



What happens to practice values now?

Chip Fichtner

IN 2019, we advised clients in over \$200,000,000 worth of transactions with invisible dental support organizations (IDSO). Our client doctors of all specialties sold between 60% and 90% of their practices to silent partners at what is now generally acknowledged as the top of the market. The doctors remain as owners, leading their practices under the doctor's leadership, brand, and team, for years or decades in the future.

UNCHARTED WATERS

In the last 90 days we have witnessed a historic change in the trajectory of dental practices. No one knows what the future holds, but it is safe to say it will be different. New regulations and restrictions from the CDC and OSHA will most likely affect every dental practice in the US. How compliance and safety precautions will impact practice operations and profitability is an unknown.

A larger question is how fast a practice will return to pre-crisis levels, or if many of them will at all. One thing is certain, the future will be different. We are truly in uncharted waters. You may have the option

to navigate the guaranteed rough seas with a large, silent partner, rather than alone.

Doctors are now faced with multiple tough choices. Some will have no choice but to close their practices. Some may be able to sell the remains at a lower value than previously established and work for the buyer. Others will persevere and rebuild over time. Hopefully, most will rebound and return to success in the new normal. But, for a few, an opportunity exists to gain a deep-pocketed, resourceful partner by selling a part of their practice to an IDSO for cash now at what are still attractive values.

THE LAW OF SUPPLY AND DEMAND

Many IDSO's partnership acquisition efforts are on indefinite hold. Their management is focused on the triage of their existing dozens or hundreds of practices across the country. Fortunately, there are still dozens of quality IDSO groups eagerly seeking to acquire interests in the right practices of all specialties across the country.

The IDSOs are still making deals now. We have closed several during the crisis. New entrants into the dental space are also now "fishing," eager to buy practices at a perceived bottom. They are cash rich and ready to invest at rational values in quality, larger practices.

We even received an offer in April for a larger practice from a wealthy, publicly traded media company that believes their "free" media can drive new patients to practices at no cost. The dynamics of dentistry will change in unexpected ways.

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For a brief moment in time, before the end of 2020, IDSOs are still eager to partner with great doctors. They have capital, senior management wisdom, staying power, and tenacity.

Doctors who choose the path of partnering with an IDSO now will probably achieve 2019 value levels and cash now. However, transaction structures will be partially tied to a “return to normal” in the coming quarters. These prescient doctors will gain personal liquidity and a partner with the resources to make their practices “bigger, better, faster, and cheaper.”

And remember, the smart IDSOs will empower their marketing teams to prey on the weak, independent doctors. They will attract the best patients with their lower costs, better reimbursement rates, nicer facilities, and better compensated and more secure team members.

But a high value from an IDSO is only for a brief moment in time. If the V-shaped

recovery promised by the TV talking heads does not miraculously appear by year end, I predict the IDSOs will then wait for confirmation of a return to normal before paying 2019 levels again, if ever.

TAXES: THE NEXT ENEMY

While I realize this is an unpopular outlook, and I will get hate mail from both sides of the aisle, the reality is that the next enemy of practice value monetization, whether all or in part, will be your friend Uncle Sam. We currently enjoy a maximum federal long-term capital gains tax rate of 20%. This will change.

The US presidential candidate leading in the major polls as of this writing has pledged to immediately almost double the taxes you pay on the sale of all or part of your practice. Either candidate will have a multitrillion dollar bailout to repay. The tab for that largesse will be picked up by someone, and in our opinion, it will not be from the middle

class or the poor.

Distant and recent history reminds us that strength and liquidity are valuable in turbulent times. Most doctors will dismiss my thoughts as merely a doomsday forecast. And for many, practice will hopefully return to normal. But, is this a multimillion-dollar gamble you are willing to make with your hard-won practice fortune when its value today could still be extraordinary? Maybe not a year from now, but today it is still possible to cover your life's bets, even though Vegas is closed. **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.