



DECEPTIVE MARKETING, MEDICAID FRAUD, AND UNNECESSARY ROOT CANALS ON BABIES:

Private Equity Drills into the Dental Care Industry

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Key Points

- Dental Services Organizations (DSO) are companies that provide non-clinical business services to dental practices, including administrative, marketing, bookkeeping, and financial services.
- DSOs are overwhelmingly owned by private equity firms. 27 of the top 30 DSOs are private-equity-owned. This amounts to approximately 84% of practice locations that contract with the top 30 DSOs.
- DSOs currently make up a relatively small portion of the dental market (less than 20%), but that number is rapidly increasing.
- The returns typically demanded by private equity investors may create risks to quality of care by incentivizing profit-driven practices that are harmful to patients, including overtreatment of patients, misleading advertising schemes, Medicaid fraud, and other problematic practices.
- Private equity investment in dental services may offer insights for those focused on the private equity industry's recent incursion into doctors' practices. Both the DSO and physician practice management industries appear to have been created, largely by private equity firms, to avoid regulation that prohibits investor ownership of clinical practices. The risks of private equity involvement in dentistry and doctors' practices are similar.
- Several case studies of private-equity-owned DSOs illustrate the potential risks of private equity involvement in dental practices:
 - **Aspen Dental Management Inc.** is owned by private equity firms **Leonard Green & Partners, Ares Management,** and firm **American Securities.**
 - **Benevis,** formerly known as Kool Smiles, has been owned by various private equity firms since 2004 including **Friedman Fleischer & Lowe (FFL).**
 - **North American Dental Group** is owned by private equity firm **Jacobs Holding.**





Source: Sunnyview Dental

In recent years, private equity has increasingly carved out a substantial portion of the US dental industry, primary through ownership of Dental Services Organizations (DSOs). DSOs are companies that handle the business side of dental practices, such as administrative, marketing, bookkeeping, and financial services.

While DSO-affiliated practices currently make up a relatively small portion of the broader dental industry, the number is rapidly increasing. Private equity firms dominate the DSO market; nine of the top ten DSOs in the US are owned by private equity firms. 27 of the top 30 DSOs by number of affiliated locations are owned by private equity firms, accounting for 84% of practice locations affiliated with the top 30 firms.

The rise of private-equity-backed DSOs and corporate dentistry raises concern. The private equity investment model, which typically targets outsized returns over relatively short time horizons, may incentivize profit-seeking tactics that are harmful to patients. Payment structures between DSOs and dentists have been found to create perverse incentives that lead to overtreatment of patients, misleading advertising schemes, Medicaid fraud, and other problematic practices in order to reach revenue targets set by DSOs and maximize profit.

The risks of private equity investment in dental services are reflective of the broader risks of private equity investment and consolidation of other clinical services like doctors' practices, where unlicensed investors are also barred from direct ownership but have found inroads into the sector through similar business management relationships.

Today, DSOs are largely unregulated. Given the potentially harmful impacts of the private equity model on patient care, it is critical that regulators and lawmakers implement robust oversight to ensure that quality of care is preserved.

This report attempts to understand private equity's growing role in the US dental industry, including through case studies of several major DSOs.

What are Dental Service Organizations?

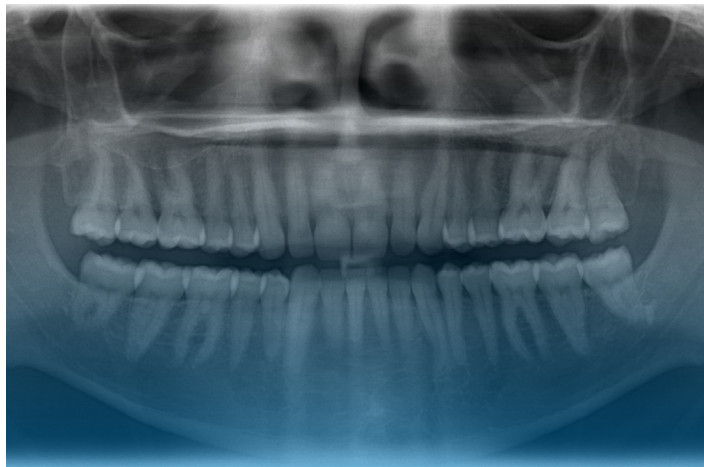
Dental Services Organizations (DSOs) are companies that provide non-clinical business services to dental practices. In most states, dentists are legally required to own their practices. To circumvent laws regulating dental practice ownership, investors create separate entities that provide related practice management and business services. This is sometimes referred to as “corporate dentistry.”

