

Deal focus: Nexus Point doubles down on dentistry



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With a dentist clinic chain already in the portfolio, Nexus Point Capital has backed a B2B procurement platform that services clinics. It is a firm believer in the industry's tailwinds

Inclusion in the list of drugs that qualify for reimbursement under China's national insurance plan is a mixed blessing: it makes mass-market adoption more likely, but at price points set by the government. The same cannot be said of dental products and services.

“It’s predominantly self-paid. There is limited reimbursement system coverage except for very basic dental treatment, so whatever you see is consumer-driven demand,” said K.C. Kung, founder of Nexus Point Capital, which makes control-oriented investments in China’s middle market. “There is also none of the same policy risk, like reimbursement levels being reduced.”

Nexus Point entered the space a couple of years ago with the investment in Jinsong Dental, operator of the largest private dental clinic chain in Beijing, serving the mid to high-end segment. It returned to the theme last week, closing an investment in Lichi, an online platform through which dental clinics order supplies, from denture cleaner and invisible aligners to root canal filler and enamel chisels.

The PE firm has committed USD 60m – including a subscription to new shares so Lichi has more runway to pursue growth – in what is described as a co-control deal. Trustbridge Partners is also represented in the company’s cap table; it is said to have invested approximately USD 40m last year. Nexus Point had been tracking Lichi for some time and had a preexisting relationship with the founder.

Kung offers two more reasons for the dental industry’s fundamental appeal in China: rapid growth, driven by rising disposable incomes, more discretionary spending on healthcare, and greater consumer awareness of dental hygiene; and the inability of the public sector capacity to keep pace with this growth. These theories are borne out by numbers.

According to research by Frost & Sullivan in support of an impending Hong Kong IPO by dental chain Arrail Group, China’s dental services market was worth CNY 119.9bn (USD 31.6bn) in 2020, up from CNY 75.7bn in 2015. It will expand rapidly over the next five years, reaching CNY 299.8bn by 2025.

The private sector will account for the bulk of this additional value, with lower operational and capital requirements – as well as a lighter regulatory burden – enabling broader geographic coverage. While public sector dental services expand from CNY 36.8bn in 2020 to a projected CNY 58.4bn in 2025, the private sector will climb from CNY 83.1bn to CNY 241.4bn.

“It’s not just beauty and aesthetics and having straight teeth. Dental problems have repercussions down the road, for example, if your jaw doesn’t develop properly or you have missing teeth. There is more demand in China than ever before and its coming from such a low base,” Kung added. “The unit economics are also easy to understand – you can achieve scale because you can replicate dental clinics.”

Lichi claims to be the domestic market leader in B2B online dental supplies with a 20% share. The new capital will support working capital and logistics infrastructure upgrade needs as the company battles to become the clear number one. Nexus Point regards the segment as a defensible niche, given some domain expertise is required and there’s little chance of broad consumer-facing platforms cornering the market.

Established in 2017 by some industry executives who secured foreign investment backing, Lichi claims to work with more than 400 brands with 20,000 different product lines. There are over 50,000 registered dental clinic users on the platform.

This represents the last of seven investments in Nexus Point’s debut fund, which closed on USD 475m in 2019. Lichi not only taps into a broader portfolio theme of dental care; it is also one of several medical equipment and technology investments, sitting alongside Jumao and GaleMed, manufacturers of homecare medical devices and respiratory care products, respectively.

“Medtech is very much part of the Fund I strategy, but we don’t see much concentration risk,” Kung explained. “Concentration is relevant if portfolio

companies rely on the same set of fundamentals. These businesses are driven by different factors.”

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