ALTERNATIVE BUSINESS MODELS IN DENTISTRY KEYNOTE PANEL DISCUSSION

DR BERNIE WHITE

1. The purpose of the CDSS is to regulate the provision of oral-facial (dental) services in Saskatchewan.

2. Only those professionals with the requisite training, may be licensed to perform authorized practices within the Act, CDSS Bylaws and standards and furthermore to discipline those who don’t comply.

3. The overarching notion in the DDA and the CDSS Bylaws and Standards is that dentists are central to the responsibility for the provision of oral-facial services to the public, Ownership isn’t addressed directly.

4. The following are CDSS Regulatory Rules and Tools – Legislation
   - Dental Disciplines Act (DDA)
   - CDSS Bylaws, Standards
   - Health Information Privacy Act (HIPA)
   - Saskatchewan Government Radiation Health and Safety Act
   - Professional Corporations Act

Dental Disciplines Act (DDA)
   - Authorized Practices listed are limited to that DDA profession
   - Each Reg authority (A,T,H) can make regulatory bylaws within the DDA’s overarching theme of requiring a dentist to be connected to authorized practice for A,T,Hs (DDA s15)
   - CDSS can make regulatory bylaws including setting Standards (DDA s15)
   - Dentists Authorized Practice is all inclusive (comprehensive) in the oral-facial complex (DDA s23)
   - CDSS regulates all Dentists by bylaws, license, standards (DDA s24)
   - Dentists must be involved in all DDA Authorized Practice of all A,T,Hs (DDA s25)
     *A,T,Hs must be employed by or contracted with a DDAs 25 Agency(+D) or a Dentist*

CDSS Bylaws, Standards
   - Each member shall:
     (i) abide by all provisions of the Act and the bylaws; (CDSS Bylaw 9.2(1) a,b)
     (ii) abide by their licence: (Competence, Conduct, Standards)
   - Dentists agreements, including leases must not be based on professional fees (example: not a % of fees) other than with other DDA professionals (D,A,T,Hs) or DPCs. CDSS Bylaw 9.2(2)
   - Dentists cannot be agents, partners, employees, shareholders, etc of persons or corporations not entitled to practice medicine (CDSS Physician) or dentistry (CDSS Dentist) for the benefit of such ‘non-health’ persons or corporations unless:
     (i) allowed by other Can./SK legislation,
     (ii) it is a DPC, or

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9.2(3)

A dentist, by entering into a contract with an organization or other party involving the practice of dentistry, neither reduces personal professional responsibilities nor transfers any part of those ethical or legal responsibilities to that organization or other party.

CDSS Bylaws, Code

**Health Information Privacy Act (HIPA)**

- controls trustees of records
- For dentistry, “a trustee is a health professional, other than an employee of a trustee, who is a health professional licensed or registered pursuant to an Act (DDA) for which the minister is responsible”

**SK Government, Radiation Health and Safety Act and Regulations**

- Controls Radiation Equipment, Ownership, Installation, operators
- Owner is a person having management and control of radiation equipment – only those qualified by an Act - for the DDA - D,A,T,Hs

**Professional Corporations Act**

- Controls structure of Dental Prof Corps
- Dentists, family, Trusts as non-voting shareholders
- DPCs controlled by dentists as directors, voting shareholders

5. **The CDSS has responsibilities to members, patients, the profession and the public:**

   - **Members** - license, assistance with standards to address competence and conduct
   - **Patients** - Enable safe, Comprehensive Patient Centered Care
   - **The Profession** – Preserve the reputation as a responsible, self regulated group
   - **The Public** - Meet expectations for the ‘social contract’ including service, leadership

6. **The Patients have expectations:**

   - Not usually related to who owns physical assets and goodwill
   - High standard of care that they receive from the dentist, staff and colleagues
   - Fair, professional general client services
   - Privacy of their Personal Health Record and Information.

7. **The Members have responsibilities regarding their license, standards, reputation, the social contract:**

   - License obligations and standards to meet CDSS and public expectations of competence and conduct
   - Safe, Comprehensive Patient Centered Care for patients and the public in general
   - The Profession’s reputation as a responsible, self regulated group of respected colleagues
   - The Public’s expectation for the ‘social contract’ including appropriate service, leadership

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8. **There are Pitfalls related to Ownership/Management**

- **Unlawful**: employment of dentists; influence of non-dentists in patient care; employment of A,T,Hs; Ownership and management of radiation equipment; management of patient records
- Employee/management **conundrums** for previous owner dentist who remains as an associate
- New ownership/management becomes **business-centered not patient-centered** - Dentist remains responsible for care/PR?
- Contract obligations **conflict** with: professional ethics, personal values, reputation
- Customary expectations regarding failed treatments of the previous owner – ‘bad will’
- Quota dentistry **pressures**
- General sellers’ remorse: happy to have the cash; unhappy with the anguish!

