Dental Practice Consolidation: The Risks, Rewards, and Trends

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Over the past three decades, thousands of doctors have sold their practices to a dental support organization (DSO) or quietly partnered with invisible DSOs (IDSOs). American Dental Association reports issued in 2023 indicate the trend is accelerating.[1,2] Values of high-quality practices increased to new records in 2023 partly because of a large influx of new capital driving dental practice consolidation. Doctors as young as age 30 are also now partnering with IDSOs.

Doctors now have increasingly broad options to monetize all or part of their life's work. A sale to a DSO is significantly different from a partial sale and silent partnership with an IDSO. Even doctors not interested in a sale or partnership should know the risks and rewards of both options, as such organizations can become a valuable friend or formidable foe when they enter one's market.

Selling Only Part of the Practice

In years past, a 100% practice sale to a DSO was often a transition or retirement strategy. Today, the fastest-growing trend in US dental practice consolidation, according to the author's company data, is doctors as young as age 30 choosing to sell only a part of their practice to an IDSO silent partner. In such an arrangement doctors continue to practice as owners with full autonomy, for years or decades, but benefit from practice and lifestyle-enhancing support from the silent partner.

In a DSO sale, doctors typically sell 100% of a practice with the doctor remaining for some period of time as an employee. An IDSO partnership differs dramatically in that doctors typically sell 51% to 90% of their practice for immediate cash, yet retain ownership in the balance. They continue to lead their practice as owners and benefit from the resources of a larger, silent partner.

In an invisible DSO partnership, doctors continue to make the decisions regarding their practice. However, they gain a partner that can reduce administrative burdens, enhance recruiting, improve marketing, and enable access to lower costs and higher reimbursement rates. IDSO partner practices can often grow bigger and get better faster and more profitably than a solo practice. Over time, the doctor's retained ownership can become far more valuable than remaining independent.

In a traditional DSO sale, the practice and doctor typically adhere to corporate policies, procedures, and decisions from above. In an invisible DSO partnership, the doctor continues to execute his or her proven practice model without interference. IDSO partner practices are not micromanaged, and there is no attempt to homogenize a partner practice to meet a corporate standard. Owner doctors in an IDSO partnership benefit from their larger partner taking on certain administrative functions, such as banking, payroll, benefits, compliance, credentialing, taxes, legal, IT support, and vendor and payor negotiation. This can then allow doctors to focus on leading their team, providing patient care, and achieving a better work-life balance.

Invisible DSO partner practices also have access to critical support for growth, higher profitability, and capital for expansion. These partner doctors have tools that are unavailable to independent practices. For example, IDSOs can help with complications associated with the present-day difficult recruiting environment for doctors and team members of all types. Superior, lower-cost benefits attract the best team members, and equity ownership opportunities for current and future associates and team members are available in many of these partnerships today. Owner doctors and team members ensure longevity and stability and can stop the revolving staff door.

More than 1,000 IDSOs are operating in the United States today, eagerly partnering with growing practices in all 50 states. Some have over 600 practice partners, while others have only a few. Some are general practitioner (GP) only, some are multispecialty, and there are now dozens of single specialty IDSOs, including 15 in oral and maxillofacial surgery (OMS) and 14 in orthodontics.

Choosing a Partner Wisely

DSOs and IDSOs are financed by a variety of sophisticated, global investors. Many are backed by private equity, but other shrewd global investors in dental practice consolidation include family offices, sovereign wealth funds, small business investment companies (SBICs), and venture capital funds. There is no shortage of capital supporting the growth of both groups. Even Align Technology, Inc., the manufacturer of Invisalign®, has invested in DSOs. One can guess who pays more for clear aligners: an independent practice, or a DSO or IDSO?

In addition to paying less for supplies, benefits, and technology, many DSOs and invisible DSOs are also reimbursed by payors at higher rates than independent practices. IDSOs can increase a practice's margins, profitability, and take-home income. In such a partnership, as mentioned earlier, doctors sell between 51% and 90% of the practice value for cash at today's relatively low tax rates.

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This can enable the doctors to reduce risks, diversify their investment portfolio, and gain millions of dollars in liquidity, useful in today's troubled times and higher interest rates.