DSOs may provide human resources and administrative services, accounting services, marketing and advertising services, procurement services, and other business-related services. Dentists who contract with DSOs are legally responsible for all clinical decisions, though in practice the delineation of these responsibilities is sometimes murky.

The prevalence of DSOs in the US dental industry is difficult to determine. The American Dental Association estimated that in 2019, 10.4% of US dentists were affiliated with DSOs.¹ Investment firm William Blair & Company estimated in 2017 that dental chains made up 16% of the market.² Analysts acknowledge that estimates of dental affiliations are likely far undercounted, since many business relationships between DSOs and practices are opaque and not publicly disclosed.

While the exact number of DSO-affiliated practices is unknown, the rapid growth of the dental services industry in recent years—which was virtually non-existent 20 years ago—is unquestionable. Some analysts expect DSO market penetration to increase by 30% to 35% over the next five to ten years.³ Industry publication Dentistry IQ estimates that DSOs will make up nearly 50% of the dental market by 2030.⁴

DSOs operate in every state in the US except Alaska and Montana. The top three states are Nevada (24.7%), Texas, (19.5%) and Arizona (19.5%).⁵ DSO prevalence in a particular is likely tied to the profitability potential in that state, which could be influenced by a state’s regulatory environment or market factors.⁶



Dentists who choose to contract with DSOs may do so to focus more on clinical operations and pass along business and administrative responsibilities to the management companies. Recent dental school graduates have the highest affiliation rate with DSOs, which may stem from high student debt and the difficulty with the financial aspects of starting a practice.⁷

Dentists affiliated with DSOs appear to have higher Medicaid and CHIP participation rates than dentists not affiliated with DSOs.⁸ This is likely due to their size; while small practices may have difficulty absorbing costs related to Medicaid reimbursement rates that are lower than the customary fees, DSOs can take advantage of economies of scale to lower operating costs and accept more Medicaid and CHIP-eligible patients.⁹



Private Equity's Role in DSOs

The growth of DSOs in the US is inextricably tied to private equity investment in the dental industry. Because private equity firms are barred from directly investing in the dental practices in most states, DSOs provide a legal avenue to penetrate the dental market.

Today, private equity firms have near-complete control of the DSO market. Nine of the top 10 DSOs are owned by private equity firms, and 27 of the top 30 DSOs are private-equity-owned. This amounts to approximately 84% of practice locations that contract with the top 30 DSOs.

TOP 30 DSOs

COMPANY	PE FIRM	YEAR INVESTED	NO. OF LOCATIONS
Heartland Dental/ADPI	KKR	2018	1,142
Aspen Dental	Leonard Green, Ares Management	2017	1,000
Pacific Dental Services	Not PE-owned	n/a	816
Smile Brands	Gryphon Investors	2016	700
Dental Care Alliance	Harvest Partners, Crescent Capital	2015	330
Western Dental (aka Premier Dental Services)	New Mountain Capital	2012	330
Affordable Care	Harvest Partners	2021	300
Great Expressions Dental Centers	Roark Capital, Ares Management	2016	300
MB2 Dental	Charlesbank Capital Partners	2021	300
SG Management LLC (Schulman Group)	Not PE-owned (member-owned)	n/a	289
North American Dental Group	Jacobs Holding	2019	250
Mid-Atlantic Dental Partners	S.C. Goldman & Company	2016	220
Smile Doctors	AlpInvest Partners, Sheridan Capital Partners, Linden Capital Partners	2017	220
InterDent	H.I.G. Capital	2012	200
Benevis	New Mountain Capital	2020	150
Mortenson Dental Partner	Not PE-owned (employee-owned)	n/a	140
D4C Dental Brands	HarbourVest Partners and Cressey & Company	2016	125
Elite Dental Partners	Cressey & Company?	2018	104
DECA Dental Group	Blue Sea Capital?	2015	100
Rock Dental Brands	Twin Brook Capital Partners	2018	84
ProSmile (Allied Dental)	TriSpan	2020	79
Sage Dental Management	Linden Capital Partners	2012	70
Lone Peak Dental Group	Tailwind Capital	2018	65
Dental365	White Oak Healthcare Finance	2019	61
Pure Dental Brands	Huron Capital	2017	60
Familia Dental	Halifax Group	2016	42
Cordental Group	NMS Capital	2017	40
Specialty Dental Brands	Leon Capital Group	2017	40
Affinity Dental Management	MidOcean Partners	2017	38

