

# Case Study

## Private Equity Strategy Dental Services Organization Compensation

A private equity ("PE") firm wanted to diversify the scope and reach of its investments by adding a dental services organization ("DSO") to its portfolio of companies under management.

### Situation

Due to the regulatory landscape of the healthcare industry, including fee splitting prohibition and the corporate practice of medicine (CPOM) doctrine, private equity investment in healthcare is not as straightforward as other industries. Instead of simply utilizing its capital to purchase a controlling stake in the dental practice ("Practice"), the PE firm needed to create a DSO to manage the non-clinical aspects of the Practice. As a result, the PE firm sought a fair market value (FMV) analysis to determine the fee for the management services provided by the DSO to the Practice for regulatory and compliance purposes.

### VMG Health Service Provided

#### ➤ Compensation Arrangement Valuation

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### Contact

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### Solution

To determine an FMV fee for the DSO management services, VMG Health considered expenses the DSO would incur to provide the full suite of management services to the Practice along with a reasonable rate of return. To determine the reasonable rate of return, VMG Health reviewed the management services agreement to understand all aspects of the arrangement including, but not limited to, the scope and nature of the services, the term and survivability of the agreement, and the business risk borne by each entity. Utilizing that information, VMG Health selected market comparables of companies that were providing similar services and taking on similar business risk. VMG Health then analyzed the returns of these comparables and selected an appropriate risk adjusted return that could be earned by the DSO for its provision of management services. VMG Health also contemplated fees charged by similar providers in the dental space for comprehensive management services.

### Success

VMG Health determined an FMV fee for the DSO's provision of the management services by considering the specific details, facts, and circumstances of the arrangement. VMG Health's FMV opinion was then used by the PE firm and its legal counsel to establish a fee to be included in the management services agreement.

### Client Results

# 92%

Client Satisfaction  
Rating

### About VMG Health

VMG Health is a leading, national, full-service healthcare strategy and transaction advisory firm providing solutions exclusively for the healthcare industry with a long-standing reputation of excellence in client service. Whether you need assistance with traditional transactions or emerging physician compensation models based on value and performance, VMG Health provides the expertise you can rely upon.

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