NEWS RELEASE

dentalcorp Reports Third Quarter 2023 Results

11/8/2023

Strong base business performance with acquisition pacing on track for the second half 2023

Third Quarter 2023 Highlights

- Revenue of $336.9 million, an increase of 7.9% over the same period in 2022, with Same Practice Revenue Growth(1) of 5.2%
- Adjusted EBITDA(1) of $60.9 million, an increase of 2.4% compared to the same period in 2022; Adjusted EBITDA Margin(1) of 18.1%
- YTD Same Practice EBITDA Growth(1) of 6.5% with Adjusted EBITDA Growth From Acquisitions Completed in Prior Period(1) of 12.0%
- Adjusted net income(1) of $20.1 million
- Adjusted free cash flow(1) of $26.3 million, with net leverage levels of 4.4x
- Acquired three practices in the quarter representing $1.4 million in PF Adjusted EBITDA after rent(1) at 5.9x, representing multiples 34% lower than the same period in 2022

Fourth Quarter 2023 Outlook

- Revenues and Same Practice Revenue Growth(1) are estimated to increase by 9.0% to 10.0% and 5% to 6%, respectively, over the fourth quarter of 2022
- Adjusted EBITDA Margins(1) are expected to be consistent with YTD 2023
- Expect to complete acquisitions representing PF Adjusted EBITDA after rent(1) of approximately $8.5 million for an aggregate of $10 million in the second half of 2023

(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, 2023. All references to dollar values in this press release are in Canadian dollars, unless otherwise indicated.

“I am pleased to report that our base business results for the third quarter are in line with our expectations. During the quarter we delivered strong Same Practice Revenue Growth underpinned by continued strength in patient volumes despite sustained economic headwinds. This underscores the non-discretionary nature of our predominantly general dentistry business,” said Graham Rosenberg, founder and Chief Executive Officer. “Despite continued inflationary pressures, particularly relating to labour costs, we delivered Adjusted EBITDA Margins consistent with the first half of 2023, demonstrating our disciplined approach to costs and overall growth.

"Our modest acquisition pacing in the third quarter of 2023 is related to the timing of closings. We remain on track to achieve the acquisition target we set for the second half of 2023 of $10 million in PF Adjusted EBITDA after rent. In the fourth quarter, we expect to deliver revenue growth of 9.0% to 10.0% and Same Practice Revenue Growth of 5% to 6% while maintaining Adjusted EBITDA Margins consistent with YTD 2023, despite persistent inflationary pressures.”

Financial and Operating Results for the Three and Nine Months Ended September 30, 2023

- Revenue for the third quarter 2023 of $336.9 million, an increase of $24.8 million or 7.9% over the third quarter 2022. This increase was driven by Same Practice Revenue Growth and incremental revenue from acquired practices.
- Same Practice Revenue Growth of 5.2% compared to the third quarter 2022.
- Adjusted EBITDA Growth for Acquisitions Completed in Prior Period was 12.0%, driven by overall demand for services, the Company’s insourcing initiatives, and the efficacy of the Company’s integration program.
- Adjusted EBITDA increased to $60.9 million in the third quarter 2023, an increase of 2.4% compared to the third quarter of 2022.
- Adjusted EBITDA Margin of 18.1% in the third quarter 2023 is consistent with margins in the first half of 2023.
- Adjusted net income for the quarter was $20.1 million, an increase of 41.5% compared to $14.2 million in the third quarter of 2022.
- Adjusted free cash flow for the quarter was $26.3 million, compared to $26.5 million in the third quarter 2022.
- The Company acquired three dental practices during the third quarter 2023, representing $1.4 million in PF

Adjusted EBITDA after rent, for total consideration of $7.8 million. As at September 30, 2023, the Company owned 535 dental practices in Canada, compared to 538 practices at September 30, 2022. The number of practices owned as at September 30, 2023, included the divesture of 17 standalone orthodontics and specialty practices in 2023 as part of dentalcorp's program to rationalize certain non-core standalone specialty practices.

