

Orthodontic practice consolidation trends accelerate — rewards and risks abound

Chip Fichtner highlights future risk or value created in “silent partner” practices

If you have a larger orthodontic practice, you have already been contacted by several of the dozens of Invisible Dental Support Organizations (IDSOs) interested in acquiring your practice. If not, you will be shortly. The reality is that you will either join an IDSO or compete with many in due time. They are armed with size and resources that you will either benefit from or suffer against.

Over the past 5 years, the consolidation of orthodontic practices has grown dramatically. Some of the groups interested in your practice will be ortho only, some will be ortho/pedo, and there are many multi-specialty groups interested in adding orthodontic practices to their portfolios. These groups may be regional or operate coast to coast. Each potential partner is different in structure, levels of support, and most importantly, future risk or value created for their partner practices. You should at least understand the value of your practice in one of these transactions whether you are interested in pursuing a transaction or not. Your competitors are.

Large Practice Sales (LPS) has completed hundreds of millions of dollars of orthodontic practice transactions with over \$50 million in Q3 2020 alone. Values, even during the COVID era, are similar to 2019 with some exceptional practices still achieving values of over 3X collections. LPS’ primary focus has been pairing our doctor clients with IDSOs. These groups believe in the local brand power of the doctor and are thus “silent partners” in supporting the growth of their partner practices.

In a typical IDSO transaction, the doctor sells between 60% and 90% of his/her practice for cash upfront and retains ownership of the balance in either the practice, the new partner, or both. The doctor remains leading the practice under his/her brand, team, and strategy for years or decades. The goal of the partnership is to increase the value of the retained ownership for both the doctor



and IDSO partner and to capitalize on their combined size at a higher multiple in the future.

IDSOs seek to partner with successful, larger practices, which can benefit from the IDSOs multiple resources to reduce cost and drive growth. Resources may include lower supplies costs (half the cost on clear aligners, for example) and sophisticated in-house marketing resources for increased new-patient generation.

The IDSOs come in all shapes and sizes, and some were literally formed last month. Others have been partnering with ortho practices for decades. There are various strategies for achieving the highest values, but the best by far is to have multiple suitors for your practice. Doctors not only get several bidders driving up value, but also have a wider range of prospective partners from which to choose. An IDSO partnership is a marriage, not a one-night stand. The highest value upfront is not necessarily the best long-term choice. If you have a great practice, an experienced advisor will lead you to a heated bidding war and the right partner.

There are a number of critical factors in choosing an IDSO partner, which include its history, its future, and importantly, its financial sponsors’ track record. While private equity (PE) groups have been active in dentistry for decades, there is an increased interest in specialty practices from family offices and small business investment companies

(SBICs). Over \$250 million of the LPS transactions in 2020 will be with non-PE sponsored groups, a 500% increase over 2019.

One element driving the explosion of doctors interested in the IDSO concept is the potential elimination of the long-term capital gains tax treatment. This could potentially double the doctor’s 2021 and 2022 tax bill and reduce net after-tax proceeds by millions of dollars in many practices. Doctors hoping for rapid growth in 2021/2022 could work harder and longer and yet net millions less due to taxes.

The orthodontic industry is changing rapidly, not only at the practice level. Wise doctors will today go through the confidential and free process to understand the potential value of their practice to an IDSO partner. Without understanding the real market value of their practice, doctors cannot make an educated decision to consider an IDSO transaction or not. And in many cases, doctors may stop selling parts of their practices to associates at fractions of collections versus multiples of collections.

Once doctors decide to pursue an IDSO transaction, they will then need to understand the risks and rewards of the multiple partner choices that they will hopefully be presented by an experienced advisor.

Doctors can qualify for a confidential and free valuation of their practice with an IDSO by contacting LPS to learn more. **OP**



Chip Fichtner is the founder of Large Practice Sales, which specializes in Invisible DSO transactions for large practices of all specialties. The company has completed more than \$100 million of transactions in the past 6 months. Learn more at www.findmyorthodonticidso.com.