

# Steady Growth Trend Continues for the Dental Market

Companies: ALGN, HSIC, PDCO, WEB, XRAY

November 1, 2016

Report Type:  Initial Coverage     Previously Covered     Full Report     Update Report

**Research Question:**

**What are the current dental industry market conditions?**

## Summary of Findings

- In a follow-up to Blueshift Research’s [Sept. 15 report](#) on Dentsply Sirona Inc. (XRAY), dental market conditions continue to fluctuate, but they have improved for all five sources when compared with 2015.
- Summer patient visits and dental lab orders were up for four sources and were flat for another year to year.
- In September and October, patient visits were flat to up slightly while lab orders were down year to year.
- Four sources forecast an increase in year-end visits and orders. One source expects them to be steady.
- One practice has added two new dentists and support staff, and expects to be up 30% compared with 2015. Another practice expects to end this year 5% ahead. A dental lab has added new accounts, and predicted a 20% increase in its year-to-year performance.

## Silo Summaries

### 1) Dentists

All three sources said their practices’ traffic has been up because of the improving economy, new jobs offering dental insurance, and the year-end rush to use those benefits. Patient visits in the summer experienced the traditional seasonal slowdown, but were flat, up 10%, and up 20% year to year for the three sources. Traffic was flat to up slightly in September and October. All three expect the balance of 2016 to be busy; one described her schedule as “slammed” while another said the end of the year has been “insane.”

### 2) Dental Laboratory Professionals

Both sources had strong summer orders and flat to declining orders in September and October. Year-end expectations are for flat orders for one source and increased orders for the other. This latter source expect 2016 overall to be up 20% year to year. One source noted that the dental industry has deviated from its traditional financial patterns, making planning and projections difficult. The other source reported being successful in adding customers.

Patient Traffic	Summer	September/ October	Balance of 2016
Dentists	↑	→	↑
Dental Labs	↑	↓	↑

# The Dental Industry

## Background

Blueshift Research's [Sept. 15 report](#) on Dentsply Sirona Inc. (XRAY) touched on the overall conditions of the dental industry market. Our findings revealed that the traditional summer slowdown in patient visits and orders had occurred but not as significantly as in the past. Sources expressed optimism that market conditions were improving for the dental industry.

### Current Research

Blueshift Research set out to assess current dental industry conditions to determine if the market improvement trend revealed in our September report had played out. We employed our pattern mining approach to establish two independent silos, comprising five primary sources (including three repeat sources).

- 1) Dentists (3)
- 2) Dental laboratory professionals (2)

## Silos

### 1) Dentists

All three sources said their practices' traffic has been up because of the improving economy, new jobs offering dental insurance, and the year-end rush to use those benefits. Patient visits in the summer experienced the traditional seasonal slowdown, but were flat, up 10%, and up 20% year to year for the three sources. Traffic was flat to up slightly in September and October. All three expect the balance of 2016 to be busy; one described her schedule as "slammed" while another said the end of the year has been "insane."

#### Key Silo Findings

**How would you characterize patient traffic during the summer months?**

- 1 said flat year to year.
- 1 said up 10% year to year.
- 1 said up 20% year to year.

**How would you characterize patient traffic during September and October?**

- 1 said flat to up slightly.
- 1 said traffic strength continued but fell off the last two weeks of October.
- 1 said traffic grew but not as much year to year

**What are your expectations for traffic for the remainder of the year?**

- 1 expects traffic to be up year to year.
- 1 expects traffic to increase 5% year to year.
- 1 expects to end the year up 30%.

### 1) Dentist in Florida

Traffic was about the same year to year in the summer and was flat to up a bit in September and October. This source described being "slammed" for the rest of the year. The economy's rebound has boosted business during the past few years. The [Lighthouse 360](#) (Web.com Group Inc./WEB) automated appointment reminder service also is helping.

**How would you characterize patient traffic during the summer months?**

- "It was about the same this year as last. In general, traffic has been improving over the last few years as the economy recovers."

**How would you characterize patient traffic during September and October?**

- "It was about the same or a little better than last year, again helped by the economy. September and October are generally the worst months as kids return to school and hurricanes sometimes threaten."

