



THE CONSOLIDATION CHRONICLES

Chip Fichtner

The dental trifecta, revisited

TWO YEARS AGO, *Dental Economics* published my article about the potential dramatic impact of dental trifectas on pediatric specialists, orthodontists, and oral surgeons.¹ In 2019, Large Practice Sales (LPS) helped start the first of what became the largest invisible dental support organization (IDSO) in history to implement the LPS dental trifecta strategy.

The story had an extremely happy ending for both doctors and their investors, and the outcome for clients continues to get better every day. The IDSO recapitalized at a multibillion-dollar value in 2022, 35 months after partnering with their first dental trifecta practice, an LPS client.

IDSO SILENT PARTNERS

IDSOs act as silent partners by purchasing 51%–90% of a practice for cash up front. Doctors retain ownership and continue to lead their practices with their brand, team, strategy, and complete autonomy. The larger silent partner supports the doctor with reduced administrative burdens, lower costs, higher reimbursement rates, and recruiting and marketing support. The value of the doctor’s retained ownership can grow far larger as a part of an IDSO than by remaining independent. As many young doctors join IDSOs, I expect the trend will accelerate. In 2022, LPS completed more than \$100 million in transactions for doctors in their 30s.

THE DENTAL TRIFECTA STORY

The story began with an investor who was interested in profiting from dental practice consolidation. This was not a private equity group; rather, a wealthy individual with a passion to improve access to dental care and provide options. We convinced the investor and his team that the highest ultimate values for an IDSO were possible in one which exhibited not only growth through new partnerships but also created rapid internal, organic growth. We also believed that a focus on children’s dental care would be most resilient in turbulent times.

In 35 months, LPS partnered 110

pediatric, orthodontic, and oral surgery client practices with this IDSO, out of their 211 practices at the time of recapitalization. The initial values we achieved for our clients set new records, some 50% or more above the value if they had partnered with a single-specialty IDSO. The dental trifecta IDSO could value practices higher initially as they expected a higher value for the group at the time of sale to a larger investor.

Two legs of the dental trifecta IDSOs, partnering only with pediatric and orthodontic specialists, had been successfully executed by other IDSOs for many years. And adding oral surgery practices to the IDSO had succeeded on a small scale. But no investor had ever created a national dental trifecta IDSO.

Dental trifectas create a referral ecosystem where doctors with ownership in the same IDSO have compelling reasons to refer to other practices within the “family.” Doctors are free to refer to any doctor they choose, but with common ownership in the IDSO, they know the quality of care the other practices provide.

The internal revenue growth rate of this dental trifecta IDSO enabled it to achieve a record high recapitalization value in September 2022. Investors and doctors made hundreds of millions of dollars in less than three years. The doctors who joined the IDSO earliest achieved the highest returns, but even those who joined late in the cycle experienced rapid increases in equity.

Today, the success of this first dental trifecta IDSO is being copied by numerous groups. Values continue at record highs for all three specialties. New investors contact us every week to learn our dental trifecta playbook and meet other clients. Some

single-specialty IDSOs are also adding the other two legs of the trifecta stool to their existing practice base.

FRIEND OR FOE? CHOOSE WISELY

All doctors need to understand the impact of IDSOs within their community. An IDSO can be a friend if you partner with them or a very strong foe if they partner with your referral sources or your competitors.

Most IDSOs (all types) will be exceptionally successful. The power of owner-doctors over an employee-managed traditional DSO practice is measurable.

In the turmoil of bank failures, inflation, and high interest rates, I expect that a few DSOs and IDSOs will fail. Doctors must choose wisely with a full understanding of the capital structure and financing of their potential IDSO partner and the intricacies of complex transaction structures. IDSO partnerships are not a do-it-yourself project.

Practices that qualify for an IDSO partnership—and particularly the dental trifecta strategy—may also experience generational wealth-building outcomes if they choose their IDSO partner carefully. Larger practices will ultimately join an IDSO or compete with many others. **DE**

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REFERENCE

1. Fichtner C. Orthodontists, pedodontists, and oral surgeons have many choices in silent partners. *Dent Econ*. July 8, 2021. <https://www.dentaleconomics.com/practice/multi-practice-growth/article/14204209/orthodontists-pedodontists-and-oral-surgeons-have-many-choices-in-silent-partners>

Chip Fichtner is the cofounder and principal of Large Practice Sales, which specializes in invisible DSO (IDSO) transactions for large practices of all specialties. LPS completed over \$600 million in IDSO partnerships in 2022. Learn more at largepracticesales.com.