



THE CONSOLIDATION CHRONICLES

Chip Fichtner

Top 10 dental practice attributes for high valuation

Practice values in an IDSO partnership vary, and timing is an important factor. With more than 1,000 IDSOs and DSOs in the US, values can change significantly depending upon who wants what, when, where, and why.

LPS's highest value transaction in 2023 was due to the fact that a specific IDSO needed a unique practice like our client's to fulfill their promises to investors. This client achieved about a 50% premium over offers he had been attempting to negotiate on his own.

VALUE DRIVERS

Practice size. Larger practices achieve the most bidders and highest values. The IDSO's cost of completing a partnership in terms of legal, accounting, time commitment, etc., is similar in a \$1 million transaction versus a \$10 million transaction.

Growth Rate. Growing practices achieve higher values whether they're general or specialty. Growth rate in the most recent 12 months is the most important metric. Practices that have maintained a multiyear growth trajectory will also achieve high values, even if the most recent 12 months have been flat.

Geography. IDSOs have expanded their interest in practices in overlooked states. Some are now attempting to avoid hot states (e.g., Florida, Tennessee, South Carolina, etc.). This has been a benefit for practice values across the country. However, high population growth areas will achieve higher values in most, but not all cases.

Doctor age. The growth of IDSO partnerships with doctors under 40 has been dramatic in the last 36 months.

Younger doctors understand that an IDSO partnership can be a long-term, generational wealth building partnership opportunity. Since IDSOs are seeking long-term relationships, their interest in 35-year-old doctors is higher than in those over 60.

Opportunities for higher payer rates. As more IDSOs negotiate higher reimbursement rates from payers, predominantly insurance-based practices may become more valuable than fee-for-service practices. When a prospective partner knows they can increase a practice's collections and EBITDA by simply switching their new practice partners to their negotiated payer contracts, values go up.

Opportunities for cost savings. Prospective IDSO partners will examine the potential partner practice's cost structures, particularly supplies and benefits costs. Size allows IDSOs to pay less for everything. A recent IDSO bidder for \$25 million in collections calculated that they could reduce the practice's supply costs and benefits by 30% immediately.

Service mix. IDSOs will examine the procedures performed in a practice to determine if a change or addition to the services could increase collections and profitability. A recent example is a large OMS practice that performed no implant procedures. The IDSO calculated that they could increase practice collections by about 40% if the practice provided

implants. The owners were happy to add the service but needed two additional surgeons to handle the volume, which the IDSO helped them recruit. The 40% collections increase target was hit in the first 15 months of the partnership.

A personality and a plan. Clients often speak with multiple, qualified bidders. Doctors who can convincingly outline their growth goals and strategy will achieve higher values than those who cannot. The personality of the doctor can result in a 10% to 20% increase in value.

Organized books and records. In an IDSO partnership process, doctors will be asked for detailed information about the performance and procedure metrics. Doctors who are unable to deliver rapid responses to questions will achieve lower values. We see this regularly when a doctor is attempting an IDSO partnership by themselves without an experienced advisor.

Multiple bidders. IDSOs are competitive. Values can often increase by 10% to 25% when eager bidders are forced to compete. A great client will typically have six or more qualified bidders from which to choose their best long-term partner option.

Doctors have abundant choices when it comes to potential IDSO partners. When practice owners maximize the drivers covered here and work with a skilled team of advisors, they consistently achieve higher values. **DE**

Chip Fichtner, cofounder and principal of Large Practice Sales, completed more than \$1 billion of practice transactions in 2022 and 2023 with 38 IDSOs for clients in 31 states. He has built, bought, and sold companies in a variety of industries, and has been featured in numerous media outlets. His tolerant wife of 33 years allows him to live on airplanes visiting clients every week. Learn more at largepracticesales.com.



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