

CEO Leadership Series: Vol 10



David Drzewiecki, CEO of Absolute Dental

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David Drzewiecki, CEO of Absolute Dental, joins us to share his insights on the DSO market landscape. Dave's views on DSO market trends, strategy and execution are informed by his uniquely holistic vantage point having served in a variety of roles across a number of DSOs including: CEO; COO; CIO; and leadership roles within dental RCM, specialty operations, and lab service lines.

In the first portion of this piece, David discussed market trends he sees increasingly shaping strategy within the DSO market over the coming years. In the second portion, David sheds light on keys to execution success and favorable strategic positioning in the context of these evolving market dynamics.

Dave joined Absolute Dental in 2016. Absolute Dental operates nearly 40 practices across Nevada, and today is proudly the largest Medicaid provider in Nevada. Absolute Dental also offers holistic dental care under the mantra of "all dentistry one place," to help deliver high quality, coordinated care to patients as efficiently and conveniently as possible.

DSO Market Landscape – A Market Transformed, Misunderstood & Ripe With Opportunity Ahead

There are approximately 200,000 dentists in the United States. When I started in the dental market in 2007, there was about 5% consolidation across the industry. Today, it's closer to 20%. Watching this rate of consolidation was impressive. When I got

involved with Dental Care Partners, we had 67 practices, Aspen Dental had about 100 practices, Heartland Dental had maybe 130 practices. Heartland Dental now for example has over 1,600 practices to give you an idea of just how much things have changed.

Technology was few and far between back in 2007 comparable to what's available today. Medicaid was misunderstood, probably 10, 15 years ago. Today, however, pediatric Medicaid and orthodontics Medicaid are broadly accepted as solid business models.

Greatest Misconceptions About the DSO Investment Thesis

Paramount is the false assumption that the DSO market is already mature, in the ninth inning. The reality is that with 80% of the market of 200,000 dentists still fragmented, with 50% of the adult market untapped and with the role of technology in establishing value-based payments and expanding our reach into homecare and more services the best is yet to come.

The second main false assumption is that the market hasn't scaled well, with a few well publicized largescale DSO challenges. My view is that in a market of +150 DSO platforms, there were only a couple of bad actors in there that unfortunately created some of those misconceptions. Whether it was a failed DSO unable to meet its debt covenants or an incidence of Medicaid fraud, the number of these types of examples is less than a handful. The DSO industry consists predominantly of people who genuinely care about delivering great care and / or supporting others who deliver great care.

Where Does the DSO Market Go From Here?

I see and interact with more DSO strategics now than ever before, as well as more DSO targets. We should anticipate further consolidation. Today's largest DSO groups will continue to consolidate for all the right reasons, which is expanding and streamlining services for the end-patient.



Technology will continue to both enable and require further consolidation. Technology adds expense and complexity, but also simultaneously provides potential for improved results across a myriad of departments, particularly as it relates to the standardization of dental care.

As we look at some evolving dental payer market dynamics and what it will take to achieve target outcomes at a macro level in the dental industry, there will be required investment in technology to develop the types of programs necessary for continuing to modernize the holistic dental care experience.

A View on the Dental Payer Landscape – Fundamental Evolution Ahead

Medicaid

I think adult dental Medicaid will become more widely accepted as Medicaid expansion continues, and as states continue to think both analytically and proactively in terms of adult Medicaid dental coverage.

Pediatric dentistry is mostly about preventative dentistry and making sure that the child has a healthy mouth before they go into adolescence and eventually adults. I think the pediatric Medicaid programs in most states are relatively good - the benefits are defined on that. And, socially and legally, the legislators and the people who make these decisions at the state level, for the most part, want to see children get access to dental care - especially underprivileged children. So, I don't think there's really a big challenge on the pediatric Medicaid side - I think it's more on the adult side.

On the adult Medicaid side, I think there is a minimum coverage question. We could probably take multiple views on this, but one view is that the states have such limited benefits in dental for adults, that when you go to the dentist as an adult, you're often going as an emergency patient when you're covered by a

government plan. And, at that point, you don't have many options from a care perspective, so often you end up getting your tooth pulled. That's counterintuitive when you think about dentistry and why you would go to the dentist. You don't want to lose teeth, you want to restore and maintain teeth. So, I do think some state Medicaid programs could benefit from alternative thinking in their approach to adult Medicaid dental coverage benefits.

Medicare & Commercial

Beyond Medicaid, we can anticipate growing payer maturity on the dental side of the house. The payers, who historically spent the majority of their dollars on the medical side but not necessarily on the dental side, will increasingly appreciate the value of good dental care in reducing many other healthcare costs. Today, we still see far too many adults lacking basic dental care and access. Approximately 50% of the entire U.S. adult population does not have annual dental care of any type. This is both tragic and also speaks to the size of the market opportunity within dental care as payor awareness and adult benefits continue to expand.

I see lots of opportunity and continued growth within Medicare Advantage. Not all states offer the Medicare Advantage plans yet, but I do think that we're seeing more traction on that specifically in Nevada. And I do think that as the expansion continues to happen across the country, you'll see more programs. You'll also start to see dental added directly in government plans. Right now, it's not directly included - the payers are adding dental coverage as a value-add offering - but I think dental coverage will eventually be baked in natively by the government.

I believe the value-based dentistry portion of the industry is going to continue to proliferate not only on the government side, but also on the private payer side. People are going to be more focused on clinical outcomes than they are going to be on transactional work. There are companies developing software solutions to bridge the dental payer community with dental providers through software. For now, the industry is just not mature enough yet to capitalize on these solutions broadly - there are accepted standards, but it will just take time for the market to catch up to consistently following and tracking these standards and then effectively incorporating them into payment models.

