



MONEY

THE CONSOLIDATION CHRONICLES

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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.

Silent partners for great dentists: Timing is critical. Do you need one?

VERY SOPHISTICATED INVESTORS, new to US dental consolidation, invested billions of dollars in invisible dental support organizations (IDSOs) in the last half of 2022. These new investors were not just private equity groups; they were also new investments from family offices and sovereign wealth funds. Investments were made in general practice, single specialty, and multispecialty IDSOs at record valuations.

The IDSOs with fresh capital are driving the acceleration of dental practice consolidation and increasing the short- and long-term partnership values for larger practices with more than \$1.5 million in collections. Certainly, higher interest rates are impacting some IDSOs. The new, massive capital investments in existing and new IDSOs, however, are empowering bidders for larger practices at higher values, despite the gyrations in the capital and credit markets.

HOW DENTISTS USE IDSOs

In the past three decades, many doctors have joined DSOs as their ultimate transition and exit strategy. Today, doctors in their 30s are joining IDSOs as a mechanism to participate in significantly greater, long-term value potential as a part of a group—at a much higher value than doctors could achieve as independent practices. They are eager for a supportive silent partnership, not to become a homogenized cog in a large, branded chain.

In the “old” days, doctors only considered “selling out to corporate,” or DSOs, as an exit or transition strategy. Today, thousands of dentists of all specialties and ages are joining IDSO silent partners. These young dentists view IDSO partnership as a way to accelerate and extend their careers while improving their work-life balance and their lifetime returns, not as a short-term exit mechanism.

HOW IDSOs BENEFIT DENTISTS

The last three years tested doctors with various challenges including recruiting, inflation in all cost segments (especially labor), reticent payers, and growing regulatory and administrative burdens. It hasn't been easy. But some have thrived during this period with the support of their silent IDSO partners. Size matters for lower costs, higher reimbursement rates, better recruiting, and more effective marketing. The goal of any good IDSO is to provide support and services to their partner practices to enable the doctor to focus on clinical care, not administrative minutiae.

Those who partner with IDSOs will typically sell 51%–90% of their practices for cash up front at favorable tax rates. Doctors retain equity and continue to lead their practices as owners (not employees) with their brand, team, and strategy. They don't lose their freedom or autonomy and are not homogenized to fit some corporate standard or playbook.

CAUTIONS

Dozens of DSOs, IDSOs, and promoters are contacting doctors directly with siren songs of massive upside equity gain opportunities. Beware! These groups love to romance unadvised, naive dentists directly, with no professional advice and without considering all of their options

in partnership. As in any rapidly consolidating industry, many charlatans promise the impossible. Outstanding practices have no need to partner with lower-quality IDSOs to monetize their practices. Each IDSO is unique, and some are better than others.

It is critical to consider all of your choices in IDSO partnership. Any great practice will have six to 10 qualified options in IDSO partnership. Doctors deserve to understand not only the IDSO's management, but more importantly, the track record of the financial sponsors behind them. Some will succeed as promised, and more than a few will fail.

Today, there are 100-plus well-capitalized, quality IDSOs nationally. Some have more than 35 years of successful development experience, and some are newer but founded by investors who have proven success in dental consolidation. The IDSOs are already in your area, or are coming soon. Larger practices will either join an IDSO or compete with many. Doctors should at least understand the potential value of their practice in an IDSO partnership now, so they can plan for the future.

Author's note: To learn more, Large Practice Sales will provide a no-cost, no-obligation estimate of the value of a practice with more than \$1.5 million in collections. **DE**

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