Q4 Company

NEWS RELEASE

dentalcorp Reports Third Quarter 2022 Results

11/9/2022

- Revenue of $312.1 million for the third quarter 2022, an increase of 24.7% compared to the same period last year
- Adjusted EBITDA(1) of $59.3 million for the third quarter 2022, an increase of 28.4% compared to the same period last year; Adjusted EBITDA Margin(1) of 19.0% for the third quarter
- Adjusted free cash flow(1) of $28.8 million
- Adjusted net income(1) of $14.2 million; Net loss of ($14.7) million
- Adjusted Same Practice Revenue Growth(1) of 2.4%
- Acquired $12.9 million in PF Adjusted EBITDA(1) from the acquisition of 14 practices in the third quarter 2022
- Last 12-months PF Revenue(1) and PF Adjusted EBITDA(1) of $1.3 billion and $254 million, respectively; PF Adjusted EBITDA Margin(1) of 19.3%

(1) Non-IFRS financial measure, non-IFRS ratio or supplementary financial measure. See "Non-IFRS and Other Measures" section of this news release for definitions and quantitative reconciliations.

TORONTO--(BUSINESS WIRE)-- dentalcorp Holdings Ltd. ("dentalcorp" or the "Company") (TSX: DNTL), Canada's largest, and one of North America's fastest growing networks of dental practices, announced today its three and nine month financial and operating results for the period ended September 30, 2022. All references to dollar values in this press release are in Canadian dollars, unless otherwise indicated.

"dentalcorp continued its strong performance in the third quarter, generating double-digit growth in revenues, adjusted EBITDA, and Adjusted free cash flow. This is the sixth straight quarter since our IPO of generating consistent double-digit growth, which substantiates the resilience of our business through a challenging operating environment," said Graham Rosenberg, Chief Executive Officer. "Solid Same Practice Revenue Growth, rigorous practice-level and corporate cost management, and the strength of our acquisition program underpinned our performance, with margins expanding over the same period last year."

Rosenberg added, "Our accelerated acquisition pacing over the last 18 months has us close to achieving our three-year growth plan, and to maximize value from these practices, we have accelerated investments in our corporate infrastructure. dentalcorp is now in a position to reduce the near-term pacing of acquisitions to accelerate de-levering."

Financial and Operating Results for the Three and Nine Months Ended September 30, 2022

- Revenue for the third quarter 2022 was $312.1 million, an increase of $61.9 million or 24.7% over the third quarter 2021. The increase in revenue for the quarter was driven by incremental revenue from acquired practices, and Same Practice Revenue Growth.
- Adjusted Same Practice Revenue Growth was 2.4% over the third quarter 2021, driven in part by the Company's orthodontics insourcing initiative with 268 practices in the Ortho Acceleration Program versus 190 in the third quarter 2021.
- Adjusted EBITDA increased to $59.3 million in the third quarter 2022, representing a 28.4% (or $13.1 million) increase over the third quarter 2021.
- Adjusted EBITDA Margin of 19.0% in the third quarter 2022, was largely consistent with the third quarter 2021.
- Adjusted free cash flow was $28.8 million for the third quarter 2022 compared to Adjusted free cash flow of ($0.5) million for the third quarter 2021.
- Adjusted net income for the third quarter 2022 was $14.2 million, compared to $17.5 million for the third quarter 2021.
- The Company acquired 14 dental practices during the third quarter 2022, which are expected to generate a total of approximately $12.9 million in PF Adjusted EBITDA, for total consideration of $104.1 million. As at September 30, 2022, the Company owned 538 dental practices in Canada compared to 458 practices at December 31, 2021.
- The Company ended the third quarter 2022 with liquidity of $833.4 million, comprised of $133.0 million in cash and $700.4 million in debt capacity under its $1.75 billion aggregate senior debt facilities. Approximately $1.05 billion of its senior debt facilities were drawn at quarter end.
- Following quarter end, the Company effected an interest rate swap agreement providing for a fixed rate of approximately 6.6% per annum on $500 million of the $1.0 billion drawn under its $1.75 billion senior debt facilities bringing its total borrowing costs to approximately 6.5% based on interest rates and leverage as of the end of the quarter.