- The Company ended the third quarter of 2023 without drawing on additional debt facilities in the quarter and with liquidity of approximately $776.4 million, comprised of approximately $102.5 million in cash, and $673.9 million in undrawn debt capacity under the senior debt facilities. Approximately $1.1 billion of the Company's senior debt facilities were drawn at quarter end. Approximately 75% of the Company's bank debt exposure, or $800 million, is carrying a fixed CDOR rate plus margin for an all-in cost of approximately 6.4%.

Consolidated Financial Results

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	(expressed in millions of dollars)		(expressed in millions of dollars)	
Revenue	336.9	312.1	1,063.5	919.3
Cost of revenue	170.7	157.5	543.1	466.8
Gross profit	166.2	154.6	520.4	452.5
Selling, general and administrative expenses	108.7	101.4	347.3	296.2
Depreciation and amortization	50.2	49.7	152.5	139.2
Share-based compensation	0.8	(0.7)	7.0	5.7
Foreign exchange (gain) loss	(0.5)	(2.2)	0.1	(2.7)
Net finance costs	23.5	19.3	69.8	43.9
Change in fair value of derivative instruments	(6.7)	—	(24.7)	—
Change in fair value of contingent consideration	0.5	3.9	0.9	14.1
Change in fair value of preferred shares	1.8	—	5.8	—
Loss on disposal of businesses	0.5	—	21.0	—
Share of associate losses	—	0.1	0.1	0.2
Loss before income taxes	(12.6)	(16.9)	(59.4)	(44.1)
Income tax recovery	(2.8)	(2.2)	(8.9)	(20.9)
Net loss and comprehensive loss	(9.8)	(14.7)	(50.5)	(23.2)

Other Metrics

Adjusted EBITDA	60.9	59.5	193.8	169.9
Adjusted net income	20.1	14.2	71.6	68.5

(a) 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.

Conference Call Notification

The Company will hold a conference call to provide a business update on Wednesday, November 8, 2023, at 8:30 a.m. ET. A question-and-answer session will follow the business update.

LIVE CONFERENCE CALL DETAILS	
DATE:	Wednesday, November 8, 2023
TIME:	8:30 a.m. ET
WEBCAST:	**https://events.q4inc.com/attendee/396401635**
DIAL-IN NUMBER:	1 (888) 660-6396 or 1 (929) 203-0889
REFERENCE NUMBER:	9097710
REPLAY	Available for two weeks after the call
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 and other 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 and other financial 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 and other financial measures and industry metrics in the evaluation of issuers. These non-IFRS and other financial 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 and other 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 management's discussion and analysis of operations for the three and nine months ended September 30, 2023 (the "MD&A"), available on the Company's profile on SEDAR+ at **www.sedarplus.com**, which is incorporated by reference herein.

Adjusted EBITDA Growth From Acquisitions Completed in Prior Period

"Adjusted EBITDA Growth from Acquisitions Completed in Prior Period" in respect of a period is the percentage of Adjusted EBITDA for the period attributable to practices that were acquired in the corresponding period in the immediately prior year as compared to actual Adjusted EBITDA attributable to such practices plus management's estimate of Adjusted EBITDA attributable to such practices for any portion of the period they were not owned by the Company in such period in the corresponding period in the immediately prior year.

EBITDA

"EBITDA" means, for the applicable period, net loss and comprehensive loss plus (a) net finance costs, (b) income tax recoveries, and (c) depreciation and amortization. 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 and Same Practice EBITDA Growth. The most comparable IFRS measure to EBITDA is Net loss and comprehensive loss, for which a reconciliation is provided below.

