

Inside Dentistry®

A Peer-Reviewed Publication

January 2022

See p. 6



DSOs: SELLING YOUR PRACTICE ISN'T A GAME OF CHANCE

Continuing Education

Repairing an Apical Lesion
Around a Dental Implant
Timothy Kosinski, DDS, and
Stephanie Tilley, DMD | p. 33

Prosthodontics

Digital Synergy for Full-Arch Hybrid Solutions
Conrad J. Rensburg, ND, NHD | p. 22

Pediatrics

An Unusual Primary Molar Pulpotomy
Theodore P. Croll, DDS, and
Kevin J. Donly, DDS, MS | p. 30

Perspective

Dispelling Disinformation
in Dentistry
Brooke Blicher, DMD | p. 48

Amid the ripple effects of the COVID-19 pandemic, the landscape of dental practice is experiencing unprecedented change, including an increase in the presence and influence of dental support organizations (DSOs). When the pandemic hit and the shutdown took effect, many dental practices closed their doors entirely, while others remained open to provide limited emergency care only. Practices of all sizes were affected; however, thanks to economies of scale, DSOs were able to react to the resulting economic challenges in a way that many smaller private practices could not.

DSOs continue to increase their market share across the United States.¹ In the race to expand, some are offering to pay amounts that are five to nine times practices' earnings before interest, taxes, depreciation, and amortization (EBITDA), which can be tempting to almost any practice owner. There is great variety in the structure of DSOs and their opportunities regarding size, services, and management, and finding the right match is critical to the success of both the dental practice and the DSO.

Unique Advantages

Dentists in private practice are experiencing increasing economic and regulatory pressures that can affect their ability to remain competitive and profitable as solo entities.² The DSO model, which is purported to be more efficient and effective, manages the business aspects of multiple dental practices in an effort to optimize EBITDA while enabling the dentists and clinical team members to exclusively focus their efforts on improving the clinical outcomes of patient treatment and strengthening the dentist-patient relationship. The American Dental Association predicts DSOs will experience a growth rate of nearly 100% between 2018 and 2025 and more than triple their current market share by 2035.³

Larger DSOs provide a plethora of services, such as rollover call centers, continuing education courses, message boards, recruiting, management and legal support, assistance dealing with insurance, and more. But what do they ask for in return? There is no one-size-fits-all when determining if an affiliation or acquisition is correct for a dentist. Some DSOs are purely financial, leaving the practice's culture, clinical philosophy, staff, patient/payor mix, operating hours, etc, intact, whereas other DSOs get more involved in shaping office culture and practice. "The saying, 'Once you've seen one DSO, you've seen one DSO' rings true because they are all so different," says Stephen E. Thorne IV, MHA, founder and CEO of Pacific Dental Services (PDS).

What Are DSOs Looking For?

DSOs vary in terms of what they're looking for when they evaluate practices. "For a larger DSO, like Heartland, practices that are good candidates for our support and services are facilities that have 5 or more dental chairs, or the ability to grow to that, and a good mix of PPO and fee-for-service payments," explains Mark Greenstein, MBA, executive vice president and chief growth officer of Heartland Dental. Although the structure and make-up of a practice are important to the decision-making process, the doctors themselves are critical. "Above all else, we are looking for great doctors who are offering great care to their communities," he says. "We look to affiliate with and support those doctors so that they can do what they've always done but do even more of it and do it better."

Joshua Gish, DDS, an oral surgeon and the chief dental officer for Premier Care Dental Management, agrees. "We do not just buy offices to build up revenue and EBITDA, form a conglomerate, and then sell—although that is what is happening out there," he says. "As a more particular DSO, we are looking for people who we want to call our colleagues. We have turned away more dentists than we have partnered with."

When a DSO concludes that a practice is the right fit, the determination of its value can depend on the DSO's level of involvement, market demand, location, demographics, and much more. However, there are some guidelines that can be used as reference points. DSOs typically appraise dental practices based upon a multiple of EBITDA. "For a small general practice, getting five times EBITDA is good," says Chip Fichtner, the founder and principal of Large Practice Sales, a company that facilitates sales to DSOs. "If you are a bigger practice, it is a gold rush right now. We are doing transactions today at nine times EBITDA that 2 years ago would have been six and a half to seven times EBITDA." DSOs may also factor in considerations such as location, facility size, equipment/technology, patient mix, and other practice characteristics.

Invisible DSOs (IDSOs) are DSOs that create joint ventures with dental practices in which the doctors remain the owners and continue to operate under their own brands and the incentives are aligned for both the doctor-owners and the group. An IDSO may place more value on a practice's doctor and location than its EBITDA alone. "They are looking very hard at places that are growing," Fichtner explains. "Younger dentists are gold; it is a partnership opportunity."