Succeeding in the Evolving Dental Market Landscape

Technology

It's unfortunate that our industry is still 20 years behind in technology, even though we have advanced in many ways. We've tried and there are organizations out there that are attempting to bring the payer community together with providers, using software that solves for core standards and value-based performance measures. The industry is not yet mature enough yet to capitalize on this opportunity, but it will evolve over time.

As a quick example of technology that we are seeing yield positive results, we now have access to technology that automatically diagnoses dental x-rays. In doing so, we can mitigate against

wide biases and subjectiveness in a human-only evaluation. One challenge in this industry has historically been if you have 10 dentists in a room, you're going to have 12 different treatment plans. That creates patient and payer confusion and misconceptions. With more consistent diagnoses, both patients and payers will be more acceptant of treatment plans. Unfortunately we were dealing with the human body and that tends to complicate things.

All Dentistry, One Place

"All dentistry, one place" is our tagline. What that effectively means is the typical general dentist down the street that some of you may go to, he or she offers general dentistry. And if there's something that he or she can't do, they'll refer out whether it's to an endodontist for endo or maybe it's an orthodontist or oral surgeon for a complex series of extractions. The patient will be referred out and will have to drive to a different location to complete the treatment. The DSOs who have figured that out, realize that sometimes when the patient goes to that specialist, they may not come back to the general dentist because maybe there's another general dentist in that other office. The patient loss rate can be as high as 40% when you refer out.



What we have done - and what some other DSOs have done - is not only do we offer general dentistry and hygiene, but we also offer all types of specialty care.

We have endodontists in the practices, as well as oral surgeons, periodontists and orthodontists. And, we also offer pediatric dentistry. So, there is no reason for the patient to leave the practice. We rotate specialists into those practices with their own dedicated teams - that's why it's all-in-one, all dentistry one place.

Strategic Partnerships for Coordinated Care Delivery

Coordinated Care

We talked a moment ago about dental payer trends and specifically those within Medicare Advantage. We recently opened up five practices in collaboration with a non-dental strategic partner. These practices are focused on providing dental care within the Medicare Advantage market. We're seeing some great patient experiences and clinical outcomes in this initiative so far as an example of how different players can work together to enhance patient care outcomes. Through this partnership, we're even able to extend the "all-in-one" concept of care outside of dental services.

Service Line Development

I know some other large DSOs focus more on dentures and have in-practice labs because that's their bread and butter. There are now crown fabrications you can build on-site in practices, and dentists are flirting with 3D printing, whether you have 3D printing clear aligners or restorations in your practice. It's all early-stage, untapped potential.

We do not have in-house labs. We've consciously chosen not to be in the lab business because that's a different type of business with a different type of talent need. We've outsourced that whole line of business. We partner with a large lab that I've used for almost 10 years now. Our partner lab, in turn, produces the dentures both on and offshore. We have digital scanners in all of our affiliated practices. The patients get scanned, the scans get sent over to the lab partner electronically. The restorations are fabricated and then shipped back to the practice for a total turnaround time of less than fourteen days.

Specialty Line Strategies

I would say that I'm happiest and most excited by our hygiene program. For traditional DSOs or the private practice, most if not all of their business is general dentistry and hygiene. To give you an idea of our business, it's about 50/50 between general dentistry and specialty care, so we're very well represented in specialty because of our "all dentistry, one place" strategy.

I'm most excited about hygiene, because dentists don't go to school to clean teeth. Dentists are not trained to clean teeth; they're trained to do restorative work. If dentists are cleaning your teeth, that's probably something that a hygienist should do because cleaning is a specialty that hygienists are trained for. We, in the last three to four years, have really worked to put a hygienist in every practice that has affiliated with us, so that we have hygiene specialists cleaning your teeth, as opposed to the general dentist cleaning your teeth. It's more effective for the patient, it's more effective for the business.

Innovation/Experimentation

In my prior DSO, we would have an innovation week where we had two weeks per year where anybody in the IT department would be asked to focus on innovation ahead of day-to-day responsibilities. Whether its code refactoring, or whether it's coming up with a new idea or just further exploring a wild idea they've always had but never truly examined. So, innovation has always been something I have focused on. From using technology to make certain functions more efficient - such as RCM - to the types of partnership we have in place for our denture service line and Medicare Advantage partners to various initiatives we are looking into now in terms re-thinking where it makes most sense for certain functional teams to physically reside.



In terms of other areas of the dental market where I expect to see continued innovation, services exist today that offer patients the chance to take pictures of their mouth via their phone, upload pictures, and then receive a diagnosis, all from the comfort of their home. Eventually, that technology will mature and be more formidable and usable by the majority of dental patients. I still think it's relatively immature right now for many reasons, which is why you see some of those clear aligner competitors require a visit, an actual visit with a doctor in a dental practice.



Over time, there will be better solutions for in-home dental care, which will allow people to see the dentist more efficiently, particularly for patients that don't go because of a fear of cost, fear of the dentist, or failure to understand the importance of maintaining their teeth.

The right home dental service would be transformative. No different to today's widely adopted and successful in-home teeth whitening, no different than the in-home clear aligner – there will be something that comes out to bring more patients into that process.

Even pre-COVID the idea of a teledentistry type appointment was unheard of. Now, that is commonplace. We got lucky and rolled out teledentistry about three months prior to the pandemic. Just think about all the pediatric care that can be enhanced/augmented through home-based care?



Special thanks to David Drzewiecki for his insights in this discussion.

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Contact Kevin Gillis at kgillis@scale-healthcare.com, or +1 (603) 440-3375 to continue the conversation.