

New capital flowed into dental consolidation in 2022 at a record pace

For practice owners interested in selling but retaining leadership and practice individuality, an IDSO could be the answer.

Chip Fichtner

IN 2022, THOUSANDS OF DOCTORS EMBRACED SILENT PARTNERSHIPS with invisible dental support organizations (IDSOs) for a variety of reasons. IDSOs purchase 51% to 90% of a practice for cash up front with the doctor retaining ownership in the balance. The doctor continues to lead their practice with their team, brand, and strategy for years or decades.

The biggest news in 2022 was the number of young doctors choosing to join an IDSO. We completed over \$100 million of IDSO partnerships for doctors under 40 out of over \$600 million in total. Young doctors see value in the long-term potential upside gains in their retained equity ownership. Other doctors chose IDSO partnership to reduce growing administrative burdens and to access the resources of a larger partner. Still other doctors were eager for IDSO partners as a mechanism to monetize a part of their life's work for cash at today's favorable tax rates. The cash at closing enables doctors to diversify and take advantage of more opportunities.

NEW AND DIFFERENT INVESTORS

Part of the rapid IDSO growth in the US has been driven by new investors. In late 2022 alone, over \$5.0 billion of "new to dental" capital was invested in IDSOs. Some of the 2022 investors included private equity, family offices, and small business investment companies (SBICs). But new entrants included the world's largest traditional money manager with over eight trillion dollars under management. Over one billion dollars in new capital for IDSO expansion came from sovereign wealth funds, which collectively have over \$10 trillion in investable assets. More of these sophisticated investors are providing capital to IDSOs to accelerate

their growth through partnerships with great doctors nationwide.

The types of practices that benefit from higher values created in a multi-IDSO bidding contest is changing. Today, younger doctors are more valuable than those over 60. Older doctors are urged to have a plan from the age of 50 on if they want to achieve today's high market values for larger practices. Small practices where the incoming doctor or current associate is functionally buying a job will continue the traditional transition models, but larger practices are far more valuable in an IDSO partnership.

CONSOLIDATION IN SPECIALTY PRACTICES

Specialists are also seeing an increase in practice values and have compelling reasons for choosing an IDSO partnership. Regarding oral and maxillofacial surgery (OMS) practices, doctors are challenged in recruiting associates to enable their growth or to create a long-term exit plan. The now 14 OMS-only IDSOs (all formed within the last six years) have recruiting tools that independent doctors cannot match.

In the case of orthodontists and pediatric specialists, direct-to-consumer marketing skills are critical. Pediatric practices are eagerly sought by the dental trifecta IDSOs, which also partner with nearby orthodontists and OMS practices. Doctors in a dental trifecta IDSO benefit from the referrals of

other practices in the "family," which puts independent doctor referral sources at risk.

Periodontic and endodontic practices also have a number of new options that did not exist three years ago. There are now a dozen or more perio- or endo-specific IDSOs competing fiercely with multispecialty IDSOs now adding specialists to serve their GPs in concentrated geographies. Like in the dental trifectas, the patient referral patterns are changing.

PROJECTED GROWTH IN 2023

While the forecast for 2023 practice values is tempered by inflation, higher interest rates, credit availability, and a looming recession, new capital investments in IDSOs will continue to support practice values. Transaction structures may change and values may moderate for older doctors, but the inexorable march of dental consolidation will continue unabated in 2023. Any larger practice will still have six or more qualified bidders from which to choose in a professionally managed IDSO partnership process. **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 \$500 million in

transactions in the last 12 months. Learn more at largepracticesales.com.

LPS | Large Practice Sales

855-662-2745

MySecretSilentPartner.com
DentEc@LargePracticeSales.com

Considering an IDSO partnership? Consider your age first

Chip Fichtner

IN MARCH 2022, LARGE PRACTICE SALES (LPS) COMPLETED OVER \$50 MILLION of practice partnership transactions, at record values, for doctors under the age of 40. These young doctors partnered with a very astute invisible dental support organization (IDSO) to accelerate their practice growth while potentially creating generational wealth with their new silent partner. The doctor's final choice out of the nine qualified IDSO bidders was based upon the potential growth in the value of their 49% retained ownership over their long, future career.

Hundreds of IDSOs are actively seeking practice partnerships with general practices and all specialties across the US. IDSOs, some more than 30 years old, quietly purchase 51% to 90% of a practice for cash at today's low tax rates. Doctors retain partial ownership in either the practice, the IDSO, or both and continue to lead their practice under their brand, team, and strategy for years or decades.

A GROWING SHIFT

Over the last five years, we've seen a significant reduction in the average age of our doctor-clients. IDSO partnership is not a first step to a transition; it's an opportunity to build wealth over time utilizing the offensive and defensive resources of a larger partner.

Doctors benefit from the many resources of an IDSO, which include reduced administrative burdens, lower costs, and enhanced marketing and recruiting, plus, in some cases, higher reimbursement rates. However, the primary driver for younger doctors is the long-term upside value gains in their retained ownership in a larger group. Each of the IDSOs is different in their operational approach and potential upside. Some will provide spectacular results of 10 times or more of the dentist's initial equity value, and others will fail.

Contrary to popular belief, the great IDSOs are not interested in managing practices nor homogenizing them. Their goal is to silently invest in great dentists and support practices to achieve more profitable growth with fewer dentist headaches. As silent partners, they don't interrupt the doctor's unique and proven success formula that generated the practice's multi-million-dollar value.

WHY AGE MATTERS

As more dentists understand IDSO partnership, the average age of IDSO partner dentists is dropping dramatically. A 40-year-old dentist today is more valuable to an IDSO than one who is over 60. The IDSOs believe that they will create decades-long partnerships with young dentists, a concept not as likely to happen with older doctors. The value discrepancy can be significant. As more younger doctors pursue an IDSO partnership, IDSOs have more practices to choose from. This doesn't mean that older doctors can't still achieve record values in today's frenzy, but younger doctors will achieve the highest values.

As a real-world example of the age/value difference, we recently had two very similar, multi-doctor oral and maxillofacial surgery (OMFS) practice clients on the East Coast. One had an average dentist age of 54 and the other 41. The younger practice achieved a 19% premium in value

after both practices went through a bidding process with 10 IDSO suitors.

The bidders were from across the IDSO spectrum including OMFS only, multi-specialty, and dental trifectas (pediatric, orthodontic, and OMFS only). Both clients achieved record values, but it proves that age matters.

The number of new IDSOs is exploding due to the influx of new capital into dental practice consolidation. At least 30 new IDSOs have formed so far in 2022, including two that were formed with large LPS clients as the initial platform acquisitions.

Hundreds of IDSOs are actively contacting dentists directly. Dentists should be aware that not all IDSOs will succeed as spectacularly as they promise, and that each one is unique in its rewards and risks. Careful due diligence on a prospective IDSO partner is critical to understand exactly what the future will hold for the doctor, both operationally and financially. It will also literally pay to meet with five or more qualified IDSOs before making a decision. Multiple bidders drive up practice values, and more important, enable doctors to evaluate all of their many options in partnership today, no matter their age. **DE**

Editor's note: Large Practice Sales is a financial supporter of *Dental Economics*.



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 \$500 million in

transactions in the last 12 months. Learn more at largepracticesales.com.