

SUMMARY REPORT

004 Specialty Dental Brands One-Year Follow-Up

The Oregon Health Authority's [Health Care Market Oversight](#) (HCMO) program reviews proposed health care business deals, like mergers and acquisitions, to make sure they won't harm people and communities in Oregon. After completing a review, OHA issues a decision about whether a business deal, or transaction, involving a health care company should proceed as planned. If it approves a transaction, OHA is required to monitor any changes that result for five years and to publish its findings.

In this first-year follow-up review, OHA found that the transaction has not resulted in changes to the availability or delivery of dental services by SDB-affiliated providers. SDB is currently undergoing an ownership change as a result of debt restructuring due to SDB defaulting on its loans.

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About the Transaction

On August 9, 2022, OHA confirmed receipt of a [Notice of Material Change Transaction](#) ("2022 notice") from Specialty Dental Brands ("Entity" or "SDB"), a dental support organization (DSO). The 2022 notice described plans to restructure SDB's equity ownership, resulting in approximately one-third of the SDB's membership interest being held by TSG Consumer Partners (TSG). The main entities involved in this transaction were:

- Specialty Dental Brands (including numerous subsidiaries)
- SDB MTN West Partners, LLC ("MTN West") and SDB Partner Aggregator, LLC ("Aggregator"), two subsidiary DSOs that operate in Oregon
- OR Specialty Dental Services, LLC ("OR Specialty Dental"), a dental practice that has management services agreements with MTN West and Aggregator. OR Specialty Dental operates five locations in Oregon under the providers Willamette Valley Oral and Maxillofacial Surgery Inc. and Yenne & Schofield Orthodontics PC
- TSG, a private equity firm that became an owner of SDB in 2022
- Leon Capital Group (LCG), a private investment company

Prior to this transaction, MTN West and Aggregator executed management services agreements with OR Specialty Dental. In selling part of the ownership of SDB to TSG, the transaction produced a partial liquidity event for LCG, SDB management, and individual dentist owners of SDB.

After a preliminary review, OHA found the transaction was unlikely to substantially reduce access to affordable health care or alter delivery of health care in Oregon because the transaction would not change the direct ownership of SDB's dental practice or the types of services the practice receives from SDB. OHA approved this transaction on September 9, 2022, with no conditions, but noted these concerns related to DSO affiliation and private equity ownership that it would monitor in follow-up reviews:

- DSOs have been shown to "pool" dental practices in negotiation with insurers to extract higher reimbursement rates which can lead to higher premium and out-of-pocket costs.¹

- DSOs with private equity backing are more likely to implement provider productivity goals which can encourage upselling and overtreatment at the expense of care quality, cost, and patient experience.^{2 3}
- DSO affiliation is associated with lower provider job satisfaction.⁴
- Private equity acquisition of providers in other health care sectors is correlated with declines patient safety and care quality.^{5 6}
- Existing disparities in access to dental care and limited insurance coverage for dental services make some populations more vulnerable to service price changes than others.^{7 8}

About OHA's Follow-Up Review

OHA is required to analyze the outcome of this transaction one, two, and five years after closing to monitor entity compliance with any conditions placed on the transaction, to monitor cost trends, and to monitor the impact of the transaction on Oregon's health care cost growth target.⁹ This first-year review will describe the activities of SDB since the close of the transaction on September 16, 2022. All follow-up reviews will include any public comment OHA receives about the transaction. Public comments can be submitted at any time by email to hcmo.info@oha.oregon.gov.

As part of this review, OHA requested and received information from SDB regarding their financials, policies, governance, staffing, patients, and services rendered. (See Appendix A for a list of requested items.) OHA reviewed this follow-up submission as well as media coverage of the activities of SDB, TSG, LCG, Oregon Specialty Dental and their subsidiaries, and the DSO industry. OHA also sought public comment from community members with experiences with OR Specialty Dental. As of April 2024, OHA has received no public comments regarding the follow-up review for this transaction.

SDB has asserted that much of the information it provided in its submissions to OHA is confidential and unconditionally exempt from release to the public pursuant to ORS 415.501(13)(c) and ORS 192.345(2). This report only includes information that has not been designated confidential.

