

## The Brief Moment in Time for 2019 Practice Values, Or Wait Three+ Years

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In 2019 we urged clients to monetize a part of their dental practices at what we correctly predicted was the peak in values. Over \$200,000,000 (two hundred million dollars) of now exceptionally happy clients (ages 38 to 67) listened to us and are sitting on a pile of cash and have larger partners helping them through the crisis. Most doctors did not listen then, but should NOW. **FOR ABOUT 60 DAYS, it is NOT too late.**

Fortunately, we also closed transactions in Q1 2020 including a \$9.2 million-dollar single doctor practice on March 16, 2020. You may recall the Dow Jones Industrial Average dropped a **breathhtaking 2,997 points that day.** That closing speaks volumes about the quality of the Invisible Dental Support Organization (IDSO) partners to which LPS introduces their clients.

Another “miracle” transaction closed for our now very happy specialist client in Honolulu on **Friday, April 3, 2020.** The hardest deal we have ever done...

### **IDSO Buyers are Still Active, Some More than Others**

LPS works with dozens of IDSO groups of all sizes across the country. We also constantly interact with new money interested in entering dental. They call us because we have larger practice clients that will make great platforms upon which to build a new IDSO.

In just the last six months we have completed transactions with Private Equity (PE) backed start up IDSOs, smaller family office backed IDSOs and SBIC backed IDSOs. We even got an offer last week for a large practice client in California from a publicly traded media company wanting to enter the dental space. **Their business plan is that their unlimited, low cost, media access can drive new patients to practices to accelerate growth.**

In the last two weeks the IDSO partners have clearly divided into three camps. The first are those which have stopped all acquisition activities. Some of these are the largest groups which are focused on managing the carnage of closing hundreds of dental practices, en-masse. Their “pencils are down” on new opportunities for a while.

The second camp is comprised of IDSOs which are moving forward, looking at new acquisitions with a business as usual approach. They are proceeding on the due diligence/legal documentation for transactions negotiated pre-crisis. The goal is to close the \$200,000,000+ of LPS clients currently under Letter of Intent (LOI) shortly after practices reopen. **These groups are also actively looking at new opportunities, but at a more relaxed pace.**

The third group is the most interesting. These are primarily relatively new IDSOs which have capital they need to deploy and are excited to start transactions NOW. Their focus is not on triage of existing practices, but rather they feel that NOW is the best time to add great practices to their portfolios. They are actively working with LPS on existing and new clients and are **making offers at record speeds.**

Their goal is to buy practices quickly while the typical competitors are “waiting until the dust settles.” We received multiple offers for clients of all specialties LAST WEEK. Fortunately, these offers are valuing practices on 2019 numbers and including offer incentives to ensure a return to pre-crisis collections levels. **THIS MAY BE THE MOST IMPORTANT PART OF THIS MEMO.**

### **The Dichotomy Opportunity; Monetize NOW, Not Later!**

The overwhelming belief of all three types of IDSO buyers is that once reopened, practices will quickly return to pre-crisis revenue run rates. This near universal conviction is tempered by a few of the IDSO players who understand the world has changed. However, their view is that dental will remain a long-term, stable investment and perhaps create even higher exit multiples for their groups in the coming years.

The IDSOs know that more doctors will want the safety and resources of a larger partner to help them navigate the stormy voyage into the new post-crisis world. The doctors are now grasping that millions of dollars of cash in the doctor’s pockets will come in handy in a depression.

This is also a nice way of saying IDSOs expect to crush the wounded, unaffiliated, independent practices with the IDSOs superior management, capital, marketing expertise, purchasing power and payer negotiation leverage, and in some cases, FREE MEDIA!

In short, the crisis will accelerate the consolidation of the 150,000 dental practices with many not surviving post crisis. If true, this will be a goldmine for the larger practices and IDSOs with the resources (doctors, money and management) to acquire dying competitors for pennies on the dollar. Doctors will want to be on the giving end of this phenomenon, not the receiving end.

