

Practitioner-to-practitioner practice transition or IDSO partnership?

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As certain as death and taxes, every practitioner will need an exit from their practice someday—and if they're smart, they will develop a plan at least five years before their desired retirement date. Depending upon multiple factors including practice type, size, growth rate, geography, and age, practice values can be far higher in an invisible dental support organization (IDSO) partnership than in a traditional practitioner-to-practitioner transition. In some cases, over 300% higher.¹ However, not all practitioners will have the IDSO option.

Practitioner-to-practitioner handoff versus an IDSO partnership

In a typical practitioner-to-practitioner transition or practice sale, the retiring practitioner will completely or partially sell their practice to another practitioner. Values range widely, but most appraisals will be in a range of 60% to 100% of practice collections.² Often, this method allows for the retiring practitioner to exit the practice quickly.

Conversely, IDSO partnerships typically do not support short-term retirement strategies; in most cases, practice values are based upon profitability, not collections. Practitioners will typically sell 51% to 80% of the practice to an IDSO for immediate cash and remain as owners either in the practice or the

IDSO.¹ Practitioners continue to lead their team, brand strategy, and practice as a whole with full autonomy. They are also typically required to keep practicing for three to five years; a longer horizon will generate a higher initial practice value from an IDSO partner.

Why are retirees interested in this option?

With hundreds of IDSOs in the US today, practitioners will typically have multiple qualified bidders in an LPS advised process. Some exceptional practices are considering 10 or more bidders. Note that most IDSOs are not qualified to bid on LPS clients for various reasons.

An IDSO's resources available to all their partner practices will vary based on the partner chosen. Some IDSOs have a dozen practice partners and some have over 500 nationwide. IDSOs can provide valuable benefits to a practice including admin burden reduction, lower supplies costs, higher reimbursement rates, professional marketing, and recruiting assistance—today's key resource.

The appeal for young practitioners

Young practitioners are becoming more interested in IDSO partnerships as a generational wealth building strategy. If a practitioner chooses their IDSO partner carefully, the equity ownership they retain in either

their practice or IDSO partner can grow in value significantly more than if they remained independent.

LPS has completed over \$1.0 billion of IDSO partnerships in the last two years, with about \$150 million of those for practitioners in their 30s. Those with longer horizons typically achieve higher values than practitioners with a three- to five-year chairside goal. Practitioners over 60 require one or more younger associates to achieve a high IDSO partnership value.

EBITDA

The starting point for IDSO practice partner values is the practice EBITDA: earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated after practitioner compensation at a market rate. IDSOs are most eager for practices with at least \$500,000 in EBITDA.

The highest EBITDA values in an IDSO partnership are achieved by growing practices with at least \$1.8 million in collections for a GP and \$1.5 million or more for many specialists. A well-run GP practice with \$2 million in collections can achieve an EBITDA of over \$500,000, which makes it entitled to a value of at least six times the EBITDA (\$3 million). In a practitioner-to-practitioner transition, the value would typically not exceed 80% of collections, or \$1.6 million.

Fortunately, over \$5 billion of new capital and financing has been made available to IDSOs in just the first

five months of 2024. This has offset the impact of higher interest rates, enabling some of the best IDSOs to continue bidding at record value levels. Some larger, growing LPS clients in Q2 2024 are commanding 10x multiples of EBITDA in a spirited multibidder contest. More qualified bidders mean more choices when it comes to partnership and higher values.

Making the right decision

Notably, the flood of new IDSO financing is not just from private equity, but from traditional investment managers with trillions of dollars to invest. They are recapitalizing existing IDSOs and starting multiple new ventures each month. US dental practice consolidation is not new; some IDSOs are over 30 years old. IDSOs have proven to be a lucrative and resilient long-term investment over decades for both sophisticated global investors and their practitioner partners.

If a practitioner's goal is a quick exit with a smaller practice, a practitioner-to-practitioner transition may be your only option. However, for practitioners of all ages who plan early, access to an IDSO's resources can help grow their practice faster and more profitably, thus increasing the value of their practice investment.

Either way, practitioners should become educated on all their options before they are close to retirement age. If you want to achieve market value for your practice, you will ultimately join an IDSO or compete with many others.

Practitioners are welcome to schedule a confidential call with us to learn more about the IDSO option and the potential value of their practice without cost or obligation. **DE**

Large Practice Sales. October 22, 2021.
<https://7157e75ac0509b6a8f5c-5b19c577d01b9ccfe75d2f9e4b17ab55.ssl.cf1.rackcdn.com/MHFRHKOX-PDF-1-491557-4453185472.pdf>

2. Selling your dental practice: Can the buyer afford to buy it? Henry Schein Dental Practice Transitions. <https://dentalpracticetransitions.henryschein.com/blog-selling-your-dental-practice-can-the-buyer-afford-to-buy-it/>

CHIP FICHTNER, COFOUNDER AND PRINCIPAL OF LARGE PRACTICE SALES, completed more than \$1 billion of practice transactions in 2022 and 2023. He has built, bought and sold public and private companies in a variety of industries. His tolerant wife of 34 years allows him to live on airplanes visiting clients every week. www.largepracticesales.com is his website.

PRACTICE CONSOLIDATION IS CRESTING

Practices Still Achieving Record Values

Silent Partners Buy Part of Your Practice – IDSOs purchase 51% to 80% of practices for cash now at low tax rates. Doctors retain ownership and have significant upside in the equity value. Some LPS clients have achieved 3x to 7x equity returns in only three to five years.

Long-Term Wealth Building Partnership – Doctors continue to lead their practice with their brand, team and strategy for years or decades. Practices benefit from the resources of a larger, silent partner, but are not micromanaged or homogenized.

Six or More Choices in Partnership – LPS clients have 6 to 10+ qualified bidders. LPS is the largest advisor which enables our clients to achieve record values that the little advisors cannot match.

Your Value in Today's Consolidation Frenzy – You should understand the value of your practice in an LPS-advised process. Doctors who deal directly with IDSOs often leave millions on the table and do not get to consider ALL of their options.

Large Practice Sales (LPS) is the largest transaction advisor to GP and specialty dental practices in the U.S. and completed over \$1 Billion of Invisible Dental Support Organization (IDSO) partnerships in the last 24 months.

- ✓ Monetize 51%-80% of your practice value
- ✓ Cash now at low tax rates
- ✓ Continue leading your practice
- ✓ FULL AUTONOMY for years or decades
- ✓ Gain the resources of a larger partner
- ✓ Grow faster, better and more profitably
- ✓ Increase the value of your retained ownership

Get Your No-Cost No-Obligation Practice Valuation

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