Industry Trends

OHA looked at relevant trends and external factors that may have influenced any changes since the transaction closed.

Private equity acquisitions of DSOs

DSOs have been attractive acquisitions for private equity firms because DSO revenues are relatively stable over time and because dentists are increasingly interested in DSO services as an alternative to independently managing their practices.¹⁰ DSOs often operate a complex organizational structure of practices, holding companies, and other subsidiaries. Because corporate practice of medicine laws require that dental practices be owned by dentists, this type of complex structure and the use of management services agreements allows private equity firms to own DSOs and effectively control dental practices owned by dentists.¹¹

What is a private equity firm?

Private equity firms invest in private companies (i.e. companies that are not publicly traded) and seek to generate high returns on investments. The goal of a private equity firm is to generate profits for investors, typically within 3-7 years. To achieve high returns, they seek to expand companies, often through acquisitions of smaller companies. They also aim to decrease costs (for example, by increasing the use of less expensive staff), increase revenue (for example, by emphasizing more expensive services or increasing volume), with a goal of reselling the company at a profit or pursuing an initial public offering (IPO) within a few years.¹²

A 2021 study found that 27 of the top 30 DSOs in the US were owned by private equity firms.¹² Since the close of this transaction, at least six other transaction involving DSOs and private equity firms closed in the US.¹³

Changes Since the Transaction Closed

SDB defaulted on loans and is restructuring ownership

SDB recently defaulted on certain loan agreements and, as a result, SDB's lenders are exercising the right to foreclose on those loans in exchange for equity (or control) in SDB. SDB notified OHA on February 1, 2024, about this change in ownership. In this new transaction, LCG and TSG will transfer their respective equity interests to a group of lenders, resulting in the lenders having a roughly 55% ownership stake.

OHA reviewed SDB's proposed restructuring and approved the transaction on March 11, 2024. For more information, see the HCMO review [report](#) and [order](#).

Governance changes will occur with SDB's planned restructure

SDB reported no changes to its governance or decision-making structure since the close of the transaction and stated that TSG is not involved in day-to-day decisions regarding OR Specialty Dental. The restructure transaction will result in changes to SDB's ownership and board of managers.

No significant changes to staffing

Since the close of the transaction, the total FTE employed by OR Specialty Dental has remained stable.

Price changes for out-of-pocket services

In the 2022 notice, SDB stated it did not anticipate the change in ownership of SDB would negatively impact the price of services in Oregon.¹⁴ Since OHA's approval of the transaction, OR Specialty Dental updated prices for patients paying for services out-of-pocket in order to better align with national average rates. Because insurers and other payers use local average rates and other location-specific cost data when negotiating with providers or determining payment rates, payments for services covered by insurance may not change at the same rate.

Appendix A: Items requested by OHA

OHA requested the following information from the Entity to support the one-year follow-up review.

1. Descriptions of and rationale for all changes in operations, structure, policies, business, board members, officers, employees, or any other area of corporate activity impacting Oregon since September 16, 2022, at SDB and its subsidiaries.
2. Organizational charts in effective since September 16, 2022, at SDB and its subsidiaries.
3. Names and addresses for all SDB-affiliated practices and locations in Oregon.
4. Descriptions of any plans to construct or open new facilities, close existing facilities, or expand, convert, or modify existing facilities in Oregon since September 16, 2022.
5. Descriptions of any plans or efforts by SDB or TSG to acquire, divest, or enter into joint ventures, alliances, or mergers of any kind in Oregon since September 16, 2022.
6. Copies of financial statements, budgets, profit and loss statements, cost center reports and any other financial report prepared by or for SDB (or any of its subsidiaries) or OR Specialty Dental (or any of its practices) including descriptions of changes to assets or liabilities since September 16, 2022.
7. Descriptions of any changes to dental services provided by SDB-affiliated providers in Oregon since September 16, 2022.
8. Descriptions of any changes to operations, structure, policy, business, or employees of SDB-affiliated dental practice locations in Oregon since September 16, 2022.
9. Copies of current management services agreements and descriptions of any changes to management services agreement between SDB, OR Specialty Dental, and any other SDB-affiliated locations in Oregon since September 16, 2022.
10. Descriptions of current employment and compensation policies and any changes to these policies for SDB, OR Specialty Dental, and any other SDB-affiliated locations in Oregon since September 16, 2022.
11. Explanations of quality or patient experience metrics used by SDB-affiliated practices in Oregon.
12. Descriptions of changes to pricing of dental services at SDB-affiliated practices in Oregon September 16, 2022.
13. Copies of current financial assistance or charity care policies and descriptions of community benefit, financial assistance, or charity care spending by SDB-affiliated providers in Oregon since September 16, 2022.
14. Data regarding payments received, payer mix, patient and service volume, patient demographics, staffing, patient satisfaction, and care quality at SDB-affiliated providers in Oregon since September 16, 2022.
15. Descriptions of the role TSG and SDB subsidiaries play in decision-making for SDB-affiliated practices and providers in Oregon since September 16, 2022.