In 2019, only 10.4% of all dentists were affiliated with a DSO; however, among dentists aged 21 to 34 years, 20.4% were affiliated with a DSO.⁴ A survey conducted by the American Dental Education Association found

that almost a third of the 2020 graduating class who planned to go into private practice immediately upon graduation intended to join a DSO.⁵ Although DSOs are more popular among younger dentists, the DSO model can be appealing, both financially and structurally, to dentists at various stages of their careers.

DSO Structures and Goals

How a DSO is run—whether by a national management group, a regional management group, or an individual dentist—affects the doctor's role after a sale. As a part of the acquisition, DSOs offer various forms of ownership or equity positions to dentists, which range from none to co-ownership of the clinical side of the practice to stock in the DSO corporation.

In a conventional DSO structure, the DSO typically owns the dental equipment and intellectual property, holds the leases, and employs all of the nonclinical employees of the contractually affiliated practices. IDSOs take a different approach. "The interesting thing about them is that they are not trying to create homogeneity," notes Fichtner. "They may have two practices in the same town that operate in completely opposite ways. One may be fee-for-service, and one may be Medicaid."

Structures, responsibilities, and levels of ownership vary greatly across DSOs. "At PDS, we have a unique owner-dentist model that has been integral to our organization since its inception. Today, we support almost 700 individual owner dentists," Thorne explains. "PDS-supported owner dentists lead their practices, establish the clinical culture, and hire the associate dentists, hygienists, and specialists. PDS assists with this process, but the owner dentists are the clinical leaders."

Some DSOs are run by financial and management professionals whereas others are run by individuals who come from clinical backgrounds. "Our company, Premier Care Dental Management, is completely dentist-run, including our leadership," says Gish. "Our affiliated dentists only speak to other dentists-100% doctor-to-doctor communication."

The roles that doctors play in DSO-affiliated practices vary not only due to ownership structures but also due to how the DSOs themselves grow. Some DSOs open brand-new practices. "It helps us control a lot of things—for example, the location," explains Arwinder Judge, DDS, chief clinical officer at Aspen Dental Management. "We want to be in the best area of town where it is easy for patients to access care."

An insufficient oral healthcare workforce contributes to persistent oral health disparities across the United States. In 2017, more than 53 million people lived in

uninsured areas.^{6,7} "K \ Yb \ Xbhlhg' [fUXi UY' Zca \ XbHU' gWcc-zh Yria] [\ hbchid' Ub' lc' d' Ubh' h' Yf' ZU'] b' 6 Ya] X'] z A] bbYgchLz cf' : \] b' z A] W] [Ubz' Vi' h' Zf' i' g'z' h' cgy' UY'] a dcfHbh UYUg' lc' g' ddcfh VYWA' gY' dUH' Ybh'g' UY' h' Y' Yz' UbX' h' Ymb' YX' W' FY' U' g' a' i' W' U' g' U' b' n' c' b' Y' Y' g' Y' X' c' Y' g' z' ' g' U' ng' > i' X'] Y'

G]a] U' f' n' z' D8G' fUFYm Ugg]g'] b' h' Y' UWi] gh]cb' cZ' Y] gh]b [' dfUM]Wg' Vi' h'] b' gh]UX' dUfh' Y' g' k] h' \ Xbhlhg' lc' cdYb' b' Yk' ' dfUM]Wg' Z' ca' ' g' WU' h'] b' k' \ U] g' fYz' ffYX' lc' U' g' h' Y' \ ' XY' bcj' c' \ ' a' cXY' \ ' K' Y' h' Yb' \ ' cc' \ ' Zf' h' Y' Vgh' fYU' Yg' UH' UbX' Yj' U' i' UH' a' U' f' Y' g' VUgYX' cb' dUH' Ybh' [fck' h' z' ' g' U' ng' H' cf' b' Y' \ ' H'] g' U' c' k' g' c' i' f' g' ddcfh' YX' Xbhlhg' lc' [fck' h' Y'] f' dfUM]Wg' Z' ca' \ ' h' Y' [fci' b' X' i' d' \ "

The COVID-19 Factor

There are three primary reasons that dentists traditionally affiliate with a DSO: to achieve growth, to transition to retirement, or to attain a better work-life balance. With COVID-19, there's now a fourth reason: the risks inherent in being a small-business owner. The shutdown of all but emergency dental services for the first 4 to 6 weeks of the pandemic left more than 500,000 oral healthcare professionals unemployed.⁸ As dentists returned to elective practice, many DSOs were better prepared to adjust to the new guidelines and regulations than smaller private dental offices. "Staying in full compliance can be difficult, especially if the dental board says one thing and the state legislator says another," says Greenstein. "We have a team of people across 38 states who stay up-to-date on the latest information."

Because the profession of dentistry has been at the forefront of infection control for decades, it was able to rebound after the initial impact of COVID-19,⁹ and weathering the pandemic has attracted greater financial interest to the industry. "The amount of capital that is chasing dental consolidation at the moment is extraordinary. Capital is looking at an industry that survived COVID-19, and the arbitrage opportunity of buying practices at seven times EBITDA and selling them at 15 times EBITDA is pretty simple to understand," Fichtner explains. "In November, two specialty-focused IDSOs, both less than 4 years old, recapitalized at a combined value of more than one billion dollars. Doctors made three to seven times their money, depending on when they joined."