Additionally, the Association of Dental Support Organization (ADSO), which serves as the primary trade association for DSOs, is run almost entirely by DSO representatives affiliated with private equity firms; all but one of ADSO's 15-member executive community is affiliated with a private-equity-backed DSO.¹⁰

Dental services is a natural target for private equity investment as the industry is highly fragmented, making it ripe for consolidation. Private equity investment in health care often includes "rolling up" industries, which involves creating or buying a platform company and using it to acquire multiple smaller companies in the same sector.¹¹

The Risks of PE Investment in Dental Services

Private equity's dominance of the dental services industry raises concern. The high returns typically targeted by private equity investors over short time horizons may create perverse incentives that are harmful to patients, including cost-cutting tactics, high financial leverage, and a focus on profit-maximizing procedures.

Of critical concern is how the DSO structure may emphasize "quantity of care over quality of care." DSO proponents claim that DSOs have no impact on clinical operations, and focus entirely on business management services. However, investigations by regulators have found that the relationship between DSOs and dentists is murkier than represented. In some cases, the owners of DSOs, i.e., private equity firms, exert undue influence over practices to increase profits.

Payment structures between dentists and DSOs may play a role. There is no standard payment arrangement between dentists and DSOs. In some cases, the DSO may pay dentists based on a percentage of payments received for dental services. DSOs may also offer productivity or profitability bonuses.¹²

Pressure to meet revenue targets has been shown to lead to over-booking and understaffing or rushing through treatments to maximize the volume of patients. It can also lead dentists and hygienists to push unnecessary or expensive procedures, such as drilling into healthy teeth,



conducting unnecessary and costly x-rays or screenings, and performing medically unnecessary root canals. The case studies included in this report provide more detail in how these payment structures have led to harmful practices at a number of major DSOs in recent years.

The potentially harmful impact on patients especially raises concern given that a significant portion of patients receiving care at DSO-affiliated practices are Medicaid eligible, which may exacerbate problems of inequity in oral health for low-income people. While DSOs' scale may allow for expanded access for underserved communities, it is critical that access does not come at the expense of quality for these communities in the service of maximizing profit for private equity investors.

Regulatory Scrutiny

A 2013 joint investigation by the U.S. Senate Finance and Judiciary committees into DSOs and corporate dentistry affirmed these concerns. The investigation, "Joint Staff Report on the Corporate Practice of Dentistry in the Medicaid Program," found "a failure to meet quality and compliance standards, including unnecessary treatment on children; improper administration of anesthesia; providing care without proper consent; and overcharging the Medicaid program."¹³

According to the Senate committee report, DSOs ultimately have control of operations of affiliated dental clinics that results in a system that "places profits before patient care." In particular, the investigation sought to





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understand how DSOs backed by private equity firms make more money from Medicaid patients than locally owned and operated practices. Through several case studies, the report found that private equity-backed DSOs rely on high patient volume to increase profits.¹⁴

The investigation focused on a case study of Church Street Health Management (CSHM), the parent company of Small Smile Dental Centers which primarily served Medicaid-eligible children. CSHM was owned by Arcapita Inc., the Carlyle Group, and other private equity firms before it filed for bankruptcy in February 2012. The company cited the costs of defending itself against lawsuits and investigations as a reason for bankruptcy.¹⁵

The Senate report found that CSHM intentionally overbooked, so that two to three patients were booked for a single time slot. The study also found that CSHM used bonuses tied to productivity, patient volume, and number of patients converted from simple hygienic work to operative procedures. Compensation at CSHM was based on the revenue of the dental clinic as well as the collections of each dentist, creating perverse incentives to rush through dental treatments and perform medically unnecessary treatments.¹⁶

Despite investigations by federal and state regulators and policymakers, the dental services industry is virtually unregulated. Several state-level initiatives to regulate DSOs have been introduced over the last decade and have failed, namely a rule proposed in Texas by the State Board of Dental Examiners in 2014 that would have barred dentists from contracting with unlicensed entities for nonclinical

functions. The proposal was withdrawn and reintroduced with narrower scope in 2015 but was once again tabled indefinitely. Similar proposals have been introduced in Washington, Virginia, and other states but failed.¹⁷

