

Executive Insights

French Dental Care: A Market With Investment Potential?

Historically, the French dental care market has lacked the investment potential of its counterparts in many other European countries. But demographic trends combined with new legal changes to dental care reimbursement mean that the market in France is expected to be worth €13 billion by 2023.¹

Coupled with a change of legislation regarding dental practice ownership, this means the market may soon be open to increased levels of investment, especially by private equity companies and corporations with experience building dental groups in Europe's more mature dental markets, such as in the U.K., Netherlands and Spain (with clinic groups having c. 20%, 10% and 10% of market share, respectively).

There has been limited small-scale investment in recent years, which can be explained by the fact that French regulations are viewed as highly restrictive, but consolidation of dental practices is expected in the near future as investors recognize the potential ahead and are assisted in their understanding of French regulations.





This *Executive Insights* unpacks the dynamics of France's dental healthcare market for investors interested in examining this emerging opportunity.

¹ Source: L.E.K. analysis

French dental care in expansion mode

While France's spending per capita on dental care has not yet reached the level of similar countries (see Figure 1), dental care in France is growing.

Figure 1
European benchmark of per capita spending on dental care

	 DE	 ES	 FR	 U.K.
Spending per capita on dental care (EUR)	323	173	169	123
Proportion of disposable income spent on dental care	1.2%	1.1%	0.7%	0.5%
Market share of clinic groups (by number of practices)	<1%	c. 10%	<1%	c. 20%

Source: U.S. census bureau; CIA; Statistics Norway; Department of Economic and Social Affairs; Konsumentverket; TLV; L.E.K. analysis and research

There are a number of volume drivers behind this growth.

First, France's population is growing at 0.4% a year. More significantly, the over-60 age group is expanding at a faster annual rate of 1.8%. An aging population typically requires more varied and complex dental treatments, such as removable prostheses, crowns and implants.

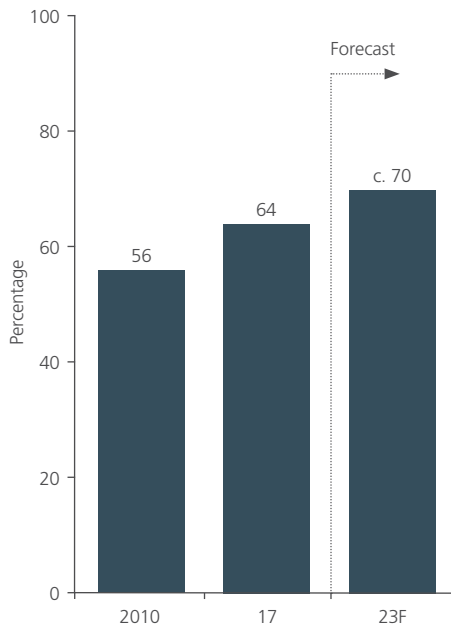
French Dental Care: A Market With Investment Potential? was written by **Katya Zubareva** and **Arnaud Sergent**, Partners and **Jean-Guillaume Bayada**, Principal at L.E.K. Consulting. Katya is based in London and Arnaud and Jean-Guillaume are based in Paris. **Gilles Bigot** is Managing Partner and **Julie Vern Cesano-Gouffrant** is a Partner at Winston & Strawn in Paris.

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Figure 2
Forecast rise in number of dentist visits (2010-23F)



Source: INPES, UFSBD, L.E.K. interviews and analysis

Second, dental spend in France was previously funded through a combination of social security (government funding), private insurance and direct payment by patients. Social security covered approximately 70% of preventive and regular surgical dental care, such as checkups, fillings and extractions, but provided no coverage for crowns, bridges and other prostheses, cosmetics, and orthodontics for those older than 16.

The government's new "100% Santé" legislation, to be fully implemented by the end of 2021, is set to significantly increase the range of treatments covered by social care. A ramp-up in prevention coverage will include an investment of €108 million to extend free annual checkups for people up to 24 years old. Nearly half (46%) of prosthetic treatments will be fully covered by social security, with a further quarter requiring relatively modest patient payment at prices capped by the government.

The proportion of French people seeing a dentist at least annually has been on the rise in recent years, but it is expected to jump to about 70% of the population by 2023 (see Figure 2), largely because of "100% Santé."

While the net effect of the new legislation is likely to lead to a decline in dental revenue from prosthetics due to the introduction of regulated tariffs on most prosthetic care (including crowns, bridges and removable prostheses),² government reimbursement for preventive and regular care is expected to increase in the region of 20%-30%. It is also expected that there will be no impact on cosmetic care or orthodontics.

Overall, the blended effect on dental income is set to be negligible.

