



Chip Fichtner

The most valuable practice traits in a short-term transition or long-term partnership

TODAY, ANY DOCTOR WITH MORE THAN \$1.5 MILLION IN COLLECTIONS has multiple options to monetize all or part of their life's work and practice value. Dental practice consolidation is accelerating, and larger practices are still achieving multiple qualified bidders and record values across the country.

Some doctors are eager for a short-term exit with a sale of 100% of their practice, and others, many as young as their early 30s, are considering a high-value partnership with an invisible dental support organization (IDSO)—not a 100% sale and retirement. While the options and realized values are very different, the practice traits that drive the highest values are common among practices of all sizes, location, and specialty.

GROWTH RATE IS THE NUMBER ONE VALUE CREATOR

Practices that are growing collections and earnings before interest, taxes, depreciation, and amortization (EBITDA) are the most valuable. While inflation has made growing practice top-line revenues easier, it has also negatively impacted bottom-line profitability. The practices that are raising their fees, negotiating higher reimbursement rates from payers, and keeping an eagle eye on their costs will achieve higher values no matter which strategy they execute, 100% sale or long-term IDSO partnership.

THE AGE FACTOR

If your goal is a 100% practice sale, your age is irrelevant. Your challenge, however, will be in finding the decreasing number

of doctors who want to buy a private practice. Many of the newer dentists are joining IDSOs and DSOs rather than buying practices, which reduces the number of traditional practice buyers. But if your practice qualifies for IDSO partnership, which is always more valuable than a 100% sale, the younger the doctor, the higher the practice value.

Your practice's financial statements are the **GPS that guide you** to improved performance.

IDSOs are eager to partner with younger dentists with a lengthy chairside horizon and are becoming far less interested in doctors over 60. It is important to note, however, that multiple doctor practices are valued based on the age of all the doctors, not just the owners.

Until recently, most young doctors had never considered IDSO partnership as an option. This is changing radically. Of Large Practice Sales' \$612 million in

IDSO partnerships completed in 2022, over \$100 million were for doctors in their 30s. They achieved the highest values, with some over 400% of collections and 10 times EBITDA. If you are over the age of 55, you should start looking into your options today, not next year. Time is not your friend in 2023.

TEAM TURNOVER

In any scenario, a potential 100% buyer or IDSO buying 51% to 90% of a practice in a partnership, team turnover has become a valuation metric. If your

practice has a long-term roster of dedicated, high-performing team members, it will add value. Conversely, if you are short-staffed and have had a revolving door of players, your value will be negatively impacted. Yes, the great team members can be costly to keep today, but it will add value both short- and long-term for your practice.

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THE MOST VALUABLE PRACTICE TRAITS

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CURRENT AND ORGANIZED FINANCIAL STATEMENTS

If you are not reviewing your previous month's financial performance and practice operating metrics by the 15th of the following month, you should be. Your practice is a business, and any well-managed business reviews its recent performance at least monthly, preferably weekly.

Your practice's financial statements are the GPS that guide you to improved practice performance. They tell you where you've been, and more important, they can guide you to the practice changes necessary to stay on the road to growth and higher profitability. And in a transaction, your financial reports and practice performance metrics are critical to achieving the highest values in either a 100% sale or IDSO partnership. Sloppy and slow financials will cost you value.

PERSONALITY AND A PLAN

One of the most important values LPS provides to clients in an IDSO partnership process is coaching doctors in how to lucidly convey their practice growth plan for the coming months and years. IDSOs and 100% buyers are all eager to understand what the upside opportunity is in your practice. The financial statements tell the story of past performance, but a dentist with a personality and a logical plan is critical for maximum values. A doctor must be able to paint the vista of growth and future value that can be created for the practice.

THE NEAR AND FAR FUTURE FOR VALUES

For more than three decades, sophisticated investors have been attracted to the dental industry due to its consistent, recession-proof growth. Dental practice

consolidation is still in the early innings of the game, but it is accelerating quickly with more dentists than ever partnering with IDSOs in all 50 states. Billions have been invested into IDSOs from investors new to dental consolidation in just the last nine months. Values have increased for any larger practice. Doctors should learn about all their options for either the high-value 100% exits or long-term IDSO partnership options.

Author's note: Have a question not covered in this column? Email chip@largepracticesales.com. **DE**

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.

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