Consolidated Financial Results

	Three months ended		Nine months ended	
	September 30, 2022 $	September 30, 2021 $	September 30, 2022 $	September 30, 2021 $
Revenue	312.1	250.2	919.3	758.3
Cost of revenue	157.5	126.6	466.8	387.4
Gross profit	154.6	123.6	452.5	370.9
Selling, general and administrative expenses	101.4	81.5	296.2	252.7
Depreciation and amortization	49.7	39.5	139.2	116.0
Share-based compensation	(0.7)	9.4	5.7	67.5
Foreign exchange gain	(2.2)	(0.1)	(2.7)	(76.2)
Net finance costs	19.3	10.5	43.9	102.8
Change in fair value of derivative instruments	—	(0.5)	—	65.9
Change in fair value of contingent consideration	3.9	6.0	14.1	2.2
Change in fair value of conversion option	—	—	—	(30.8)
Share of associate losses	0.1	—	0.2	0.1
Loss before income taxes	(16.9)	(22.7)	(44.1)	(129.3)
Income tax recovery	(2.2)	(4.3)	(20.9)	(11.9)
Net loss and comprehensive loss	(14.7)	(18.4)	(23.2)	(117.4)

Other Metrics

Adjusted net income(1)	14.2	17.5	68.5	20.6
Adjusted EBITDA(1)	59.3	46.2	169.3	141.8

(1) Non-IFRS financial measure, non-IFRS ratio or supplementary financial measure. See "Non-IFRS and Other Measures" section of this news release for definitions and quantitative reconciliations.

Outlook

With an acquisition program meaningfully ahead of plan, the Company anticipates that it will acquire approximately $5-7 million in PF Adjusted EBITDA in the fourth quarter of 2022, and expects similarly modest quarterly acquisition pacing in 2023. The Company remains well positioned to generate double digit revenue and adjusted EBITDA growth, while generating strong free cash flow to accelerate its pace of de-levering without the need to raise additional debt or equity capital. Underpinning this growth, the Company anticipates continued strength of Same Practice Revenue Growth, together with accretive acquisitions at attractive multiples while realizing operating leverage as a result of the significant corporate investments made in 2022.

The information in this section is forward-looking. Actual results, may differ materially from the Company's outlook. Some of the forward-looking financial measures in the outlook above are provided on a non-IFRS basis. The information in this section should also be read in conjunction with the section below entitled "Forward Looking Statements."

Conference Call Notification

The Company will hold a conference call to provide a business update on Wednesday, November 9, at 8:30 a.m. ET. A question-and-answer session will follow the business update.

LIVE CONFERENCE CALL DETAILS	
DATE:	Wednesday, November 9, 2022
TIME:	8:30 a.m. ET
WEBCAST:	**https://events.q4inc.com/attendee/157617421**
DIAL-IN NUMBER:	1 (888) 660-6396 or 1 (929) 203-0889
REFERENCE NUMBER:	9097710
REPLAY	
DIAL-IN NUMBER:	1 (800) 770-2030 or 1 (647) 362-9199
REFERENCE NUMBER:	9097710

Non-IFRS and Other Measures

As appropriate, we supplement our results of operations determined in accordance with IFRS with certain non-IFRS financial measures that we believe are useful to investors, lenders, and others in assessing our performance and which highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. Our management also uses non-IFRS measures for purposes of comparison to prior periods, to prepare annual operating budgets, for the development of future projections and earnings growth prospects, to measure the profitability of ongoing operations and in analyzing our financial condition, business performance and trends, including the run-rate of the business after taking into consideration the acquisitions of dental practices. As such, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective, including how we evaluate our financial performance and how we manage our capital structure. We also believe that securities analysts, investors, and other interested parties frequently use these non-IFRS measures and industry metrics in the evaluation of issuers. These non-IFRS measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and may include or exclude certain items as compared to similar IFRS measures, and such measures may not be comparable to similarly-titled measures reported by other companies. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. For further information on non-IFRS financial measures, including, the most directly comparable IFRS measures, composition of the measures, a description of how we use these measures and an explanation of how these measures provide useful information to investors, and applicable reconciliations refer to the "Non-IFRS and Other Measures", "Non-IFRS Financial Measures", "Non-IFRS Ratios" and "Supplementary Financial Measures" sections of our management discussion and analysis for the three and nine months ended Sept 30, 2022 (the "MD&A"), available on the Company's profile on SEDAR at **www.sedar.com**, which is incorporated by reference herein.

