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Practice monetization: Do it yourself or retain a professional advisor?

AS DENTAL PRACTICE CONSOLIDATION ACCELERATES in the US in 2023 and beyond, thousands of doctors face the age-old question: “Should I try to complete a partnership or practice sale by myself, or should I engage a professional advisor, who will charge a fee for their services?”

The short answer? It depends on whether you have the skills and knowledge to find multiple qualified bidders and can negotiate with opponents who have completed hundreds of millions of dollars of complex transactions. The right advisor will achieve a higher value with better terms than doctors can by themselves.

Dentists of all practice types and sizes are being contacted directly by dental support organizations (DSOs), Invisible DSOs (IDSOs), and individual doctors eager to buy their practices or partner with them. Your friends from dental school may be urging you to partner with the IDSO they chose. Exciting offers are being presented and many doctors are dealing directly with IDSOs and DSOs without considering all their options, risks, and rewards. Monetizing all or part of your life’s work is a monumental decision, a once-in-a-lifetime event for most doctors that’s filled with risks and rewards.

HOW TO CHOOSE THE BEST OPTION

Today, any large growing practice will have multiple options in IDSO partnership. Some Large Practice Sales clients have had more than a dozen qualified bidders so far in 2023, at record values. A bidding



contest not only achieves higher values, but more importantly, it enables the doctor to choose from a wide variety of partnership opportunities, cultures, and future upside opportunities in their retained ownership stake.

There are more than 1,000 IDSOs in the US today, many seeking to partner with great doctors by buying 51% to 90% of a practice for cash up front. The doctor retains ownership in either the practice, the parent, or a combination of both. Doctors continue to lead their practice as an owner for years or decades with their brand, team, strategy, and full autonomy. Choosing the wrong partner is painful, no matter how much cash a doctor receives at closing.

Given the wide variety of IDSO partner options and the billions of new capital invested in IDSOs during the last 12 months, doctors must fully understand the financial sponsor of the IDSOs they’re considering. Some IDSOs will deliver on their promises and some will fail.

Higher interest rates have not helped many IDSOs with floating rate debt, so many have stopped partnering with new practices. When an IDSO is not growing, its promises of future doctor riches will be diminished or extinguished. Fortunately, the new capital has actually increased the number of bidders, but a doctor must understand the complex structures of their options and choose wisely.

Doctors who go it alone must be extensively trained in some fairly sophisticated financial analysis to understand the potential pitfalls in transactions being proposed by IDSOs today. Many have various tiers of equity and debt in their offer structures, with each having a different priority in payout and future equity gains: the big promise of all IDSOs today. Many will deliver on that promise for doctors and their investors, and in the wrong structure, more than a few will deliver the promised gains only for the investors, not the doctors.

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QUESTIONS IF THINKING OF GOING INTO AN IDSO ALONE

The short answer to “should large practices retain a professional advisor or go it alone in a partnership with an IDSO?” can be answered with a few questions.

1. Can a doctor find 10 qualified bidders to achieve a high value?
2. Does the doctor know what a qualified bidder is?
3. Does the doctor have 10 to 20 hours per week for the next six months to complete a transaction?
4. Does the doctor want the highest value, or do they want to join their friends who are getting paid to attract you to their chosen IDSO?

For doctors contemplating a local doctor-to-doctor transaction, an advisor or dental practice broker plays a critical buffer role between two doctors. In most cases, the doctors will work together for some contracted period of time. The

broker manages an important relationship and can market a practice nationally. Experienced advisors and practice brokers often have preferred relationships with multiple financial institutions for purchase financing on favorable terms.

To stress again, it’s about time and expertise. Has the doctor completed multiple million-dollar-plus business sales and purchase transactions in their career? Do they have the time and expertise to achieve the highest value? If not, it’s probably a good time to engage a specialist whose fee will be offset by a higher value.

If you decide to choose a professional advisor, the most important question to ask is, “Does the advisor or broker get paid by the buyer?” When advisors are paid by both buyer and seller, who is the broker working for? Conflict of interest anyone?

In the interest of full disclosure, I

am the cofounder of the largest dental practice transaction advisory firm in the US. Large Practice Sales completed \$612 million in transactions in 2022 and they’ve helped doctors in 29 states. My view is obviously prejudiced. But my kid’s teeth were straightened by an orthodontist, my implants were not placed by a carpenter, and I use a CPA for my taxes and a lawyer for my estate planning. I believe it pays to use a subject matter expert for important events. DIY may appear to be cheaper, but sometimes you get what you pay for. LPS is only compensated by doctors, not buyers. **DE**



CHIP FICHTNER is the co-founder of Large Practice Sales, which specializes in Invisible DSO transactions for large practices of all specialties. The company completed more than \$612 million in transactions in 2022. largepracticesales.com.



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Monetizing Larger Dental Practices

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