News Release

dentalcorp Reports Second Quarter 2022 Results

8/12/2022

- Revenue of $327.0 million for the second quarter 2022, an increase of 25.2% compared to the same period in 2021
- Adjusted EBITDA(1) of $59.8 million for the second quarter 2022, an increase of 22.3% compared to the same period last year; Adjusted EBITDA Margin(1) of 18.3% for the second quarter
- Adjusted free cash flow(1) of $41.7 million
- Adjusted net income(1) of $24.2 million; Net Income of $2.4 million, all for the second quarter 2022
- Same Practice Revenue Growth(1) of 3.1%
- Acquired $16.1 million in PF Adjusted EBITDA(1) from the acquisition of 28 practices in the second quarter 2022
- Last 12-months PF Revenue(1) and PF Adjusted EBITDA(1) of $1.3 billion and $245.8 million, respectively; PF Adjusted EBITDA Margin(1) of 19.3%

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(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, Aug. 12, 2022 /CNW/ - 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 six month financial and operating results for the period ended June 30, 2022. All references to dollar values in this press release are in Canadian dollars, unless otherwise indicated.

"Our second quarter was very strong on multiple levels, as our business continues to benefit from dentistry's resiliency as a highly recurring essential healthcare service, despite the persistent impacts of COVID-19 on our industry," said Graham Rosenberg, Chief Executive Officer. "During the quarter, we achieved more than three per cent Same Practice Revenue Growth, which supported double-digit increases in revenue and Adjusted EBITDA. Furthermore, we generated record levels of adjusted free cash flow, which supported our M&A activity for the reporting period. We completed 11 acquisitions in the quarter comprised of 28 practice locations that are expected to generate approximately $16 million in PF Adjusted EBITDA. We also continued to strengthen our relationships across the dental industry, furthering our established reputation as the acquirer of choice among dental practice owners, and re-affirming our commitment to providing our patients with exceptional care."

Financial and Operating Results for the Three and Six Months Ended June 30, 2022

- Revenue for the second quarter 2022 was $327.0 million, an increase of $65.9 million or 25.2% over the second quarter 2021. The increase in revenue for the quarter was driven by incremental revenue from acquired practices, and Same Practice Revenue Growth.
- Same Practice Revenue Growth was 3.1% over the second quarter 2021, driven in part by the Company's orthodontics insourcing initiative with 250 practices in the Ortho Acceleration Program versus 178 in the second quarter 2021. Ongoing regulatory restrictions, practitioner absences and patient cancellations all related to the pandemic placed downward pressure on Same Practice Revenue Growth for the second quarter 2022.
- Adjusted EBITDA increased to $59.8 million in the second quarter 2022, representing a 22.3% (or $10.9 million) increase over the second quarter 2021.
- Adjusted EBITDA Margin of 18.3% in the second quarter 2022, was largely consistent with the second quarter 2021.
- Adjusted free cash flow was $41.7 million for the second quarter 2022 compared to adjusted free cash flow of $20.0 million for the second quarter 2021, an increase of 109% driven by rigorous balance sheet management and low maintenance capex requirements inherent in the business.
- Adjusted net income (loss) for the second quarter 2022 was $24.2 million, compared to ($9.5) million for the second quarter 2021.
- The Company acquired 28 dental practices during the second quarter 2022, which are expected to generate a total of approximately $16.1 million in PF Adjusted EBITDA, for total consideration of $142.7 million. As at June 30, 2022, the Company owned 526 dental practices in Canada compared to 458 practices at December 31, 2021.
- The Company ended the second quarter 2022 with liquidity of $440.8 million, comprised of $152.2 million in cash and $288.6 million in debt capacity under its $1.3 billion aggregate senior debt facilities. Approximately $1,011 million of its senior debt facilities were drawn at quarter end.

Subsequent to Quarter End:

- The Company formed a strategic partnership with Envista Holdings Corporation ("Envista") to expand access to dental implant services across Canada. As part of this new agreement, Nobel Biocare, part of the Envista portfolio, is providing the dentalcorp network with exclusive benefits, including a comprehensive training program, dedicated support, clinical education and mentorship, and operatory guidance at a level unmatched in the Canadian market.

Consolidated Financial Results

	Three months ended		Six months ended	
	June 30, 2022 $	June 30 2021 $	June 30, 2022 $	June 30 2021 $
	(expressed in millions)		(expressed in millions)	
Revenue	327.0	261.1	607.2	508.1
Cost of revenue	168.2	135.0	309.3	260.7
Gross Profit	158.8	126.1	297.9	247.4
Selling, general and administrative expenses	100.4	87.9	194.8	171.2
Depreciation and amortization	48.0	38.6	89.5	76.5
Share-based compensation	0.9	55.5	6.4	58.1
Foreign exchange gain	(0.5)	(58.2)	(0.5)	(76.1)
Net finance costs	13.5	52.7	24.7	92.3
Change in fair value of derivative instruments	—	53.0	—	66.4
Change in fair value of contingent consideration	(0.8)	0.2	10.2	(3.8)
Change in fair value of conversion option	—	(11.0)	—	(30.8)
Share of associate losses	0.1	0.1	0.1	0.1
Loss before income taxes	(2.8)	(92.7)	(27.3)	(106.5)
Income tax recovery	(5.2)	(2.7)	(18.7)	(7.5)
Net income (loss) and comprehensive income (loss)	2.4	(90.0)	(8.6)	(99.0)