EBITDA

"EBITDA" means, for the applicable period, net loss and comprehensive loss plus (a) net finance costs, (b) income tax expense (recoveries), and (c) depreciation and amortization. We present EBITDA to assist investors in understanding the mathematical development of Adjusted EBITDA. Management does not use EBITDA as a financial performance metric but we present EBITDA to assist investors in understanding the mathematical development of Adjusted EBITDA. The most comparable IFRS measure to EBITDA is Net loss and comprehensive loss.

	Three months ended		Nine months ended	
	September 30, 2022 $	September 30, 2021 $	September 30, 2022 $	September 30, 2021 $
	(expressed in millions)		(expressed in millions)	
Net loss and comprehensive loss	(14.7)	(18.4)	(23.2)	(117.4)
Add:				
Net finance costs	19.3	10.5	43.9	102.8
Income tax recovery	(2.2)	(4.3)	(20.9)	(11.9)
Depreciation and amortization	49.7	39.5	139.2	116.0
EBITDA	52.1	27.3	139.0	89.5

Adjusted EBITDA

"Adjusted EBITDA" is calculated by adding to EBITDA certain expenses, costs, charges or benefits incurred in such period which in management's view are either not indicative of underlying business performance or impact the ability to assess the operating performance of our business, including: (a) net impact of unrealized foreign exchange gains and losses on noncash balances, change in fair value of derivative instruments, change in fair value of conversion option, and share of associate losses; (b) share-based compensation; (c) external acquisition expenses; (d) COVID-19 costs; (e) change in fair value of contingent consideration; (f) IPO costs; (g) other one-time corporate costs (consisting primarily of consulting costs related to our recent Enterprise Resource Planning ("ERP") implementation); and (h) other one-time adjustments. Adjusted EBITDA is a supplemental measure used by management and other users of our financial statements to assess the financial performance of our business without regard to the effects of interest, depreciation and amortization costs, expenses that are not considered reflective of underlying business performance, and other expenses that are expected to be one-time or non-recurring. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting our business. The most comparable IFRS measure to Adjusted EBITDA is Net loss and comprehensive loss.

	Three months ended		Nine months ended	
	September 30, 2022 $	September 30, 2021 $	September 30, 2022 $	September 30, 2021 $
	(expressed in millions)		(expressed in millions)	
EBITDA	52.1	27.3	139.0	89.5
Add:				
Net impact of unrealized foreign exchange, change in fair value of derivatives, change in fair value of conversion option, and share of associate losses	—	(0.6)	(0.4)	(41.0)
Share-based compensation	(0.7)	9.4	5.7	67.5
External acquisition expenses(1)	1.1	1.8	9.5	4.5
COVID-19 costs(2)	—	0.5	—	2.5
Change in fair value of contingent consideration(3)	3.9	6.0	14.1	2.2
IPO costs	—	1.1	—	14.9
Other corporate costs(4)	3.1	0.7	6.7	1.7
Other one-time adjustments(5)	(0.2)	—	(5.3)	—
Adjusted EBITDA	59.3	46.2	169.3	141.8

1. Represents professional fees and other expenses paid to third parties related to practice acquisitions. These costs are excluded as they are incurred in connection with each practice acquisition and are not related to underlying business operations of the Company.
2. Represents costs incurred as a result of the COVID-19 pandemic that are not expected to recur, including additional employee benefits and retention payments to staff, retrofitting expenses at practices, and payments to safety consultants. The Company’s cost of revenue was also impacted in 2021 due to the normalization of the cost of consumable inventories from previously inflated rates as a result of COVID-19.
3. On acquisition, and at each subsequent reporting date, obligations under earn-out arrangements are measured at fair value with the changes in fair value recognized in the consolidated statements of loss or comprehensive loss.
4. Represents costs related to the implementation of new corporate systems and the undertaking of vendor consolidations.
5. Represents adjustments for the impact of the gain on legal settlement of $14.5 million, offset by relief provided by the Company to Partner dentists and employees of $9.4 million.

Adjusted EBITDA Margin

“Adjusted EBITDA Margin” means Adjusted EBITDA divided by revenue. We use Adjusted EBITDA Margin to facilitate a comparison of our operating performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting our business.