9. **Limitations on parties to a practice:**

<table>
<thead>
<tr>
<th>Non-Dentists</th>
<th>S2S Agency(D)</th>
<th>Dentists/DPC</th>
<th>T,H,A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Own assets</td>
<td>-</td>
<td>Fixed lease, no %</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Own assets</td>
<td>Employed, contract (Cons, Ref)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>Own assets</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>% of fees (bylaw9.2 (2)(d))</td>
<td>Own assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2.</th>
<th>No</th>
<th>(Yes)</th>
<th>Employ Dentists (Bylaw 9.2(3))</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td>No</td>
<td>(Yes)</td>
<td>Comprehensive Auth Practice (DDAs23)</td>
<td>Limited(D)</td>
</tr>
<tr>
<td>4.</td>
<td>No</td>
<td>(Yes)</td>
<td>Records trustee (HIPA)</td>
<td>Trustee(D)</td>
</tr>
<tr>
<td>5.</td>
<td>No</td>
<td>(Yes)</td>
<td>Radiation Equip (GOV.SK RHS)</td>
<td>No</td>
</tr>
<tr>
<td>6.</td>
<td>No</td>
<td>(Yes)</td>
<td>Employ/contract T,H,A (DDAs25)</td>
<td>No</td>
</tr>
<tr>
<td>7.</td>
<td>Yes; No</td>
<td>(Yes); No</td>
<td>Management Services; %</td>
<td>Yes; Yes</td>
</tr>
</tbody>
</table>
There has been a significant increase in the number of practices purchased by corporate entities over the past 8 years.

- We divide corporate dental entities into 4 categories:
  - Large: eg. DCC and Altima
  - Medium: eg. Smiles First
  - Small: 3-25 clinics
  - Very small: 2-3 clinics

- Large and Medium entities tend to buy direct from vendors through direct marketing and avoid brokers as they do not wish to get into a competitive multiple offer situation.
  - 90% of broker sales are still to individuals.

Cost of financing a dental practice has been an historic barrier to entry (Porter’s 5 Forces) into the dental industry.

- Availability and cost of financing kept prices lower than other industries.
- Large corporations have greater access to capital than individual dentists.
- Corporations have dedicated departments for acquisitions allowing for greater speed in purchase decisions.

Dental market saturation:

- GTA and Victoria most saturated areas in Canada
- Lower mainland of BC
- Edmonton and Calgary
- Most of Manitoba and Saskatchewan and the Atlantic provinces least saturated
- Of major cities in Canada, Regina has highest patient to dentist ratio (least saturated) followed by Winnipeg.
- Saskatoon has a better ratio than most major cities in Canada.

Prices paid for dental practices:

- Large and Medium sized corporations base prices on a capitalisation of cash flow.
  - Usually in the 20% range (5x cash flow) but have gone as low as 14% (7x cash flow)
  - Almost always have conditions of continuation of practice and maintenance of EBITDA
  - Do not allow for immediate retirement
  - Potential penalties if conditions are not met.
- Brokers base values on a combination of assets and goodwill, a comparative market analysis and market trends.
  - Conditions vary with each sale.
  - Usually allow the vendor to retire in short order if desired.
- GTA
  - Practices were selling significantly above appraised value until approx. 18 months ago
  - Significant cooling of market in last 18 months
  - Practices still selling for 10-15% above appraised value but buyers have become more selective
  - Market may have peaked.
- Expect similar cooling trend to occur in Lower BC next.
- Edmonton and Calgary have recovered un value much quicker than anticipated.
Relative value of practices in Canada setting Saskatchewan as 100
- Ontario & Vancouver: 120%
- Alberta: 115%
- Saskatchewan: 100%
- British Columbia: 100%
- Manitoba: 85%
- Quebec: 80%
- Atlantic Canada: 50%

JASON WATT, CPA, CA

Current trends:
- Few positions for grads
- Increased overhead costs, technology costs
- Aging patient base
- Increased number of female professionals, which typically work 10 years less than male professionals
- Grads wanting guaranteed income and work/life balance needs

Consolidation (General)
- See attractive margins for their investors
- Future in the USA could have corporate dentistry as high as 80% of the market
- In Canada there is a shortage of practises for sale in large urban centres, which can create bidding wars. Rural or smaller centres generally underserviced
- Canada – high competition for patients as demand is relatively flat. Higher hygiene income with aging population
- In Canada, corporate is around 4% of the market by revenue