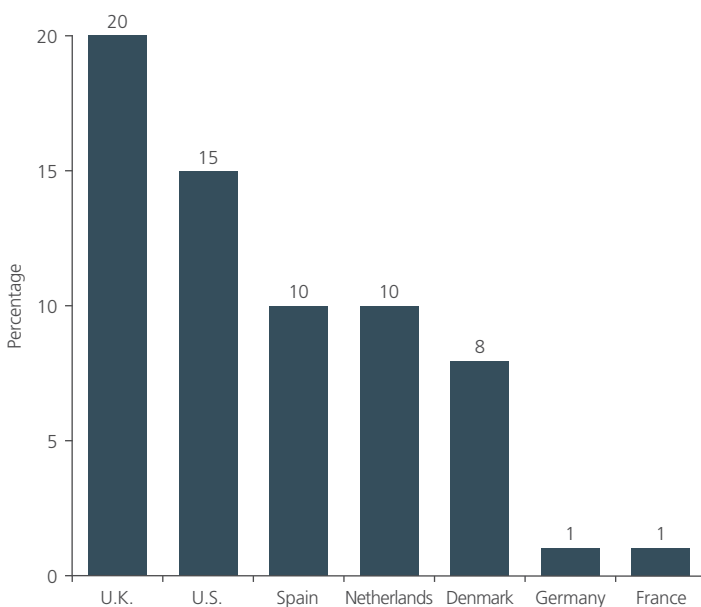
New regulation: A driver for consolidation

The corporate French dental practice landscape is highly fragmented compared with other developed economies. It has about 20,000 dental practices, as hitherto dentists preferred to set up their own businesses, and clinic groups hold less than c. 1% market share (see Figure 3).³ Furthermore, French regulations — particularly those concerning dental care and corporate ownership — are highly restrictive in comparison with other E.U. countries (see Figure 4).

But new regulation is expected to be a driver of corporate investment in dental practices in France — in health center associations and through standard corporate models — and the development of dental groups.

Traditionally, health center associations were not allowed to be profitable. This changed with the new regulation introduced in January 2018 — although it is worth noting that profits are not

Figure 3
Market share of dental groups by number of practices



Source: L.E.K. analysis and research

² In the long term, nearly half (46%) of dental prostheses will be fully reimbursed (in the RAC0* basket) and a quarter of the prostheses will benefit from a "moderate RAC" * through capped prices. The other treatment (29%) prices will remain at prices set freely by dentists. *Rest at charge, the amount of money that the patient has to pay after reimbursement of social security and private insurance; RAC0 meaning nothing to pay.

³ Source: DRESS and Xerfi

Figure 4
Level of regulation



Note: *Other E.U. countries include Spain, Italy and Portugal
Source: L.E.K. interviews and analysis

permitted to be distributed. Investors have invested in companies generating returns through nonclinical revenue (such as charging health centers for rent, equipment leasing, information technology services and support staff) and through leveraging economies of scale, although such an allocation of revenues can be challenged (see A Legal Perspective, by Winston & Strawn).

In the standard corporate scenario, dental practices must be owned by dentists and, therefore, can be sold to only them, but acquisition and consolidation of dental practices is possible for investors as long as a dentist holds the majority stake (50.01%) in each individual practice underneath the corporate umbrella. This offers investors the option of greater ownership and control of both clinical and nonclinical revenue streams than what is done via the association model. Onboarding new stakeholder dentists is key to guarding against collective action by individual practice owners.

While full revenue ownership is not possible with either investment option and both are relatively complicated to set up, the recent regulation of medical testing laboratories in France provides a proxy for how investors in either dental model can position themselves for success.

A Legal Perspective, by Winston & Strawn

Growing consolidation of the French dental care market has partly been made through nonprofit associations, to which investors invoice nonmedical fees and expenses, such as management fees, renting fees, intellectual property/information technology fees, equipment leasing fees, etc. At Winston & Strawn, we believe that such a structure can be challenged, notably on the basis of tax, legal, regulatory and ethical rules applicable to dental practices and practitioners, given the very nature of a nonprofit association, a position comforted by a recent ordinance dated January 2018.

The French healthcare sector is a highly regulated environment. However, even though investors still cannot acquire shares in a company exercising a dental practice,** solutions can be found and structures can be implemented whereby investors will lawfully invest alongside dental practitioners, helping the latter in focusing on their activity, which will be developing and increasing in quality to the patients' best interest. Such peculiar solutions and structures can be proposed only after a careful case-by-case analysis, with special caution to be taken, notably in setting up the contractual relationship between investors and dental practitioners, to ensure that they remain compliant with French regulations and Order's requirements.

** Unlike for other healthcare professions (such as medical practitioners or medical biologists, the highest consolidated healthcare sector), a non-dentist cannot be a shareholder of a company exercising a dental practice (except certain medical professionals within a limited portion of the share capital and voting rights), it being specified that at least 50.01% of the voting rights must remain within the hands of dentist(s) exercising within the considered company.

Early days of consolidation

Some small-scale consolidation has started to take place. The number of dental practices has declined by about 0.5% per year since 2012 and, while independent dentists still represent about 90% of the total pool, salaried practitioners as part of corporate entities are gaining share as dentists look to benefit from combining infrastructure and equipment costs. In France, Dentego and DentiFree, both founded in 2013, are the largest corporations with 24 and 13 clinics, respectively (see Figure 5).

