



The Advantages of IDSOs

Why thousands of dentists are quietly partnering in 2023

Chip Fichtner

Invisible dental support organizations (IDSOs), a variation on the DSO concept, become silent partners by purchasing 51% to 90% of a practice for cash up front at low tax rates. Dentists retain ownership, either directly in their practices or in the IDSO, and continue to lead their practices with their team, strategy, brand, and full autonomy for years or decades with the support of a larger partner. Hundreds of IDSOs are operating in all 50 US states and are eagerly contacting doctors to become their partners. They come in all shapes and sizes, with some having a dozen practices in one state and others having more than 500 practices in more than 30 states. In 2023, smart practice owners who engage in a properly executed IDSO partner search with an experienced practice transaction advisor will get to choose from multiple qualified IDSO bidders at record values. However, IDSO partnership is not a short-term transition strategy, and in most cases, it is inappropriate for practices with less than \$1.5 million in collections.

Dentists benefit from the IDSOs resources, which provide advantages such as lower costs, higher reimbursement rates, recruiting and marketing support, and the elimination of many administrative burdens. Although IDSOs will take over banking, payroll, benefits, compliance, credentialing, tax preparation, legal services, IT support, and vendor and payor negotiations, partner practices are not homogenized or micromanaged. With the right IDSO partner, a doctor's retained ownership has the potential to create far greater value than if he or she remains independent.

The valuations of larger practices in an IDSO partnership are much higher than those in a typical doctor-to-doctor sale or partnership. A doctor-to-doctor sale might command 80% of collections, and for doctors seeking a fast exit, this may be the only option. However, for doctors with at least a 3-year chairside horizon, some advised transactions for larger, growing practices, have exceeded 400% of collections so far in 2023. Furthermore, in dentistry today, many

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associates cannot afford to pay the market value for larger practices and some no longer have the desire to become entrepreneurial practice owners. Accordingly, many owners of larger practices are finding that their highest ultimate valuation will be achieved in an IDSO partnership.

Benefit From Bidding

Sophisticated global investors who are new to dental consolidation have invested more than \$5 billion in IDSOs during the last year, and new IDSOs are formed every month across the United States. In 2023, growing, profitable practices should have multiple, qualified bidders to choose from who are offering values above those of 2022.

Although bidding contests drive up practice valuations, their real benefit is to enable doctors to consider many options for partnership instead of just a few. Each IDSO is different. Some have succeeded spectacularly with hundreds of happy doctor partners and others have failed. Therefore, doctors should consider all of their options and do their best to fully understand what the future will hold with specific IDSO partners. Many of those who are romanced into partnering without considering all of their options inevitably leave money on the table or end up in situations without the most beneficial structures for their practices.

Age Is a Critical Component

The bedrock business philosophy of IDSOs is that owner-operated practices are superior to employee-operated ones. When IDSOs and dentists are both owners of a practice, they can share mutual goals and create long-term relationships without turnover. Younger doctors are now learning that an IDSO partnership can result in greater long-term wealth and a better work-life balance. As more younger doctors successfully partner with IDSOs, it will put downward pressure on the valuation of the practices of older doctors. Doctors aged 55 years and older should have a plan in place now, not later. This does not mean that older doctors who own practices cannot become IDSO partners at an exceptional value, but the younger the doctor, the higher the potential number of bidders and value.

Reasons to Partner

IDSO partnership is not for every dentist, but many find it to be extremely attractive for a variety of reasons. Some doctors are eager to gain more personal time by off-loading the many hours of administrative responsibilities required by practice owners. Others understand that their practice may be their primary asset and are excited to reduce their risk by diversifying their investment portfolios. In troubled times, liquidity can create investment opportunities outside of practices while maintaining the upside in their future value. Many practice owners are also eager to use an IDSO partnership as a way to provide ownership to existing associates at advantageous values and eliminate doctor

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turnover. Others are eager to access a silent partner’s capital and growth resources to buy or build new practices in which they will share ownership without risk.

IDSO partnership can be both an offensive move for growth and higher profitability and a defensive one to lock in referral sources. This is especially true for specialists. In some cases, specialists are seeing their referral sources become IDSO partners, and this has resulted in the referrals being sent to other doctors in the IDSO family, not to the independent specialists.

Understanding Your Practice’s Value

According to the American Dental Association, about 13% of all US dentists are now affiliated with a DSO or IDSO. Dental consolidation is accelerating and may impact practices in ways that doctors do not yet fully comprehend. Every practice owner should understand whether they qualify for a high-value IDSO partnership and what their practice valuation could be in 2023. They should also learn about the penetration of IDSOs in their area and understand the potential risks and rewards of partnering. It always pays to keep abreast of the rapid changes that are occurring in the profession, not only in clinical care but also in your practice’s business future.



About the Author

Chip Fichtner is the co-founder of Large Practice Sales, the largest transaction advisors to GPs and dentists of all specialties, with more than \$612 million in IDSO partnerships completed in 2022.



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