# The Dental Industry

## What are your expectations for traffic for the remainder of the year?

- “The rest of the year we’re slammed. Seasonal residents are coming back, and people have insurance to use before the end of the year. It should be even better than last year, thanks to an improving economy. Traffic slowly keeps getting better.”
- “In addition to the economy, I have Lighthouse 360, an automated service to remind patients about making and keeping appointments.”

## 2) Dentist in Pennsylvania

Traffic was strong during the summer, up 10% year to year, and continued to be up until the last two weeks of October. The recent weakening is attributed to an averaging out of the prior strength. The rest of the year should be flat to up 5%. More people have jobs with dental insurance.

### How would you characterize patient traffic during the summer months?

- “It increased about 10% from the same period last year. More people have jobs with dental insurance.”

### How would you characterize patient traffic during September and October?

- “The strength continued until the last two weeks of October. Those two weeks were unchanged from a year earlier and down about 10% from the first half of the month. I think that’s just an averaging out from the earlier strength. And the economy isn’t amazingly strong.”
- “September is usually the slowest month of the year, because most patients are women and many are putting their kids back in school. October is usually the best month.”

### What are your expectations for traffic for the remainder of the year?

- “The rest of the year looks flat to up 5% from last year. Again, it’s the strength of the job market and people having dental insurance. Usually there’s an influx of college kids coming home, so those months are good.”

The rest of the year looks flat to up 5% from last year. Again, it’s the strength of the job market and people having dental insurance. Usually there’s an influx of college kids coming home, so those months are good.

*Dentist  
Pennsylvania*

## 3) Dentist/dental practice owner; repeat source

This seven-year-old practice continues to grow to the point of having to add more staff. Business will be up again in 2016, and year-to-year changes for specific periods may not indicate that overall demand for services is growing, but rather that capacity to take on more business has increased. The addition of two practitioners to handle more business coming by way of preferred provider health insurance plans has continued to enlarge the practice’s potential patient base. The practice has grown at a 30% annual clip for the last several years, and the source expects 2016 to be more of the same.

### Sept. 15 response to market condition questions:

- “Like almost every year, we had a slowdown in July; summer trends that way. But we’re already picking up from that, and we’re trending upward again.”
- “We’ll continue picking up into the end of the year probably, the time when patients want to use up their remaining insurance.”
- “There’s not the patient loyalty like there used to be. A lot of dentists have opened their doors, and it’s like patients are saying, ‘I like your reviews, and you can accommodate my insurance.’ Now it’s a consumer market where you have to meet patient demands.”

### How would you characterize patient traffic during the summer months?

- “Traffic always goes down in the summer months, but our numbers increased by about 20% this summer over last. But we experienced the same level of summer slowness.”
- “I have more associates now, so there’s more availability. A new hygienist and a new dentist on staff have allowed us to take on more patients.”

# The Dental Industry

## How would you characterize patient traffic during September and October?

- “Percentage-wise, it grew but not as much [as it has in the past].”

## What are your expectations for traffic for the remainder of the year?

- “The end of the year is always insane for us. November through January are when more people want to use up their benefits for the year or use up some of their deductible early in the new year.”
- “I think we’ll see more business in the closing months of the year, to the point where we’ll be up by about 30% over last year when the year ends.

## 2) Dental Laboratory Professionals

Both sources had strong summer orders and flat to declining orders in September and October. Year-end expectations are for flat orders for one source and increased orders for the other. This latter source expect 2016 overall to be up 20% year to year. One source noted that the dental industry has deviated from its traditional financial patterns, making planning and projections difficult. The other source reported being successful in adding customers.

### Key Silo Findings

#### How would you characterize patient traffic during the summer months?

- 1 said orders were up double digits year to year.
- 1 said the addition of new accounts has put set the lab up for 20% year-to-year growth.

#### How would you characterize patient traffic during September and October?

- 1 said September was up and October was unexpectedly down.
- 1 said business fell off.

#### What are your expectations for traffic for the remainder of the year?

- 1 said the balance of 2016 is trending flat.
- 1 expect 2016 to be 20% ahead of 2015.

## 1) Dental laboratory executive; repeat source

Orders from dentists unexpectedly surged this past summer, breaking a string of years in which business tended to slow during that period. Meanwhile, late summer and early fall business was basically tracking that of last year, though an early October falloff this year still was unexpected. End-of-year orders will have to start picking up to match last year’s surge, which also was atypical. The fluctuating business and departure from established seasonal patterns have become the norm. Predicting business flows has become complicated by structural changes in the dental industry, and that trend seems to be continuing this year.