**While we are excited that the IDSOs are believers in a rapid return of dental revenues, the now emboldened economists at LPS do not share the “snap back to normal” party line in 2020.** We believe it could be years. Goldman Sachs, generally some of the smartest lions in the money jungle, predict Q2 GDP will drop 34%. This is a lot to snap back from...

Certainly, there will be pent up demand early in the restart, but tens of millions of unemployed folks don’t put dental on the top of their survival list. This is a very real short- and long-term risk.

### **Hopefully We Are WRONG!**

But if we are right, values negotiated in Q2 and Q3 of 2020 will mark the peak in practice values for the next three years or more. This tells us that the best values will be achieved for transactions started NOW, where the IDSO is willing to use 2019 numbers for base valuation for closes in mid-2020. This is a gift that will not keep on giving for long.

As we reach Q3 2020 and the “snap back to normal” dreams of doctors and IDSOs are dashed on the rocks of reality, they will both be forced to take into account the miserable numbers of March, April and May (and probably June in many states) when calculating practice values. And since values are predominantly based on the previous Trailing Twelve Month (TTM) EBITDA, doctors who wait to START to monetize until late 2020 will effectively be forced to delay any transaction until the horrific numbers of Q2 2020 are no longer counted in TTM. This will put doctors’ exit options at July 2021, at the earliest. We thus have a very, very short window to capture the highest values.

Based upon the volume of new practices seeking to monetize in 2021 and 2022, the laws of supply and demand will kick in and result in lower values for all practices. Certainly, the practices that did “snap back” quickly will have higher values, those that did not could be unsellable at any value. **This is a pretty big bet to make with your largest single asset...**

### **Speaking of the Laws of Supply and Demand**

The rush to monetize will not wait until 2021. Smart doctors are starting NOW. LPS signed **\$41,000,000 of new clients in March alone.** And April is looking closer to \$100,000,000 in new clients grasping our logic and understanding the value of cash now, at low tax rates. LPS is hiring, not laying off.

### **As a Bonus Problem, Don't Forget Uncle Sam**

Joe Biden has made it clear, in multiple venues, that the RICH are too RICH. (If you are an LPS client, you are within Joe's definition of rich). He has stated that one of his first acts as President will be to eliminate the Long-Term Capital Gains tax treatment. All gains from business sales or investments will be taxed at ordinary income rates of about 40% nationally. **This will effectively cut a doctor's net, after tax proceeds by 20%.** Your \$10 million dollar practice sale in 2020 will net you \$8,000,000 vs. \$6,000,000 in 2021. The math is pretty simple.

And if Trump remains on the throne, someone gets to pay for the trillions of dollars in bail outs and it won't be the poor folks. Taxes are going up either way. I promise.

### **And on That Cheery Note...**

The process to discover the current, “in crisis value” of your practice is easy. It starts with a confidential phone call with me. Please email me at [Info@LargePracticeSales.com](mailto:Info@LargePracticeSales.com) or phone at 844-976-5332 to set up a convenient time for a call. It should be easier to fit into your schedule at the moment!



## Coronavirus Update #3 (3.22.20) *The Short Window of Value*

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We will not bore you with CV statistics updates as the media has that well covered. However, as the dental practice value world changes, we have distilled some important points to consider below.

Operationally, we are in uncharted waters. The ADA has never recommended a national shut down of dental practices. In the value world, we believe transactions will resume once the shutdown is complete and that 2020 will end up being the last time, for a long time, to achieve practice liquidity at rational values.

The world has changed and those who monetize in 2020 will be almost as happy as our grateful clients who completed transactions in 2019 and as recently as March 16, 2020. We have a window and it will only be open for a short time. Transactions will resume shortly after the shutdown and you will want to be one of them. Diversification and liquidity will be very valuable in 2021 and beyond.

