

SCALE Case Study

SBS Turnaround Assessment

Client Profile

Size

40 Providers

Location

VA, MD, PA, NJ, NY

Specialty

Dentistry

Services Deployed



Consulting



Revenue Cycle Management



Market Research

Overview

SCALE was engaged by a lender to assess a DSO business that is failing, and provide a recommended course of action to management to support closure, or stabilization & future success.

- + DSO was owned jointly by a PE firm that held the primary equity stake, and lender holding the debt.
- + Management team was in chaotic state and business was losing approximately \$1-\$1.25mm a month over a 18 month period
- + Lender understandably concerned about future prospects given routine capital calls

Client's current state:

- + 2022 losses of \$11mm
- + Corp spend at 20% of Revenue
- + High provider attrition
- + Non-aligned corporate team

Execution

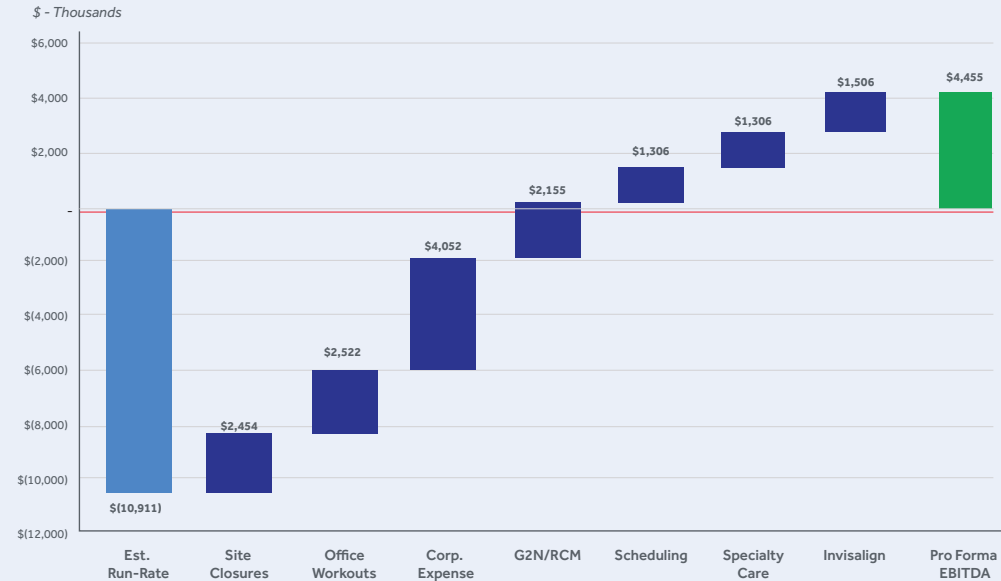
Project was conducted in Two Phases:

- + Phase 1- Assessment
 - + Phase 2- Recommendations
- + In **Phase 1**, the Assessment, SCALE developed a detailed analysis of the base-business as-is. Key areas of focus included:
- + Base business performance assessment at practice level
 - + Corp Strategy assessment
 - + Corp Spend assessment
 - + RCM performance assessment
- + This analysis and deliverable focused on business sustainability. SCALE's conclusion demonstrated that while in dire straits, the DSO had the ability to be successful with an aggressive turnaround plan, that itself was not without business risk
- + **Phase 2** focused on creating a turnaround plan that:
- + Addressed areas immediate focus (tier 1) to support performance improvement, with a detailed roadmap, sequencing plan and likely financial impact
 - + Longer term tactics (tier 2) to support stability and growth that required more time to execute and mature
 - + Recommendations to reduce and right-size Corp spend near-term to help support cash-burn concerns
- + Phase 1 completed 4 in weeks; Phase 2 two weeks thereafter

The Below Profitability Bridge Shows the Impact of Various Initiatives, Mostly Completed in H1 2023

Financial targets assume some variability in actual value based on execution success, SCALE is using a mid-range value in this bridge

Annualized Run- Rate 2023 EBITDA Bridge



Project Execution Tactics- Phase 1

- + Diligence accumulation, review, analysis
- + Off and on-site interviews with key stakeholders
- + Internal collaboration among SCALE team/workstreams
- + Routine reporting to project sponsor, including interim assessment, leading to greater focus and refinement of final product.
- + Read out to Lender on DSO status, assessment of capabilities, and recommendation to complete Phase 2, which was agreed to by the Lender

Project Execution Tactics- Phase 2

Development integrated turnaround plans including 9 separate workstreams, built off Phase 1 findings, stakeholder involvement and feedback, and sequencing that allowed business to improve in structured, realistic manner.

- + Workstreams focused on:
 - + Cost reductions including site consolidations.
 - + Driving revenue vis new patient growth
 - + Improvement of RCM/Operations harmonization
 - + Stabilizing of provider relationships
 - + Improvement of Hygiene alignment

- + Elimination of corporate spend to align with DSO- industry norms while not de-stabilizing core functions

- + On site delivery of Phase 2- recommendation to DSO leadership team, DSO Board Members, equity and debt holders including extensive Q&A session

Results

- + Successful identification of core issues impacting DSO performance
- + Creation of turnaround plan providing a path to profitability
 - + \$14mm in improvement workstreams identified taking client from \$11mm loss to \$4.4mm in profit over 12-18 month period
 - + Included in plan is \$4mm in Corp overspend identification
 - + \$7.5mm in operational improvements
 - + \$2.5MM in site consolidation savings
- + High degree of clarity defining levers of success and DSO current state attributes falling short
- + Immediate recognition of lack of alignment of key stakeholders inside DSO Executive team
- + Deliverable provided a clear turnaround plan that was data and operations driven, providing key stakeholders with vision that was easy to understand from point of view of:

- + Necessity
 - + Logic
 - + Execution difficulty
 - + Likelihood of success
 - + Buffers to anticipate execution success
 - + Correctly identified key areas for turnaround success
- + Comprehensive turnaround assessment, plan, sequencing, and impact of turnaround plan
 - + Plan Architecture included cash-flow assessment and bridge to profit

Poor Performance, Starting with Poor Strategy

Acquisition Strategy was Flawed; Poor Integration, Lack of Management have Exacerbated Issues

Theme	Description of Deficiency	Comments
Structure	Poor Pre-Deal Analysis	Pro forma synergies rarely eventuated, effective multiple quite high
	Flawed 'retiring provider' strategy	Provider is most important asset strategy was to help them retire
	Earnout liabilities	Pro forma sites delivered negative cash but required earnouts
	Insufficient succession planning	No consistent solution for retiring physician
Post-Deal Integration and Operation	Provider alignment	Providers de-incentivized post sale
	Integrating Operations	Office manager often terminated - insufficient coordination with corporate
	RCM Underperformance	Lack of coordination between central and site
Analytics	Performance vs Pro Forma	Poor post-transaction performance not identified early enough
	Site-Level Profitability	No prior reliable site level metrics
	Benchmarking	No comparison of performance across sites, or target metrics
Management	Operation	Insufficient oversight and operations
	Marketing	Poor marketing strategy
	Provider Turnover	Frequent provider turnover
	Leadership	No clear strategy or leadership to execute