### Sept. 15 response to market condition questions:

- “The market is changing and evolving so fast. We used to do five-year plans, but now our long-range plan is six months.”
- “We’ve seen no real slowdown; our business has been increasing, and we’re up year over year. The outlook is that we’ll finish this year in a stronger position than last.”
- “CAD-CAM dentistry is still an evolving world, and there will probably be a shakeout over the course of the next five years. But for now there are more people entering the market, including big players coming in with milling products.”
- “We haven’t really seen it yet, but we may see a future where more DSOs [dental service organizations] start buying their own labs, and have their practices send work to those labs to keep down prices. DSOs are buying up more healthy practices that have owners ready to exit, and one of the cost control approaches they may take is with lab work being directed to large milling centers. And we could see large labs making group purchasing arrangements with these groups on the basis of razor-thin margins.”

# The Dental Industry

## How would you characterize patient traffic during the summer months?

- “The summer months, from the end of the second quarter to the beginning of the third, were stronger than last year for sure, up significantly, by double digits percentage.”
- “A slowdown usually happens in July and August, which didn’t happen this year. I have no idea why. We’ve tried correlating data, but there doesn’t seem to be any real trend.”

## How would you characterize patient traffic during September and October?

- “By the end of September we finished ahead of last year, but just barely. That first two-week time period in October was slow. The other labs I keep in touch with all felt it. I think it was a general trend across the country.”

## What are your expectations for traffic for the remainder of the year?

- “Last year was the first in about five or six that we saw an onslaught of work between Thanksgiving and New Year’s. We were just inundated with work. Prior to that we’d see dental offices close during that period.”
- “I’m hoping the same thing repeats, but now that we’re into the fourth quarter business is not so great. It’s about flat compared to last year.”

Last year was the first in about five or six that we saw an onslaught of work between Thanksgiving and New Year’s. We were just inundated with work. Prior to that we’d see dental offices close during that period.

*Dental laboratory executive*

## 2) Dental laboratory CAD/CAM manager; repeat source

A stronger-than-normal summer in terms of handling restorative products orders from dentists should put the company on track for another strong year, though it saw a falloff in orders during the third quarter. More accounts have been taken on, so it is hard to say if growth is coming from more business from existing clients or from the account base expansion.

### Sept. 15 response to market condition questions:

- “We haven’t seen a slowdown this year, but traditionally it always does slow down around Christmas. Overall, we’ve been growing exponentially. We’re up over a year ago, as well as the year before that.”

## How would you characterize patient traffic during the summer months?

- “Summer is normally pretty slow, but this year we have more accounts in general, so we had more work than we did last year.”
- “Sometimes we have to send employees home early during the summer, but we didn’t have to do that. We’ve actually increased staffing levels some. Overall, I’d say it was somewhat better this summer than last, putting us on track for a year that might be 20% better.”

## How would you characterize patient traffic during September and October?

- “September and October have been worse than last year. Normally we see more business around this time of the year.”
- “Within the last few weeks we haven’t seen as many doctors sending orders in. I don’t know if people are trying to save money or what. We just haven’t seen as much.”

## What are your expectations for traffic for the remainder of the year?

- “I think it will be somewhat better, especially as we get closer to the final weeks of the year.”
- “We’re expecting to see an increase through Thanksgiving.”

Additional research by Tom Zind and Dan Weil.

The Author(s) of this research report certify that all of the views expressed in the report accurately reflect their personal views about any and all of the subject securities and that no part of the Author(s) compensation was, is or will be, directly or indirectly, related to the specific recommendations or views in this report. The Author does not own securities in any of the aforementioned companies.

OTA Financial Group LP has a membership interest in Blueshift Research LLC. OTA LLC, an SEC registered broker dealer subsidiary of OTA Financial Group LP, has both market making and proprietary trading operations on several exchanges and alternative trading systems. The affiliated companies of the OTA Financial Group LP, including

# The Dental Industry

OTA LLC, its principals, employees or clients may have an interest in the securities discussed herein, in securities of other issuers in other industries, may provide bids and offers of the subject companies and may act as principal in connection with such transactions. Craig Gordon, the founder of Blueshift, has an investment in OTA Financial Group LP.

© 2016 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift's written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.