Other Metrics

Adjusted net income (loss)(1)	24.2	(9.5)	52.8	2.9
Adjusted EBITDA(1)	59.8	48.9	110.0	95.4

(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

Management anticipates that the Company's predictable cost structure, high margins, low commodity risk and minimal capital expenditure requirements will continue to support its growth in the near and long term. dentalcorp also expects that it will deliver double-digit growth in the third quarter 2022 over the third quarter 2021, with continued strong Same Practice Revenue Growth and Adjusted free cash flow generation.

dentalcorp continues to reinforce its position as the acquirer of choice for leading dentists, demonstrating its ability to add value to acquired dental practices. With 730+ total opportunities in its pipeline and 200+ opportunities in more advanced stages of negotiation, dentalcorp expects to continue to deliver double-digit revenue, Adjusted EBITDA and Adjusted free cash flow growth, while continuing on its path towards becoming North America's most trusted healthcare company.

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 Friday, August 12, at 8:30 a.m. ET.
A question-and-answer session will follow the business update.

LIVE CONFERENCE CALL DETAILS	
DATE:	Friday, August 12, 2022
TIME:	8:30 a.m. ET
WEBCAST:	https://app.webinar.net/OXmPB5aBkQr
DIAL-IN NUMBER:	416-764-8650 or 1-888-664-6383
REFERENCE NUMBER:	66237116
REPLAY	
DIAL-IN NUMBER:	416-764-8677 or 1-888-390-0541
REFERENCE NUMBER:	237116#
WEBCAST:	https://app.webinar.net/OXmPB5aBkQr (Available for two weeks after the call)

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.

During the three months ended June 30, 2022, the Company changed the composition of "Adjusted EBITDA", "Adjusted net income (loss)", and "Adjusted free cash flow" to adjust 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. The net impact of these adjustments has been included in "other one-time adjustments" in the tables below. During the three month period ended June 30, 2022, the Company renamed "Same Practice Sales Growth" to "Same Practice Revenue Growth" and "Adjusted Same Practice Sales Growth" to "Adjusted Same Practice Revenue Growth".

EBITDA

"EBITDA" means, for the applicable period, net income (loss) and comprehensive income (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 income (loss) and comprehensive income (loss).

	Three months ended		Six months ended	
	June 30, 2022 $	June 30 2021 $	June 30, 2022 $	June 30 2021 $

	(expressed in millions)		(expressed in millions)	
Net income (loss) and comprehensive income (loss)	2.4	(90.0)	(8.6)	(99.0)
Add:				
Net finance costs(a)	13.5	52.7	24.7	92.3
Income tax recovery	(5.2)	(2.7)	(18.7)	(7.5)
Depreciation and amortization	48.0	38.6	89.5	76.5
EBITDA	58.7	(1.4)	86.9	62.3

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 foreign exchange, 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 income (loss) and comprehensive income (loss).

	Three months ended		Six months ended	
	June 30, 2022 $	June 30 2021 $	June 30, 2022 $	June 30 2021 $
	(expressed in millions)		(expressed in millions)	
EBITDA	58.7	(1.4)	86.9	62.3
Add:				
Net impact of foreign exchange, change in fair value of derivatives, change in fair value of conversion option, and share of associate losses	(0.4)	(16.1)	(0.4)	(40.4)
Share-based compensation	0.9	55.5	6.4	58.1
External acquisition expenses(1)	4.2	1.7	8.4	2.7
COVID-19 costs(2)	—	1.0	—	1.9
Change in fair value of contingent consideration(3)	(0.8)	0.2	10.2	(3.8)
IPO costs	—	7.8	—	13.7
Other corporate costs(4)	2.3	0.2	3.6	0.9
Other one-time adjustments(5)	(5.1)	—	(5.1)	—
Adjusted EBITDA	59.8	48.9	110.0	95.4

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 income (loss) or comprehensive income (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 (loss)

"Adjusted net income (loss)" is calculated by adding to net income (loss) and comprehensive income (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 income (loss) is Net income (loss) and comprehensive income (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 June 30, 2022
	(expressed in millions)
Revenue	$1,129.9
Add:	
Acquisition adjustment(6)	$144.8
PF Revenue	$1,274.7

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 June 30, 2022, it would have recorded additional revenue of $144.8 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 income (loss) and comprehensive income (loss).

	Year ended June 30, 2022
	(expressed in millions)
Adjusted EBITDA	$206.3
Add:	
Acquisition adjustment(7)	$39.5
PF Adjusted EBITDA	$245.8
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 June 30, 2022, it would have recorded additional Adjusted EBITDA of $39.5 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); (e) 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.

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 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. 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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