	Three months ended September 30,		Nine months ended September 30,	
	2023 $	2022 $	2023 $	2022 $
	(expressed in millions of dollars)			
Net loss and comprehensive loss	(9.8)	(14.7)	(50.5)	(23.2)
Adjustments:				
Net finance costs	23.5	19.3	69.8	43.9
Income tax recovery	(2.8)	(2.2)	(8.9)	(20.9)
Depreciation and amortization	50.2	49.7	152.5	139.2
EBITDA	61.1	52.1	162.9	139.0

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 non-cash balances, change in fair value of derivative instruments, and share of associate losses; (b) share-based compensation; (c) external acquisition expenses; (d) change in fair value of contingent consideration; (e) Initial Public Offering ("IPO") costs; (f) strategic review costs; (g) other corporate costs; (h) loss on disposal of businesses; (i) change in fair value of preferred shares; and (j) other 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, for which a reconciliation is provided in below.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
	$	$	$	$
	(expressed in millions of dollars)			
EBITDA				
Add:				
Net impact of unrealized foreign exchange gains or losses on non-cash balances, change in fair value of derivatives, and share of associate losses(a)	(6.7)	0.2	(24.6)	0.2
Share-based compensation	0.8	(0.7)	7.0	5.7
External acquisition expenses(b)	0.2	1.1	3.5	9.5
Change in fair value of contingent consideration(c)	0.5	3.9	0.9	14.1
Change in fair value of preferred shares(d)	1.8	—	5.8	—
Strategic review costs(e)	—	—	6.2	—
Other corporate costs(f)	2.7	3.1	11.1	6.7
Other adjustments(g)	—	(0.2)	—	(5.3)
Loss on disposal of businesses(h)	0.5	—	21.0	—
Adjusted EBITDA	60.9	59.5	193.8	169.9

a. Represents the sum of (i) unrealized foreign exchange gains or losses on non-cash balances (ii) change in fair value of derivatives, and (iii) share of associate losses.

b. 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.

c. 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 condensed interim consolidated statements of loss and comprehensive loss.

d. Represents adjustments for the change in fair value of preferred shares of $1.8 million and $5.8 million, respectively for the three and nine months ended September 30, 2023.

e. Represents costs related to the strategic review process and other costs incurred by the Company to evaluate strategic alternatives to unlock shareholder value.

f. Represents costs related to the implementation of new corporate technology systems, the undertaking of vendor consolidations, termination benefits and other costs of restructuring, and a cancellation penalty of $1.2 million related to a conference cancelled during 2021 because of COVID-19. The inclusion of termination benefits and other costs of restructuring was implemented during the three months ended June 30, 2023, but has been applied retrospectively to the nine months ended September 30, 2023.

g. 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.

h. Represents the loss on disposal of businesses that were disposed of during the three and nine months ended September 30, 2023.

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) IPO costs; (f) strategic review costs; (g) other corporate costs; (h) loss on disposal of businesses; (i) change in fair value of preferred shares; and (j) other adjustments; and (k) the tax impact of the above. We use Adjusted net income 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 income 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, management believes PF Revenue is more reflective of our operating performance. We use PF Revenue to determine components of employee compensation. The most comparable IFRS measure to PF Revenue is Revenue.

	Year ended September 30, 2023
	(expressed in millions)
Revenue	$1,394.4
Add:	
Acquisition adjustment(a)	$30.9
PF Revenue	$1,425.3

a. 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, 2023, it would have recorded additional revenue of $30.9 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 third 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.

PF Adjusted EBITDA Margin

“PF Adjusted EBITDA Margin” means PF Adjusted EBITDA divided by PFRevenue. Both creditors and the Company use PF Adjusted EBITDA Margin to assess our borrowing capacity and given the highly acquisitive nature of our business is more reflective of our expected run-rate.

	Year ended September 30, 2023
	(expressed in millions)
Adjusted EBITDA	$254.5
Add:	
Acquisition adjustment(b)	$8.7
PF Adjusted EBITDA	$263.2
PF Adjusted EBITDA Margin	18.5%

b. 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, 2023, it would have recorded additional Adjusted EBITDA of $8.7 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.

PF Adjusted EBITDA after rent

“PF Adjusted EBITDA after rent” in respect of a period means PF Adjusted EBITDA less interest and principal repayments on leases and lease interest and principal repayments on acquisitions. Both creditors and the

Company use PF Adjusted EBITDA after rent to assess our borrowing capacity which management believes, given the highly acquisitive nature of our business, is more reflective of our operating performance. The most comparable IFRS measure to PF Adjusted EBITDA after rent is Net loss and comprehensive loss.