Adjusted net income

“Adjusted net income” is calculated by adding to net loss and comprehensive loss certain expenses, costs, charges or benefits incurred in such period which in management’s view are either not indicative of underlying business performance or impact the ability to assess the operating performance of our business, including: (a) amortization of intangible assets; (b) share-based compensation; (c) change in fair value of contingent consideration; (d) external acquisition expenses; (e) COVID-19 costs; (f) IPO costs; (g) other corporate costs (consisting primarily of consulting costs related to our recent ERP implementation); (h) other one-time adjustments; and (i) the tax impact of the above. We use Adjusted net income (loss) to facilitate a comparison of our operating performance on a consistent basis from period to period and to provide for a more complete understanding of factors and trends affecting our business. The most comparable IFRS measure to Adjusted net loss is Net loss and comprehensive loss.

PF Revenue

“PF Revenue”in respect of a period means revenue for that period plus the Company’s estimate of the additional revenue that it would have recorded if it had acquired each of the practices that it acquired during that period on the first day of that period, calculated in accordance with the methodology described in the reconciliation table below. Given the highly acquisitive nature of our business, PF Revenue is more reflective of our expected run-rate. We use PF Revenue to determine components of employee compensation. The most comparable IFRS measure to PF Revenue is Revenue.

	Year ended September 30, 2022 (expressed in millions)
Revenue	$1,191.8
Add:	
Acquisition adjustment(6)	$127.0
PF Revenue	$1,318.8

6. The Company regularly acquires dental practices and estimates that if it had acquired each of the practices that it acquired during the LTM period ended September 30, 2022, it would have recorded additional revenue of $127.0 million. These estimates are based on the amount of revenue budgeted by the Company to be earned by the relevant practices at the time of their acquisition by dentalcorp. There can be no assurance that if the Company had acquired these practices on the first day of the applicable fiscal period, they would have actually generated such budgeted revenue, nor is this estimate indicative of future results.

PF Adjusted EBITDA

“PF Adjusted EBITDA” in respect of a period means Adjusted EBITDA for that period plus the Company’s estimate of the additional Adjusted EBITDA that it would have recorded if it had acquired each of the practices that it acquired during that period on the first day of that period, calculated in accordance with the methodology described in the reconciliation table below. Both creditors and the Company use PF Adjusted EBITDA to assess our borrowing capacity and given the highly acquisitive nature of our business is more reflective of our expected run-rate. We also use PF Adjusted EBITDA to determine components of employee compensation. The most comparable IFRS measure to PF Adjusted EBITDA is Net loss and comprehensive loss.

	Year ended September 30, 2022
	(expressed in millions)
Adjusted EBITDA	$219.2
Add:	
Acquisition adjustment(7)	$34.9
PF Adjusted EBITDA	$254.2
PF Adjusted EBITDA Margin	19.3%

7. The Company regularly acquires dental practices and estimates that if it had acquired each of the practices that it acquired during the LTM period ended September 30, 2022, it would have recorded additional Adjusted EBITDA of $34.9 million. These estimates are based on the amount of Practice-Level EBITDA budgeted by the Company to be earned by the relevant practices at the time of their acquisition by dentalcorp. There can be no assurance that if the Company had acquired these practices on the first day of the applicable fiscal period, they would have actually generated such budgeted Practice-Level EBITDA, nor is this estimate indicative of future results.

Adjusted free cash flow

“Adjusted free cash flow” is calculated by adding or subtracting from cash flow from operating activities: (a) external acquisition expenses; (b) COVID-19 costs; (c) IPO costs; (d) other corporate costs (consisting primarily of consulting costs related to our recent ERP implementation); € other one-time adjustments; (f) repayment of principal on leases; and (g) maintenance capex. We use Adjusted free cash flow to facilitate a comparison of our operating performance on a consistent basis from period to period, to provide for a more complete understanding of factors and trends affecting our business, and to determine components of employee compensation. The most comparable IFRS measure to Adjusted free cash flow is cash flow from operating activities.

