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Orthodontists, pedodontists, and oral surgeons have many choices in silent partners

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AS MASSIVE TAX INCREASES LOOM, more doctors are considering monetizing part of their practices at today's long-term gains tax rates of 20% maximum versus the 39.6% (federal only) that's proposed for 2022 and beyond. Pedodontists, orthodontists, and oral and maxillofacial surgery (OMFS) practices now have multiple choices of silent partner types, a relatively new phenomenon. Choosing the right partner is critical, but now choosing the right *type* of invisible dental service organization (IDSO) partner to maximize long-term value is even more important.

IDSOs quietly purchase from 51% to 90% of a practice for cash today, with the doctor retaining ownership in the balance. The IDSO partner provides resources to help the practice grow bigger, better, faster, and more profitably. Doctors continue to lead the practice under their own brand, team, and strategy for years or even decades.

They gain liquidity today, and in many cases, large upside value opportunities in their retained equity position of two times to more than 10 times the initial 100% value of their entire practice, over time.

During the last 36 months, IDSO partner options for these three specialties—ortho, pediatric, and oral surgeons—have

expanded exponentially. Doctors are now able to choose from three distinct types of IDSO partners, each with a different strategy and ultimate value opportunity.

Some IDSOs are single-specialty only (ortho, pediatric, or OMFS), while others are multispecialty groups with general practitioners and all specialties. Doctors may also elect to join a dental trifecta IDSO. Dental trifectas acquire only pediatric, orthodontic, and oral surgery practices, with a goal of capturing referral sources within the same group. More options for doctors create potentially high initial practice values, as well as increased long-term equity appreciation opportunities.

WHICH TYPE OF IDSO IS RIGHT FOR YOU?

Orthodontic only

In the last two years, 10-plus new orthodontic-only IDSOs have been created to partner with orthodontists across the country. A few have been around for more than five years. Some are targeting specific geographic areas, and others are acquiring practices across the country. The ortho-only groups generally don't acquire ortho practices that also have a pediatric component.

OMFS only

In fewer than three years, 10-plus new OMFS-only IDSOs have been funded, and they are eagerly acquiring OMFS practices from coast to coast. Previously, the only IDSO buyers for OMFS practices were the multispecialty groups. As the implant world becomes more competitive, OMFS practices more fully understand the value of wisdom teeth extractions.

Pediatric specialty only

Pediatric-only IDSOs have existed for a decade or more, and several have added ortho to their offices or have acquired nearby ortho practices. The majority of pediatric and pediatric/ortho DSOs and IDSOs are relatively small in both number of practices and geographic focus.

Multispecialty

There are more than 50 multispecialty IDSOs across the country, some of which have been operating for three decades or longer. Each may own dozens or hundreds of practices, and these are usually anchored by a majority of GP practices, with specialty practices within or not within their GP footprint.

Dental trifecta

While pediatric/ortho IDSOs have existed for decades, some are now adding OMFS and becoming dental trifectas. More importantly, several new and large investors in the dental consolidation space are building dental trifecta groups. The investor thesis is based on the concept of creating captive referral sources that will accelerate internal

growth rates and protect a practice's long-term revenue streams. The integrated, children-focused strategy is generally deemed more recession resistant. These can grow faster through acquisitions than the single-specialty-focused groups.

CHALLENGES, RISKS, AND REWARDS OF EACH STRATEGY

The primary value creation challenge of any IDSO is attracting large, quality practice partners with young owner-doctors who are eager to continue leading their practices for at least five years, and preferably much longer. A high velocity of quality acquisitions and successful integration can add significant value for the investors and owner-doctors upon an exit. This theory was proven recently in a \$1.4 billion sale of a mid-sized IDSO in January, which completed more than 200 partnerships in less than three years. The investors and doctors in this group exponentially multiplied their investments in fewer than 40 months.

The single-specialty-only IDSOs are by definition constrained by their focus. They can buy one single specialty, which limits their growth rate. The multispecialty and dental trifecta groups have far more partnership target opportunities because they partner with all three specialties. Dental trifectas can build faster and choose only the best practices to achieve their aggressive growth and rapid value creation goals.

The single-specialty orthodontist and OMFS-only IDSOs run the risk of their referral sources being acquired by other IDSOs, which may shift referrals away from their acquired practices. This is exactly what the dental trifecta IDSOs are accomplishing.

Here's another issue that multispecialty groups face. When an acquired specialty practice receives referrals from GP practices, if the multispecialty group has GP practices in the same area as the acquired specialist, this can alienate existing GP referral sources to the specialists.

The dental trifecta groups are somewhat constrained by the need to start or complete a market entrance with all three types of specialists that join their group. In some cases, groups will acquire two

of the three legs of the trifecta stool and build the remaining piece of the puzzle from scratch within the geographical area. In addition, once the pediatric practices are acquired, convincing the ortho and OMFS practices to join the group becomes easier. The ortho and OMFS practices often do not want one of their competitors to become the beneficiaries of the pediatric referrals.

A defining factor for doctors choosing a dental trifecta is that the pediatric and orthos can finally receive financial benefit, through common equity ownership, from their referrals to OMFS practices. This can be an emotional and long-term financial win for the doctors.

CHANGE IS ACCELERATING, AND ULTIMATE VALUES ARE STILL UNKNOWN

The ultimate values of the specialty-focused IDSOs are yet to be discovered as many of them are early in the investment life cycle. Most recapitalization transactions (cashing in for investors and doctors) during the last five years have been for GP and multispecialty groups. There have been very few specialty-focused IDSO monetization events. Some observers believe the dental trifecta IDSOs will set new record value levels, due in part to higher internal growth rates.

New investors in dental practice consolidation are focused now more than ever on dental specialties of all types. There are 10 new endodontic-only groups as well. We will learn in the coming months and years whether the single-specialty IDSOs or the dental trifectas will set new value records, which are currently held by the fast-growing, multispecialty groups. In any case, multiple options are good news for dentists of all specialties! **DE**



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 in

transactions in the last six months. Learn more at largepracticesales.com.