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) IPO costs; (c) strategic review costs; (d) other corporate costs; (e) other adjustments; (f) repayment of principal on leases; (g) maintenance capex; and (h) changes in working capital. 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.

Same Practice EBITDA Growth

“Same Practice EBITDA Growth” in respect of a period means the percentage change in EBITDA derived from Established Practices (other than Legacy Specialty Practices) in that period as compared to EBITDA from the same practices in the corresponding period in the immediately prior year.

Same Practice Revenue Growth

“Same Practice Revenue Growth” in respect of a period means the percentage change in revenue derived from Established Practices (other than Legacy Specialty Practices) in that period as compared to revenue from the same practices in the corresponding period in the immediately prior year. 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.

Forward-Looking Information

Forward-looking information includes, but is not limited to, statements about the Company’s objectives and strategies to achieve those objectives, our financial outlook, and about the Company’s beliefs, plans, expectations, anticipations, estimates, or intentions. Forward-looking information includes words like could, expect, may, anticipate, assume, believe, intend, estimate, plan, project, guidance, outlook, target, and similar expressions suggesting future outcomes or events. Our forward-looking information includes, but is not limited to, the information and statements under “Outlook” relating to our goals for the fourth quarter of 2023 for Revenue, Same

Practice Revenue Growth, Adjusted EBITDA Margin, PF Adjusted EBITDA after rent attributable to practices acquired in 2023, as well as our medium-term expectations regarding Same Practice Revenue Growth and Net Debt / PF Adjusted EBITDA after rent Ratio. Such forward-looking information relating to these metrics are not projections; they are goals based on the Company's current strategies and may be considered forward-looking information under applicable securities laws and subject to significant business, economic, regulatory and competitive uncertainties and contingencies, many of which are beyond the control of the Company and its management. The purpose of disclosing such forward-looking information is to provide investors with more information concerning the financial results that the Company currently believes are achievable based on the assumptions below. Readers are cautioned that the information may not be appropriate for other purposes. While these targets are based on underlying assumptions that management believes are reasonable in the circumstances, readers are cautioned that actual results may vary materially from those described above.

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. Forward-looking information is based on many factors and assumptions including, but not limited to, the following assumptions for the fourth quarter of 2023, the remainder of fiscal 2023 and the medium-term, as applicable: the Company's business, operations and capital structure continuing as currently maintained, that the Company's acquisition program continues without any re-deployment of capital of the Company, the Company's ability to realize pricing increases, an increase in patient visit volumes in the fourth quarter of 2023, reductions in previously imposed industry wide regulatory restrictions, the impact of the investments the Company has made in its marketing and talent teams and the upgrades to its core information technology systems; the Company's ability to continue to make and integrate acquisitions at attractive valuations including a reduction in acquisition purchase multiples as compared to prior periods, the impact of corporate investments made in fiscal 2022 and 2023 on the Company's operations, including the Company's corporate infrastructure and technology stack and new Human Resource Information system and ERP system, the Company benefiting from its unhedged borrowings due to future and forecasted rate decreases, the expansion of service offerings and frequency of patient visits which contribute to optimal patient care, the Company's ability to mitigate anticipated supply chain disruptions, geopolitical risks, inflationary pressures and labour shortages, expand service offerings and generate cash flow, 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, and no further COVID-19 related significant restrictions.

Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of known and unknown risk factors, many of which are beyond the control of the Company, and 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; the Company's inability to integrate acquired dental practices; 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 and other factors described herein under "Risk Factors" and in "Risk Factors" in the AIF and the Annual MD&A. Accordingly, we warn readers to exercise caution when considering statements containing forward-looking information and caution them that it would be unreasonable to rely on such statements as creating legal rights regarding the Company's future results or plans. We are under no obligation (and we expressly disclaim any such obligation) to update or alter any statements containing forward-looking information or the factors or assumptions underlying them, whether as a result of new information, future events, or otherwise, except as required by applicable securities laws. All of the forward-looking information in this MD&A is qualified by the cautionary statements herein.

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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Source: dentalcorp Holdings Ltd.