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Maximizing a Practice's Value for an Invisible Dental Support Organization Partnership

Chip Fichtner

In a typical doctor-to-doctor practice sale or transition, the practice is valued at between 60% and 100% of collections. In an invisible dental support organization (IDSO) partnership, many practices achieve values over 200% of collections, with some realizing up to 400%. Achieving the highest values, however, requires certain practice traits. Many practices qualify for high-value invisible DSO partnerships today at multiples of collections rather than fractions of collections. Those who do not currently qualify can begin managing their practices for higher values in the future. The path to high values is found in the practice's financial statements, making it crucial for the practice to understand them.

Many of the more than 1,000 invisible DSOs in the United States today are eager to become silent partners with excellent practices by purchasing 51% to 80% of the practice for immediate cash at today's relatively low tax rates. In such a partnership, doctors retain ownership and continue to lead their practice with complete autonomy. In just the first half of 2024, according to the author's firm's data, more than $5 billion was invested in IDSOs by global investors, not just private equity. Practice consolidation is currently accelerating and values continue to set records for the right practices.

Doctors benefit from the size of an invisible DSO through lower supply costs, that may range up to 25% to 30% lower according to the author's firm's data, and higher reimbursement rates, which may reach up to 20% higher. They also have access to the IDSO's recruiting teams and new-patient marketing resources. Doctors gain a known future exit from their retained ownership at a value that could far exceed the values of remaining independent. Invisible DSO partnership is a long-term wealth-building partnership rather than a short-term retirement strategy. Of the more than $1 billion IDSO partnerships completed by the author's firm in the past 24 months, over $150 million were for doctors in their 30s.

ABOUT THE AUTHOR

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Creating High Value

Practices that qualify for high-value IDSO partnership are easy to identify. They typically have several attributes. First, their earnings before interest, taxes, depreciation, and amortization (EBITDA) is at least $400,000 after doctor compensation. With a few exceptions, this EBITDA level is possible in general practices with at least $1.8 million in collections and in specialist practices with $1.5 million or more in collections. Second, they have year-over-year growth in collections and EBITDA. Third, the practice owner is a younger doctor, or if the doctor is 60 or older, there are younger associates.

Note that the number of offices or doctors is not a factor. The author's firm recently achieved over 8.5x EBITDA for single-doctor practices and more than $40 million each for multiple single-office practices. Value is determined by EBITDA and growth in 2025.

Location also is not a critical factor to the practice's value. While growing states such as Florida, Texas, Tennessee, South Carolina, Arizona, Idaho, and Utah typically attract more bidders in an IDSO process, the author's firm achieved record values for practices in other states such as Vermont, Missouri, Michigan, Kansas, New Jersey, New York, and California in 2024.

Doctors who review their practice performance, both financially and in terms of key performance indicators (KPIs), on a weekly or monthly basis are often the most profitable. Monthly practice financials should be reviewed within 15 days of month end. Maintaining a keen focus on costs and appropriate staffing levels can often immediately increase a practice's profitability and value.

Another strategy is to raise fees regularly to offset inflation, thereby helping doctors to successfully combat profit margin erosion. For insurance-driven practices, payor negotiations are also an important element in increasing EBITDA. While supply costs pale in comparison to payroll expense, practices that actively negotiate with their supply vendors and labs are often able to reduce costs and increase margins. It never hurts to ask for lower prices.

The Role of Consultants and Education

Doctors who are not well-versed in their practice's financial performance and KPIs may consider hiring a qualified practice consultant. Consultants can help in implementing systems and providing financial education and specific recommendations to increase EBITDA for a practice. The key to a consultant's results, however, is often the doctor's willingness to adopt the consultant's advice.

While teaming up with a consultant may seem expensive, the right consultant can perhaps double the value of one's practice if the practice is willing to make the changes necessary to improve profitability and efficiency. The following example shows how improving practice margins to a very common 20% of collections can dramatically impact practice value:

Practice A is a general practice (GP) with $2.5 million in collections and an EBITDA margin of 10%, or $250,000. It's value in a doctor-to-doctor transition is 70% of $2.5 million, or $1.75 million.

Practice B is a GP with $2.5 million in collections and an EBITDA margin of 20%, or $500,000. Its value in an IDSO partnership is 7x EBITDA, or $3.5 million.

While not all practices can achieve a 20% EBITDA margin, many today exceed 30%, according to the author's firm's data, and most invisible DSO partner practices target 25% EBITDA. Doctors with a growth plan and an in-depth understanding of their practice's financial performance are the most attractive to IDSO bidders. A process utilizing the author's firm as an advisor may include 10 or more qualified, eager bidders. If retaining a consultant can help a practice double in value in a relatively short timeframe, it may well be worth the expense. (Note: The author's firm does not provide consulting services; it only helps doctors execute an IDSO partnership once they have achieved the criteria for high value.)

Potential for Generational Wealth

Contrary to popular belief, partnering with the right invisible DSO is not "selling out to corporate." IDSOs have partnered with over 10,000 practices in the last 35 years, according to data from Dynamic Data Solutions. Doctors in invisible DSO partnerships retain full autonomy and have the potential to achieve generational wealth over time. With looming tax increases, an invisible DSO partnership option may be a smart move sooner rather than later. In Q4 2024, one large IDSO recapitalized with a well-known international investor, resulting in value increases for their more than 700 doctor owners ranging up to in excess of 500% increase in the value of their retained ownership in less than 7 years.

While not all invisible DSOs will achieve these results—and some will fail—doctors who choose wisely may enjoy both the reduced administrative headaches provided by an invisible DSO partnership and the long-term practice value increases not available to doctors who remain independent. Doctors should at least have an understanding of today's IDSO option.