

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 trifecta, 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**

Editor's note: Large Practice Sales is among *Dental Economics'* financial supporters.



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.