Parallels to Private Equity Investment in Doctors’ Practices

Private equity investment in dental services may offer insights for those focused on the private equity industry’s recent incursion into doctors’ practices. Like dentistry, private equity firms are prohibited from directly owning physician practices in most states. Private equity firms typically invest in physician practices by creating or buying a physician management company that affiliates with a physician-owned medical group.¹⁸

Private equity acquisition of doctors’ practices has accelerated in recent years, particularly in anesthesiology, multispecialty groups, emergency medicine, family practice, and dermatology. A study published in the Journal of the American Medical Association (JAMA) found that private equity firms bought 1,426 practices with 5,714 affiliated physicians between 2013 and 2016.¹⁹ More recent acquisition activity suggests new targets may be orthopedics, gastroenterology, urology, and ophthalmology.

Both the DSO and physician practice management industries appear to have been created, largely by private equity firms, to avoid regulation that prohibits investor ownership of clinical practices. The risks of private equity involvement in dentistry and doctors’ practices are similar.

DSO Case Studies

Aspen Dental

Aspen Dental Management Inc. is majority (80%)-owned by private equity firms Leonard Green & Partners and Ares Management, with the remaining 20% owned by PE firm American Securities, as well as Aspen Dental's management and dentists.²⁰ It is the second largest DSO in the US, with more than 1,000 locations in 46 states and 14,000 employees.²¹ Throughout the private equity firms' ownership, Aspen has drawn substantial regulatory scrutiny for engaging in a range of practices that hurt patients.

Over the last decade Aspen has **paid at least \$1.7 million in settlements** with state attorneys general in Pennsylvania, Massachusetts, New York, and Indiana.²²

For example, a 2015 investigation by the New York Attorney General found that Aspen exerted undue control over affiliated practices that directly impacted patient care, including "incentivizing and otherwise pressuring staff to increase sales of dental services and products, implementing revenue-oriented patient scheduling systems, and hiring and oversight of clinical staff, including associate dentists and dental hygienists."²³

The same year, Indiana Attorney General Greg Zoeller announced a settlement with Aspen as a result of a year-long investigation that found that the company used deceptive advertising and other unfair tactics to promote services. In announcing the settlement, AG Zoeller highlighted the impact of Aspen's deceptive marketing on elderly patients: "Misleading customers about the true cost of dental services is deceptive and unlawful, and this behavior placed unanticipated financial burden on Hoosiers, many of which were senior citizens."²⁴

In December 2014 Aspen agreed to pay a \$1 million settlement as a result of an investigation by the Massachusetts Attorney General Martha Coakley for misleading advertising and marketing practices that occurred between September 2009 and December 2013. Aspen allegedly ran confusing advertising and charged



customers for services months before they were provided. It also allegedly advertised "free" services that were in reality not free and refused to provide patients refunds for services not performed.²⁵

Despite the numerous complaints about profit-driven practices that hurt patient care, Aspen has continued to make large debt-funded payouts to its private equity owners. Over the last eight years Aspen has paid over \$212 million in dividends to Leonard Green, Ares, and American Securities: in **February 2012** it paid \$127 million and in **April 2018** it paid \$85 million to the ownership group.²⁶ Aspen appears to have paid another dividend as recently as February 2020 of an unknown amount.²⁷

In November 2020 Aspen grew substantially through its acquisition of ClearChoice Management Services, a leading dental implant center DSO. Aspen acquired ClearChoice from private equity firm Sun Capital Partners for more than \$1.1 billion.²⁸

Benevis/Kool Smiles

Benevis, formerly known as Kool Smiles, has been owned by various private equity firms since 2004. Benevis has had a troubled history including Medicaid fraud and significant medical malpractice suits, leading to the company's bankruptcy and subsequent restructuring in 2020. Today, Benevis has 150 affiliates in 17 states and has 3,500 employees.²⁹





FFL's high return expectations allegedly played a key role in incentivizing fraud. In particular, the amended complaint highlights FFL's desire to boost returns in order to attract investors to subsequent private equity funds:

"Not only did FFL's interest in the profits of portfolio companies provide a significant incentive to maximize those profits, FFL also intended to sponsor additional private equity funds, and its success in attracting investors in subsequent funds would depend greatly on the returns earned by investors in existing funds managed by it."³⁵