Consolidation (Canada)
- Consolidators are looking for: Billings in $2-$2.5 M, multiple practitioners, partners continue going fwd
- Consolidators offer 80-90% up front and willing to pay a premium
- Vendor gets upside on the “mothership” shares and share in growth of practice, with possible repayment if practice deteriorates

New CRA tax changes:
1. Income sprinkling
2. Passive investment income within active company
3. Conversion of “regular” income into capital gains

ERIN L. BOKSHOWAN, LAWYER, MLT AIKINS

Overview of purchase and sale process
1) Letter of intent – what is it, why and when is it done?
2) Due diligence process – what is it, why and when is it done? What to expect if you are the vendor.

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3) Negotiation of purchase and sale agreement

   a. Typical process for negotiating and preparing sale documents

   b. Asset sale versus share sale. (Focus will be on legal issues rather than tax issues on the assumption that Jason Watt will speak to tax issues.)

   c. Consideration of ancillary issues (lease agreements, cost sharing agreements, employee matters, non-competition covenants)

   d. Associate fee sharing – if vendor intends to stay on as an associate

DR RANDY GILEWHICH

• A brief review of my work history after dental school as an associate, then buying into a practice, growing the Regina Dental Group and now the Partnership with Altima Dental moving into the future

• Pros and cons of Individual Solo Ownership vs Dental Support Organization Partnerships

• With the partnership with Altima, I was able to crystalize a majority of the equity in my practices while maintaining ownership as a partner and the ability to profit share at the end of each year

• I have an associate contract that overall increased my income as I was able to consolidate all the things mentioned regarding overheads: Revenues – All Expenses = Take home pay

• With added Buying power as a group vs buying power as an individual, this amount goes right to the bottom line ie.) sundries, equipment, office supplies, legal, accounting, advertising

• Ability to off-load things such as payroll; HR; legal; accounting to allow more free time for professional and personal pursuits

• There is an EBITDA responsibility each year, however, with the ability to decrease overhead expenses, this number is easily reached and then profit shared after which is no different than you would set your goals in solo practices

• There is no production responsibility or goal; really no different than in solo practice as you set your own budgets for revenues and expenses so as to maximize your profits, all at the same time providing excellent patient care
• Challenges faced with the dental associates through the years and the options of transitions of my practices

• The roles of all dental team members had prior to and now with the Altima partnership

• The role that Dental Support Organizations will have moving forward as overheads increase, supplies and equipment costs rise, huge debt new grads have coming out of school, differences in thoughts about practices with the newer generation dental grads…..this all leads to an increase in the presence in the marketplace of the DSO’s as the landscape changes for the owner, new grad/associate and various provincial regulatory associations

GUY AMINI – CHIEF LEGAL OFFICER, DENTAL CORP

Evolution of Alternative Business Models

• Traditionally, practitioners would practice until they are ready to retire (or scale back) and sell to an associate. Business models have evolved, providing alternative opportunities for dentists.

• The spectrum of alternative business models has dentalcorp at one end and status quo (or dentist-owned) at another end with a few different options in the middle (group practices, Investor Dentists etc.). Things can get complicated in the middle.

• It is important to be informed about all your options and pick what is best for you and your practice.
  ◦ What is your ultimate goal?
    1. Are you looking to continue practicing into the foreseeable future?
    2. Are you planning for retirement? If so, in the immediate future?
    3. Do you value autonomy, independence and self-governance?

• Status quo / dentist-owned practices
  ◦ Increasingly demanding to operate with changes in the economy (higher interest rates, cost of capital, technological changes etc.), consumer demands (dental is a highly competitive industry and practices need to compete for market/patient share) and generational shifts in associate ambitions and lifestyle (not wanting to take on significant debt to own a practice)

• Investor Dentists and Group Practices
  ◦ This type of model can compromise operating autonomy, the dentists’ brand identity (loss of name, branding etc.) and relegate the dentist to an associate position within a practice they helped build and grow
  ◦ The practice and team can also be disrupted with changes to day-to-day operations (implementation of new systems, infrastructure and expectations)

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dentalcorp

- Provides dentist Partners with the ability to:
  - Realize the value of their practice today, while continuing to deliver optimal patient care through complete clinical and operating autonomy
  - Achieve more balance in life, diversify/de-risk their wealth and secure their legacy
  - Maintain their Practice’s brand identity and culture, while leveraging world-class support with strategic expertise in marketing, talent recruitment, human resources and practice optimization to achieve personal and professional growth