However, at the same time, the pandemic reminded doctors of the risks of being small business owners as many struggled to keep employees on the payroll and pay for costly infection control measures. DSOs can help to offset these risks. "COVID-19 put the value of DSO support front and center," says Greenstein.

"Heartland-supported doctors received their full salaries throughout the pandemic—even when practices were closed."

The ongoing realities of COVID-19 may even shape the future of the profession of dentistry regarding its integration with overall healthcare. "There's a broader aspect of healthcare integration into the oral healthcare space," explains Andrew Smith, executive director of the Association of Dental Support Organizations. "During the pandemic, we've seen dentists administering the flu and even the COVID-19 vaccines."

The Future of DSOs

As the landscape of private practice and the variety of DSOs continue to evolve, the future of dentistry is being shaped from within the profession as well as by external forces magnified by the pandemic. "In five years, I think we will still have this ecosystem with some private practices and a lot of DSOs," suggests Gish. "If I had a crystal ball and looked out 10, 20 years, I think most offices will be part of DSOs, whether they are branded or behind the scenes."

The development of new DSO models and structures is ongoing. "We are seeing more and more specialty DSOs, with members specializing not just in dentures and crowns but in orthodontic care as well," says Smith.

References

1. Dunning DG, Davis KJ, Madden RD. How dental service organizations strategically navigated the pandemic: applauding a successful business model. *Arch Dent.* 2020;2(2):21-27.
2. Dunning DG, Davis KJ, Lange BM. Navigating career decisions in dental service organizations: practical advice for students, residents, and educators. *J Dent Educ.* 2018;82(12):1273-1278.
3. Porritt D. Factors Influencing a Dentist's Decision to Affiliate with a Dental Service Organization and Their Corresponding Job Satisfaction [dissertation]. Cypress, California: Trident University International; 2021.
4. ADA Health Policy Institute. How big are dental service organizations? ADA website. https://www.ada.org/-/media/project/ada-organization/ada/ada-org/files/resources/research/hpi/hpigraphic_0720_1.pdf?rev=832fb3ea006946bab3030d023c3694e7&hash=4707F315F0EB8FE5BFC77B45DDF1788A. Published July 2020. Accessed December 6, 2021.
5. Istrate EC, Slapar FJ, Mallarapu M, et al. Dentists of tomorrow 2020: an analysis of the results of the 2020 ADEA Survey of U.S. Dental School Seniors. *J Dent Educ.* 2021;85(3):427-440.
6. Health Resources and Services Administration. Health Professional Shortage Areas and Medically Underserved Areas/Populations Shortage Designation Types. US. Department of Health and Human Services website. <https://www.hhs.gov/guidance/document/hpsa-and-muap-shortage-designation-types>. Published June 25, 2020. Accessed December 3, 2021.
7. National Center for Health Workforce Analysis. National and state-level projections of dentists and dental hygienists in the U.S., 2012-2025. US Department of Health and Human Services Health Resources and Services Administration website. <https://bh.w.hrsa.gov/sites/default/files/bureau-health-workforce/data-research/national-state-level-projections-dentists.pdf>. Published February 2015. Accessed December 6, 2021.
8. McDermott D, Cox C. What impact has the coronavirus pandemic had on healthcare employment? Peterson KFF Health System Tracker website. <https://www.healthsystemtracker.org/chart-collection/what-impact-has-the-coronavirus-pandemic-had-on-healthcare-employment/>. Published June 16, 2020. Accessed December 6, 2021.
9. Gamio L. The workers who face the highest coronavirus risk. *The New York Times*. <https://www.nytimes.com/interactive/2020/03/15/business/economy/coronavirus-worker-risk.html>. Published March 15, 2020. Accessed December 6, 2021.

Externally, the pandemic helped to renew the emphasis on dentistry's role in systemic health. "People now understand that taking care of their oral health results in better whole-body health," says Thorne. "Recognizing the oral-systemic link, they want to properly care for their teeth and gums to improve their overall health for years to come."

"The pandemic has elevated dentistry's importance," says Smith. "We know that what happens in the mouth exacerbates what's happening elsewhere in the body. It's vital for us to continue to discuss with lawmakers how essential oral healthcare is to an individual's overall health."

Despite the variety in structure, scale, and specialty, at the end of the day, the goal of all DSOs is simple. "We support doctors," explains Greenstein. "That is our business-period."



CHIP FICHTNER is the founder of Large Practice Sales, which specializes in invisible DSO transactions for large practices of all specialties. The company has completed more than \$500 million in transactions in the last twelve months. Learn more at largepracticesales.com

InsideD@LargePracticeSales.com
FindMyInvisibleDSO.com
844-694-3614

LPS | Large Practice Sales