Ultimately, larger practices will either partner with an IDSO, sell out to a DSO, or compete with many of both. Associates and other doctors can rarely finance the practice values possible in an invisible DSO partnership. Smaller practices will still rely on selling to another doctor as an exit strategy, but this has become more challenging. The number of dental school graduates who were formerly the enthusiastic buyers of practices has declined in recent years. Many debt-burdened graduates are now choosing the easier path of becoming a DSO or IDSO employee. The number of prospective buyers for average-sized practices is declining. Larger-practice values are increasing as the number of eager invisible DSO bidders is growing rapidly.

Fortunately for doctors, the billions of dollars of investor capital invested in IDSOs in just the past 12 to 18 months has increased the number of these organizations competing for new practice partners. Larger-practice values in 2023 were above 2022. With the right advisor, top-notch doctors will often attract five to 10 or more qualified bidders for their growing practice.

Multiple bidders certainly increase values, but most importantly, this enables doctors to consider more choices in partnership. An invisible DSO partnership is not a "one-night stand," but rather is akin to a marriage. It is a long-term relationship. Doctors should understand all of their IDSO options and choose their partner wisely after meeting with many.

Understanding All the Elements

Unlike a 100% sale to a traditional DSO, in an invisible DSO partnership the doctor retains equity ownership in either the practice, the parent, or a combination of both. There are risks to the equity value if doctors choose the wrong silent partner and/or wrong structure. There is also significant reward potential. As just one of many examples of the generational wealth created by doctors in IDSO ownership, the author's company has seen one IDSO triple the value of a doctor's ownership every 3 years. Another has helped the value of a doctor's equity grow by 200x in 20 years.

Another factor driving doctors to choose a silent partnership is the rapid changes in technology. These organizations enable all of their partner practices to collaborate in real-time. Doctor partners within such an organization often rave about the ability to learn from other partner practices' implementation and use of new technologies such as artificial intelligence.

In orthodontics, new-patient marketing has become a direct-to-consumer marketing puzzle. The GPs are not referring new patients as they have in the past. Many of the IDSOs with orthodontic practices have mastered the art of digital marketing for their partners. And the "dental trifecta" IDSOs (pediatric, orthodontic, and oral and maxillofacial)[3] by design have pediatric partner practices to refer to the orthodontic partner practices.

For OMS practices, these partnerships are helping to solve the acute associate doctor recruiting challenge. Typically, independent doctors cannot match the promise of signing bonuses, high salaries, and immediate equity ownership offered by invisible DSOs. The math—only 247 residency graduates in 2022 and 5,000 OMS practices—is not good for independent OMS practices.[4]

Pediatric specialists are attracted to the high values they command as the platform practices for a dental trifecta IDSO. Rapid organic growth is created for all practices in an IDSO family when it exclusively partners with pediatric, orthodontic, and OMS practices in the same communities. Doctors with common invisible DSO ownership are eager to monetize the value of their new-patient referrals within the family. Organic IDSO growth is a metric measured by large investors. High growth equals high exit values.

Both periodontal and endodontic practices have many partner choices from both the single specialty and multispecialty IDSOs. Also, in the past 2 years GP practices and specialists focusing on implant and "all-on-X" care have seen multiple invisible DSOs looking to partner with them to create national networks of practices.

The doctor's greatest risk in a DSO sale or invisible DSO partnership is ultimately the partner he or she chooses. Qualified advisors who are solely compensated by doctors and not buyers are rare. Most advisors in the dental consolidation industry are paid by both the doctor and the DSO or IDSO, and as such, the advisor cannot exclusively have the doctor's best interest at heart. With smaller advisors, the doctor's selection will be limited to those organizations that will pay the advisor a fee. The doctor thus may miss out on many eligible bidders and buyer or partner options.

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Planning Now

Options are expanding, and values are at record highs for larger, growing practices. Doctors over age 55 should have a transition plan now, rather than later. The 30-something doctors are more attractive to the IDSOs and DSOs, impacting values for older doctors. It would be wise to learn what is coming to your neighborhood or, indeed, is probably already there, and find out the value of your practice in today's changing world.

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