Adjusted Same Practice Revenue Growth

“Adjusted Same Practice Revenue Growth” in respect of a period means the percentage change in revenue derived from Established Practices (other than Legacy Specialty Practices) plus the Company’s estimate of the impact on Same Practice Revenue Growth of the COVID-19 Omicron variant and Hurricane Fiona. For the three and nine months ended September 30, 2022 compared to the three and nine months ended September 30, 2021, the Company estimates that this impact was a reduction of approximately 0.2% and 2.1%, respectively which arose from practice closures, patient cancellations and lost provider days. A practice will be deemed to be an “Established Practice” in a period if it was operating as part of dentalcorp for the entirety of the relevant period and for the entirety of the corresponding period in the immediately prior year. A “Legacy Specialty Practice” means a practice acquired prior to mid-2014 using a legacy deal structure that is no longer utilized today. The Company provides Adjusted Same Practice Revenue Growth to assist investors in understanding the level of growth of our business.

Forward Looking Statements

This news release includes forward-looking information and forward-looking statements within the meaning of applicable Canadian securities legislation, including the Securities Act (Ontario) (collectively, “forward-looking statements”), which reflect management’s expectations regarding the Company’s future growth, future financial outlook, our ability to sustain momentum in our business and advance our strategic growth drivers, results from operations (including, without limitation, future expansion and capital expenditures), performance (both operational and financial) and business prospects, future business plans and opportunities. Wherever possible, words such as “plans”, “expects”, “scheduled”, “budgeted”, “projected”, “estimated”, “timeline”, “forecasts”, “anticipates”, “suggests”, “indicative”, “intend”, “guidance”, “outlook”, “potential”, “prospects”, “seek”, “strategy”, “targets” or “believes”, or variations of such words and phrases or statements that certain future conditions, actions, events or results “will”, “may”, “could”, “would”, “should”, “might” or “can”, or negative or grammatical versions thereof, “be taken”, “occur”, “continue” or “be achieved”, and other similar expressions, have been used to identify forward looking statements. Such forward-looking information includes, but is not limited to, the forward-looking information related to the Canadian dental industry; addressable markets for the Company’s services; expectations regarding its revenue and its revenue generation potential; its business plans and strategies; its competitive position in its industry and its expectations regarding double-digit growth, Same Practice Revenue Growth and Adjusted free cash flow.

Forward-looking statements are necessarily based upon management’s perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in actions, events, conditions, results, performance or achievements to be materially different from those projected in the forward-looking statements. Such factors and assumptions include, but are not limited to, the Canadian dental industry; the Company’s ability to retain key personnel, its ability to maintain and expand geographic scope; its ability to execute on its business plans and strategies; its ability to obtain and maintain existing financing on acceptable terms; changes in laws, rules, regulations and global standards; a steady improvement in the general COVID-19 environment including, the continued reopening of the economy and no further significant restrictions, such as capacity restrictions or stay-at-home orders; its operations and overall financial performance; no changes in the competitive environment or legal or regulatory developments affecting our business; visits by patients to our Practices at the same rate as current visits; its ability to mitigate anticipated supply chain disruptions geopolitical risks, inflationary pressures and labour shortages and other factors listing under the heading Risk Factors in the Company's Annual Information Form dated March 25, 2022 and the MD&A. While the Company considers these assumptions to be reasonable, many assumptions are based on factors and events that are not within its control and there is no assurance that they will prove to be correct.

By their nature, forward-looking statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct, and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking statements. Such risks include, but are not limited to, the Company's potential inability to successfully execute its growth strategy and complete additional acquisitions; its dependence on the integration and success of its acquired dental practices; the potential adverse effect of acquisitions on its operations; its dependence on the parties with which the Company has contractual arrangements and obligations; changes in relevant laws, governmental regulations and policy and the costs incurred in the course of complying with such changes; competition in the dental industry; increases in operating costs; the risk of difficulty complying with public company reporting obligations; and the risk of a failure in internal controls.

Although the Company has attempted to identify important factors that could cause actual actions, events, conditions, results, performance or achievements to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events, conditions, results, performance or achievements to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future, as at the date they are provided. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. Accordingly, investors should not place undue reliance on forward-looking statements. All the forward-looking statements are expressly qualified by the foregoing cautionary statements.

About dentalcorp

dentalcorp is Canada's largest and one of North America's fastest growing networks of dental practices, committed to advancing the overall well-being of Canadians by delivering the best clinical outcomes and unforgettable experiences. dentalcorp acquires leading dental practices, uniting its network in a common goal: to be Canada's most trusted healthcare network. Leveraging its industry-leading technology, know-how and scale, dentalcorp offers professionals the unique opportunity to retain their clinical autonomy while unlocking their potential for future growth. To learn more, visit **dentalcorp.ca**

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