References

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- ² Pierce O. Are High-Volume Dental Chains Exploiting Kids on Medicaid? ProPublica 2012.
- ³ Heath, David. Evidence of overtreatment at dental clinics serving poor children. The Center for Public Integrity. 2012. Available at: <https://publicintegrity.org/health/evidence-of-overtreatment-at-dental-clinicsserving-poor-children/>
- ⁴ Starkel R, Guay A, Losasso A, Vujcic M, Warren M. Job satisfaction among dentists varies by type of large group practice setting. Health Policy Institute Research Brief. American Dental Association. August 2015. Available from: <https://www.mndental.org/files/Practice-Setting-and-Job-Satisfaction.pdf>
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- ⁵ Heath, David. Evidence of overtreatment at dental clinics serving poor children. The Center for Public Integrity. 2012. Available at: <https://publicintegrity.org/health/evidence-of-overtreatment-at-dental-clinicsserving-poor-children/>
- ⁶ Joint Staff Report on the Corporate Practice of Dentistry in the Medicaid Program. June 2013, Sen. Max Baucus (R-Mont), and Sen. Chuck Grassley (R-Iowa). Available at: <https://www.finance.senate.gov/imo/media/doc/Report%20on%20Corporate%20Dentistry--0710.pdf>
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- ⁹ Oregon Revised Statute 415.501 (19). Available at: [https://www.oregonlegislature.gov/bills_laws/ors/ors415.html#:~:text=\(19\)%20A%20health,authority%20shall%20analyze%3A](https://www.oregonlegislature.gov/bills_laws/ors/ors415.html#:~:text=(19)%20A%20health,authority%20shall%20analyze%3A) (Accessed 3/1/2024)
- ¹⁰ McGuire Woods. “Pushing Upmarket: Consolidation of DSOs and Secondary Private Equity Sales”. May 5, 2023. Available at: <https://www.mcquirewoods.com/client-resources/alerts/2023/5/consolidation-dsos-secondary-private-equity-sales/> (Accessed 3/1/2024)
- ¹¹ The New England Journal of Medicine. “A Doctrine in Name Only – Strengthening Prohibitions against the Corporate Practice of Medicine”. Jane Zhu, Hayden Rooke-Ley, Erin Fuse Brown. September 2023. Available at: <https://www.msms.org/Portals/0/Documents/MSMS/Education/State%20of%20MSMS/NEJM%20Sept%202023.pdf?ver=2023-12-13-145932-060×tamp=1702479591087> (Accessed 3/7/2024)
- ¹² Private Equity Stakeholder Project. “Deceptive Marketing, Medicaid Fraud, and Unnecessary Root Canals on Babies: Private Equity Drills into the Dental Care Industry” Eileen O’Grady. July 2021. Available at: https://pestakeholder.org/wp-content/uploads/2021/08/PESP_DSO_July2021.pdf (Accessed 3/1/2024)
- ¹³ McGuire Woods. “Pushing Upmarket: Consolidation of DSOs and Secondary Private Equity Sales”. May 5, 2023. Available at: <https://www.mcquirewoods.com/client-resources/alerts/2023/5/consolidation-dsos-secondary-private-equity-sales/> (Accessed 3/1/2024)

¹⁴ Transaction 004 Notice of Material Change Transaction. Available at:
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¹² Barber, Felix and Goold, Michael. The Strategic Secret of Private Equity. Harvard Business Review. 2007.
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