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Key Questions to Ask as You Evaluate DSO Partners

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The length of time investors expect to hold an investment, or the duration over which they plan to achieve their financial goals through investing, can vary greatly among DSOs. This has huge implications for a DSO's service model.

DSOs with a long-term focus are looking to build a large organization through organic growth and acquisitions, and to optimize profits and stakeholder value. They create value with operational improvements and long-term cash flow; provide extensive services, such as marketing, revenue cycle management (which includes scheduling appointments, billing patients, handling insurance claims and collecting payments), finance, human resources and IT; and invest in training to keep practices current regarding treatment procedures and techniques, technology and office policies.

Conversely, DSOs with a short-term focus seek to drive investor returns through the rapid acquisition of practices. These organizations create value through multiple arbitrage (i.e., buying practices at low cost and selling them at a profit) and cost-cutting for a short-term bump in profits (often at the expense of long-term gains); and provide the bare minimum of services to keep costs down.

With this in mind, it is important to ask certain questions when evaluating potential DSO partners:

- ***What services and training programs does the DSO offer? How often does the DSO train doctors and staff? What are the DSO's continuing education options?*** Almost every DSO will provide finance, HR and security/risk services, but less common are ongoing training for doctors and staff and continuing education opportunities.

- ***How much of the DSO's support fee is spent on services? What investments is the DSO making into practices and technology?*** The best DSOs will spend 100% of their fees on supporting practices to help them grow, and reduce said fees as practices grow beyond a certain size. Such investment will not pay off in just a few years, indicating a long-term focus.

- ***What is the DSO's debt load? How much of the DSO's profits are required to manage the debt?*** Typically, DSOs with a short-term focus will be highly leveraged (often having debt greater than 50% of practice value), which increases the risk of bankruptcy. The amount of cash available for debt repayment is an indicator of stability.

- ***What is the DSO's long-term plan? When is the next recapitalization or sale event anticipated?*** While recaps can lead to investment returns, they usually mean new management and a corresponding change in strategy.

Questions or comments? Please contact us at (646) 213-9044 or Admin@AndrieuxLaw.com.