But these are small groups compared with the leaders in the U.K., one of Europe's most consolidated dental healthcare markets, where groups of hundreds of dental practices exist. With the U.K. and France having very similar populations, this alludes to the potential opportunity for investors in France.

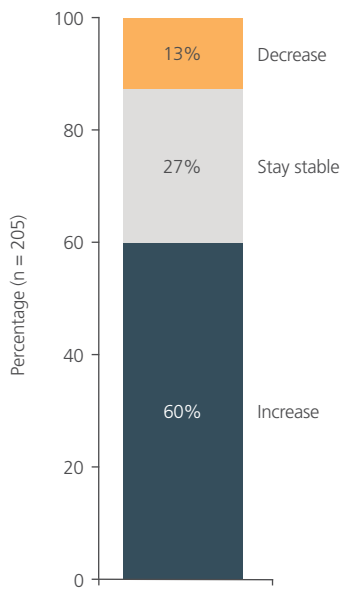
L.E.K. Consulting's survey of French dentists also indicates the market's potential for investment. Sixty percent of dentists expect practice sales volumes to increase in the next three years (see Figure 6), and one in five said they would sell to a corporate group.

Figure 5
Largest corporations in France (as of January 2019)

Corporate	Date of creation	2017 (# of practices)	2018 (# of practices)	Geographic presence
	2013	16	24	
	2013	13	13	
	n.a.	6	11	
	2017	n.a.	8	
	2015	c. 5	7	

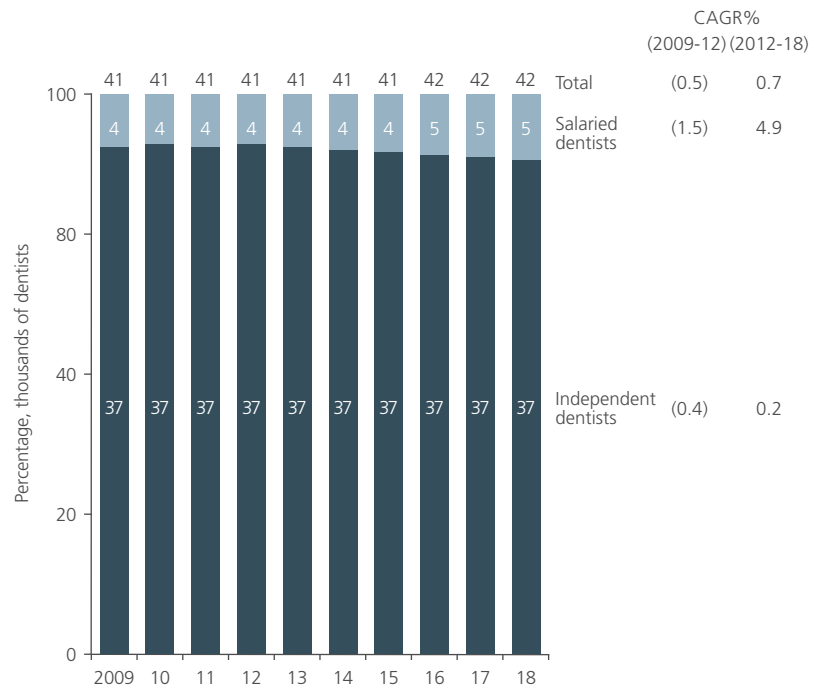
Source: Company websites

Figure 6
Expected dental practice sales volumes over the next three years



Source: L.E.K. dental survey (2018)

Figure 7
Number of registered dentists (2009-18)



Source: DREES, L.E.K. interviews and analysis

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This is a high proportion given the nascent nature of the corporate market in France, and it can be expected to increase as corporations expand their presence in the country.

Corporate investment in French dentistry could be beneficial for both dentists and patients

Dentists and patients could benefit in many ways from corporate investors entering the French dental market and building groups of dental surgeries. Consolidation of dental practices enables the scale benefits of large investments in dental equipment, which will mean lower total costs for dentists. This will also help dentists provide patients with better service (e.g., opening times, multidisciplinary approaches) at a lower cost for non-reimbursed treatments.

France's dental market is on the way to becoming less fragmented, composed of large practices comprising more than three dentists each. As demand drivers are mostly on the rising curve, the main issue will be on the side of supply, at least until 2026 when the "numerus clausus"⁴ finally ceases (see Figure 7).

The investment potential of French dental care appears to be growing, as private equity companies and sector corporations appreciate the gains to be made from the newly opening market. The success of investors in other European markets provides a proxy for the potential of the French dental market, and early movers in France have the chance to generate substantial competitive advantage while consolidating in accordance with French regulations.

⁴ Numerus clausus = the French cap for the number of graduated dentists within a year due to the cost of training.

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