PRIVATE EQUITY STAKEHOLDER PROJECT

May 12, 2025

Senate Appropriations Committee
California State Senate
1021 O Street, Room 2200,
Sacramento, CA 95814

Testimony in Support of Senate Bill 351 – Private Equity Stakeholder Project

Dear Chair Caballero, Vice-Chair Seyarto, and Members of the Committee,

My name is Chris Noble, and I am the Policy Director for the Private Equity Stakeholder Project (PESP). PESP is a non-profit organization dedicated to understanding the impacts of the increasing influence of private equity in our economy. Our mission is to empower communities, working families, and others impacted by private equity and the broader financial industry.

We appreciate this opportunity to testify in support of Senate Bill 351, "Health facilities," as its passage into law would be a critical step forward to close loopholes that private equity and other corporate investors use to circumvent California's prohibitions on the corporate practice of medicine (CPOM) and corporate practice of dentistry (CPOD).

Although California, like most states, bars private equity firms from directly owning physician and dental practices, firms are able buy or create platform companies that partner with physician and dental practices. Private equity firms have increasingly invested in these platforms, or "management service organizations" (MSOs) and "dental services organizations" (DSOs).[1] These types of platform companies partner with physician practices to handle non-clinical aspects of business, such as scheduling, billing, negotiating insurance rates, and more.

Private equity-owned MSOs and DSOs may market themselves as being able to help physicians and dentists focus on the 'clinical' side of healthcare and dentistry, but in practice, these companies may prescribe business practices that can impact clinical decision-making and autonomy of physicians and dentists. A growing number of physicians are organizing against private equity's and other Wall Street investors' influence in medicine.[2]

Outpatient care

Outpatient care, and especially specialty care, has consistently been one of the top areas for private equity dealmaking.[3] In healthcare, private equity acquisitions, including via MSO partnerships, are contributing to and have contributed to consolidation, which is often

accompanied by higher prices in various subsectors, [4] including primary care,[5] emergency medicine,[6] eye care,[7] gastroenterology,[8] anesthesiology,[9] and fertility clinics.[10]

Additionally, private equity's aggressive use of debt in the physician practice management industry leaves companies more vulnerable to changing market conditions, such as high interest rates and rising labor costs. Of the ten PPM companies that filed for bankruptcy in 2024,[11] half were private equity-backed: Cano Health, Prime Plastic Surgery, Atlantic Neurosurgical Specialists,[12] Clinical Care Medical Centers,[13] and CareMax.[14]

Dental care

Private equity firms have increasingly been investing in the US dental industry through Dental Services Organizations (DSOs). DSOs handle the business side of dental practices, such as administrative, marketing, bookkeeping, and financial services. The DSO industry appears to have been created, largely by private equity firms, to avoid regulation that prohibits investor ownership of dental practices.[15]

In a report PESP released in February 2025 examining trends in 2024 private equity dealmaking in healthcare, dental care saw the highest number of deals of any category tracked by PESP. PESP tracked 161 dental care deals in 2024, a 10.3% increase from the 146 dental care deals tracked in 2023. Seven of the 13 most active private equity-backed platform companies in 2024 were dental care companies.[16]

A recent study published in *Health Affairs* has found that private equity affiliation with dental practices nearly doubled for the period 2015-2021, from 6.6% in 2015 to 12.8% in 2021. The study found the highest growth among dental specialties such as endodontists and oral surgeons, which more than doubled during the period.[17]

According to the study's authors, "One possible reason for PE interest in dental specialist practices may be the high prices that specialists can earn for procedures such as root canals and implants, as opposed to routine exams from general practice dentists. PE firms may believe that they can get a higher return on investment from acquiring specialist practices."[18]

Private equity-affiliated practices had a higher rate of Medicaid participation. The researchers note that while this could expand access to dental care in poorer communities, "there are concerns that PE could implement strategies to increase the volume of unnecessary dental services for Medicaid enrollees."[19]

In November 2024, *KFF* and *CBS* published an exposé detailing a growing trend of dentists pulling out "healthy" teeth in order to profit from implants.[20] At dental practices around the country, patients have been reportedly encouraged to get dental implants, which can cost tens of thousands of dollars, instead of keeping their teeth and getting treatments like root canals. The article highlighted how multiple private equity-owned dental care chains may be

contributing to this trend. One company, ClearChoice, which is owned by Ares Management, American Securities and Leonard Green & Partners, allegedly used salespersons, or "patient education consultants," to meet with patients about options like dental implants before the patient had even seen a dentist according to a lawsuit filed against the company.[21] ClearChoice has three locations in California.[22]

A 2021 report from PESP documented extensive issues at private equity-owned dental care providers. For more information, see: "Deceptive Marketing, Medicaid Fraud, and Unnecessary Root Canals on Babies: Private Equity Drills into the Dental Care Industry."

The private equity business model

Private equity firms often seek to double or triple their investment over 4-7 years. The pursuit of outsized returns over relatively short time horizons can lead to cost-cutting that impacts patient care. In addition, use of high levels of debt can divert cash from operations to interest payments and dividends paid out to private equity owners.

Putting profits before patients is not unique to private equity–owned healthcare companies. But because there's less transparency around private equity deals and the companies they own, and because private equity firms tend to use more debt than other types of investors to fund their business strategies, the private equity business model can amplify the profit-seeking behaviors that put patients and healthcare workers at risk.

Private equity's debt-based investment strategies all too frequently end in bankruptcy, threatening the stability of the healthcare system. In 2024, one-fifth (21%) of healthcare bankruptcies involved private equity-owned companies. Seven out of eight (88%) of the largest (liabilities over $500 million) bankruptcies in the healthcare industry in 2024 were at companies with a history of private equity ownership.[23]

Closing the loophole

PESP strongly supports SB 351 because it would do much to address the root issue of private equity consolidation and cost hikes: private equity's ability to circumvent prohibitions on the corporate practice of medicine and dentistry in the first place. By expanding the pre-existing guidelines on CPOM set forth by the Medical Board of California, this bill will curtail the influence investors may currently have over clinical care and the provider/patient relationship.

Other states have already had success in implementing similar laws. For example, in New York, fee-splitting arrangements, where a physician management company takes a percentage of the practice's revenue in exchange for running the business, are prohibited.[24] In the State of New York's judgment against private equity-owned dental management company Aspen Dental, Attorney General Eric Schneiderman wrote that "medical and dental decisions should be made by licensed providers using their best clinical judgment and should not be influenced by

management companies' shared interest in potential profits." By enforcing New York's laws banning the corporate practice of medicine and fee-splitting between medical practitioners and unlicensed individuals and entities, today's agreement ensures that New Yorkers receive quality dental care."[25]

In recent months, multiple states have moved to address private equity's negative impacts in healthcare, including loopholes in CPOM regulations, demonstrating how widespread of an issue it has become.[26] The Private Equity Stakeholder Project supports state efforts to safeguard against the risks of private equity. We urge California lawmakers to pass Senate Bill 351 and join the growing chorus of states that are choosing to address rising healthcare costs by prioritizing the long-term health of their residents over investor profits.

Sincerely,

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Policy Director
Private Equity Stakeholder Project

End Notes

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