18% in 2021. In response, many dental practices will offer discounted services for seniors, such as reduced fees for geriatric care. Additionally, dental practices may offer a reduced fee to seniors who can fill last-minute cancellations, thus benefiting seniors and providing a stable customer base for the industry. Furthermore, as more dental practices focus on geriatric care, many dentists will expand their skill set to be able to assist with medical and drug complications. Also, according to the Canadian Dental Association, dentists will increasingly focus on providing more advanced oral health techniques, such as vaccines that fight tooth decay, methods that lower patients' anxieties regarding procedures and innovative methods to improve cosmetic dentistry.

Over the next five years, as more patients receive repairs, oral health and disease screenings, maintenance and hygiene, rather than extraction, many practices will increasingly rely on dental hygienists to provide care. For example, many dentists will focus on cosmetic dentistry, such as implants and veneers, to boost profit. Comparatively, dental hygienists will provide teeth cleanings, including scaling and polishing, in addition to detecting oral diseases, administering X-rays and advising patients about oral hygiene. As a result, in the five years to 2021, the number of industry employees is expected to rise at an annualized rate of 1.8% to 104,422, as many dental practices hire more dental hygienists, which will offset lower demand for dental assistants.

Industry Report: **Dentists in Canada**

This 2016 Canadian Industry Report for Dentists in Canada has been brought to you by Welch LLP

Welch LLP is a Chartered Professional Accounting firm that provides a full range of accounting, assurance, tax, advisory and specialty services. Welch was founded in 1918 and has over 270 staff spread among 12 offices in Ontario and Quebec. Welch offers private enterprises, government and not-for-profit organizations industry specific services and knowledge with a relationship-driven approach to client service. Welch LLP is an independent member of BKR International representing the combined strength of more than 160 independent accounting and business advisory firms in 500 offices in over 80 countries.

Visit us online for more information on our firm or to browse more of our content

welchllp.com

Welch LLP®

Audit • Tax • Accounting • Consulting