



THE CONSOLIDATION CHRONICLES

Chip Fichtner

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.

Changes impacting large practices in 2024: High interest rates can be both good and bad

LARGE PRACTICE SALES (LPS) HAS COMPLETED invisible dental service organization (IDSO) partnerships with nearly 40 IDSOs in 30 states in the last two years. IDSOs become a doctor's silent partner by purchasing 51% to 90% of the practice for cash at today's low tax rates. Doctors continue to lead their practice with their brand, team, strategy, and full autonomy. They benefit from the IDSO partner's resources to grow bigger faster, and with reduced administrative burdens. Costs are lower and reimbursement rates can be higher.

Practice values in IDSO partnership in 2023 achieved new records, but some IDSOs have become more selective in partner practice criteria, including doctor age. Young is better and hundreds of doctors in their 30s are becoming partners with IDSOs. With billions of new capital invested in IDSOs in the last 12 months, dozens of new IDSO bidders are eager for great partner practices.

However, the high-value IDSO bidders for LPS clients come and go depending on their capital position and changes in strategy. As an example, between 2017 and 2019, we completed more than \$200 million in partnerships with one IDSO. They then became a low bidder. We just completed our first transaction with them in almost four years. They are back in the game thanks to new capital.

LPS will complete IDSO partnerships with at least eight "new" IDSOs this quarter. Some of these have been around five or more years and now have new capital to enable them to increase their bids on great practices. Others are backed by capital sources that have built lucrative IDSOs in recent years and are now building new ones. These are some of the best equity upside opportunities for doctors.

THREE BIDDER TYPES

1. Multispecialty

Several of the large multispecialty IDSOs are approaching recapitalization in 2024. They're bidding aggressively for large

practices. We've partnered multiple clients with many of them during the last several years. Recapitalizations are where the current investors, including the doctors, monetize their investment by selling to a large investor.

2. Dental trifecta

Many of the new dental trifecta IDSOs have access to new capital and are bidding at record values for pediatric, orthodontic, and oral and maxillofacial practices in specific geographies. In some cases, 10 times EBITDA (earnings before interest, taxes, depreciation, and amortization) is possible. The new dental trifecta IDSOs are offering high initial values and have promising equity growth opportunities for practices in specific geographies.

3. Implant-focused practices

GP, periodontist, and OMS practices now have six or more new and qualified IDSO bidders. These are in addition to the multi- and single-specialty IDSOs that have been the traditional partners for implant practices.

HIGH INTEREST RATES IMPACT IDSO PARTNERSHIPS

In an IDSO partnership, doctors are functionally trading part of their future practice profits for cash up-front at low tax rates. Two years ago, that cash might have yielded less than 1% in risk-free assets such as US Treasury bills. A doctor's \$5 million after-tax cash at closing earned only

\$50,000 per year in 2021.

Today, cash received in an IDSO partnership can yield about 5.5% in risk-free, liquid securities. That same \$5 million in cash can now earn \$275,000 per year, in part offsetting the doctor's loss of practice profit payments. Liquidity in these challenging times can be deployed in a variety of high-gain potential investments.

THE DEBT BOMB FOR SOME SMALL GROUP PRACTICES

Hundreds of small practice groups built on bank debt during the last five years are struggling. We regularly see groups with five to 20 practices that grew by borrowing from their "friendly" banker. Two years ago, that floating rate debt might have cost 4% and today, in many cases, the cost is well over 10%.

If a practice had \$10 million in debt at 4% in 2020, its interest expense was \$400,000 per year. At 10%, the interest cost is now \$1 million annually. This added expense is crippling many of the small groups and causing sleepless nights for the ambitious dentists who personally guaranteed these loans. A reckoning is coming, but there will also be opportunities.

With the rapid growth of IDSOs nationally, doctors should understand the potential value of their practice in an IDSO partnership. They may also want to learn about the IDSOs that are quietly partnering with their competitors. Ultimately, doctors will either partner with an IDSO or compete with many. **DE**



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