The complaint further alleges that FFL's requirements pressured staff to commit Medicaid fraud:

"FFL...established the business requirements necessary to attain the desired rate of return from the Kool Smiles clinics and directed [Benevis] to undertake these steps necessary to achieve those returns knowing that those returns would and did include the submission of false Medicaid claims. Accordingly, FFL and Capital Partners II are liable for the submission of those false claims as detailed herein."³⁶

Two months after settling the federal lawsuit, FFL sold Benevis to private equity firms Littlejohn & Co and Tailwind Capital. Littlejohn and Tailwind held on to Benevis for less than 2.5 years before taking the company into bankruptcy in August 2020.³⁸

Private equity firm New Mountain Capital acquired Benevis out of bankruptcy in October 2020. New Mountain also owns Western Dental, a California-based DSO with 175 dental offices in California, Arizona, Nevada

In January 2018, Benevis paid \$23.9 million to settle a federal lawsuit alleging that it performed and billed for medically unnecessary dental services performed on children insured by Medicaid.³⁰ The alleged activity took place entirely under the ownership of private equity firm Friedman Fleischer & Lowe (FFL), which first invested in Benevis in 2004.³¹ The settlement was the second largest False Claims Act dental settlement in history.³²

The US Department of Justice (DOJ) alleged that Benevis facilities submitted claims for performing medically unnecessary tooth extractions and root canals on babies, and sought payments for baby root canals that were never performed. The DOJ also alleged that Benevis "routinely pressured and incentivized dentists to meet production goals through a system that disciplined 'unproductive' dentists and awarded 'productive' dentists with substantial cash bonuses based on the revenue generated by the procedures they performed."³³

The DOJ found that the alleged fraudulent activity took place at 130 of Benevis-affiliated clinics, which submitted false claims to 17 different state Medicaid programs.³⁴



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and Texas. New Mountain acquired Western Dental in 2012 and has tried to sell the company at least twice—in 2018 and 2019—but was unsuccessful.³⁹

Benevis and FFL Partners are facing ongoing litigation for allegations of medical malpractice related to the death of a 2-year-old boy who became unresponsive after a dental procedure at a Kool Smiles clinic and died four days later. The lawsuit alleges that the company's business model is to "maximize the productivity of each clinic by scheduling the child-patients back-to-back, resulting in an insufficient amount of time between each child-patient for cleaning of the stations, monitoring of children who are recovering from various forms of anesthesia, and even to allow time for staff members to use the bathroom facilities."⁴⁰

North American Dental Group

North American Dental Group describes itself as the fastest growing DSO of scale in the US, with over 200 dental practices in 11 states and 23 regional markets. It is owned by Zurich-based private equity firm Jacobs Holding, which purchased the company from private equity firms Abry Partners and The Riverside Company in August 2019.⁴¹

NADG is a defendant in an ongoing federal lawsuit by the US Department of Justice alleging that NADG

has perpetuated and encouraged a Medicaid fraud scheme at its dental practices in Ohio. According to the amended complaint, NADG allegedly implemented an "Optimization Team" at several offices that would teach dentists and hygienists how to generate more revenue with dental procedures. At one office, the Optimization Team allegedly required the staff to double their billing revenue from \$5,000 to \$10,000 per day with the goal of reaching \$15,500 daily billing revenue.⁴²

A year-long investigation by *USA Today* published in March 2020 found that intense pressure to meet revenue targets led to gross overtreatment of patients, including regularly drilling into healthy teeth or conducting unnecessary root canals.⁴³

For example, the *USA Today* report found that an NADG regional manager in Indiana sent an email asking dentists not meeting their quotas if they were following procedures to entice more patients to agree to fluoride treatments, bone grafts and oral cancer screening—all procedures that tend to not be covered by insurance and can be used to drive up billings.⁴⁴

Conclusion

Private equity's growing influence in dentistry merits further scrutiny. While DSOs have not made up a significant portion of the dental industry until recently, the growth of DSOs coupled with a private equity investment model that prioritizes maximizing returns over providing quality care raises serious concern. DSOs' scale may lead to increased access for patients, but lawmakers and regulators must create sufficient oversight to ensure that quantity does not come at the cost of quality of care.

Moreover, similarities between private equity's strategy in other physician-led markets such as doctors' practices, dermatology, urology, ophthalmology, and others may be instructive in understanding the potential impacts of this model on other health providers.



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