### **Operational Suggestions**

- 1) Track your CV related expenses in a separate line item on your P&Ls. These may include employee support payments, direct costs related to shut down, etc.
- 2) Keep answering the PHONE – Reschedule appointments to the first week you are expecting to open. Get the schedule full – even work overtime (5 days not 4 or 3). Worst case if you don't open you can reschedule. This will also provide for Emergency Care. If you are not there to treat emergencies you may lose that patient forever.
- 3) Treat Emergency Patients – Production, Good patient relations.
- 4) Teledentistry – Numerous platforms can provide this and now more than ever is generally accepted.
- 5) Email – Messaging at this time is important to your patients. Send an email to your patients letting them know what you are doing and how your practice can still be reached.
- 6) Lower Your Overhead – non-essential personnel – if you can afford to keep them at 100% do so, if not, some is better than none and they will thank you forever. Take a hard look at your expenses and rethink the money you may be wasting on things that are not working.
- 7) Facebook/Instagram – Post a COVID update for your patients – tell them your available for emergencies – your office will be calling to reschedule non-essential appointments.
- 8) Employee Communication – If your office is not open or operating with a skeleton crew, get on a conference call every couple of days – keep the team together. It costs nothing [FREECONFERENCECALL.COM](https://www.freeconferencecall.com).
- 9) Use this time to update your financial reporting so that if you decide to pursue a monetization strategy, you will be prepared.

## Future Practice Value

We have talked to dozens of IDSOs this past week about their plans for transactions currently under a Letter of Intent (LOI), meaning on the path to closing, and about their post crisis interest levels. (LPS has over \$200,000,000 of transactions in this phase at the moment.) The larger, legacy IDSOs with hundreds of practices are focusing on triage at their primarily shut down practices. The smaller IDSOs and the eager new entrants into the industry have less current carnage and are thus more focused on what happens next in the acquisition world.

Virtually all transactions in process as of March 16 will be postponed until after practices reopen. Many already negotiated transactions will be restructured to include an earn out component to accomplish two things:

- 1) Achieve the agreed to initial value of the transaction, but provide protection to buyers that practice performance rebounds to pre-crisis levels in the year subsequent to a transaction.

**Example:** Transaction occurs now at originally agreed value based upon Trailing Twelve Month EBITDA, with a portion of the value paid at closing and another portion deferred until one year after closing based upon achieving pre-crisis levels. In other words, clients will get the agreed upon Xx EBITDA, but it will be based upon future EBITDA, not the crushed EBITDA inclusive of the shut down period.

The reasons for no price renegotiation are illustrative of the quality and long-term view of the right IDSO partners: *“We are trying to create a long-term partnership. We do not think it begins a relationship off on a good note if it starts with us trying to squeeze doctors for a lower price. We would rather keep the overall value the same, but tune the structure to protect us from excessive risk. Not adjust the price, the structure. We believe this builds immeasurable good will with our new partner doctors.”*

- 2) Many doctors will take the position that they will revisit a monetization event after the impact of the shutdown has washed through their Trailing Twelve Month (TTM) earnings, and thus revisit a monetization in 2021 or 2022. THIS IS A MISTAKE.

By providing 2019 values, albeit with different structures, buyers can still attract great doctors with 2019 values well into 2020. By 2021, we expect a return to traditional structures, but at lower values due to fewer buyers and general economic conditions. Fortunately, dental will still be an attractive area for investment, there will just be fewer buyers and far more sellers.

## Now Not Later

Upon reopening, we expect many of the IDSOs to resume the completion of transactions with structures that are tied to performance rebounds measured AFTER closing. Given the pent-up patient demand, for a while, this will be good for doctors.

We strongly believe that the emotional, “return to normal” expectation by buyers and doctors will make 2020 the best year for values for many years into the future. The risks of a new administration with higher tax rates in 2021 will result in 20% lower net, after tax proceeds.

The potential for long term economic damage from the shut down and the bailout will potentially reduce values for two or more years. The remainder of 2020 is the nine-month window to achieve the highest practice values for years and perhaps decades.

In addition, the number of practices available will increase dramatically in late 2020 and 2021. The doctors who declined to monetize in 18, 19 and 20 have now suddenly realized that diversification of assets is important and that predictable practice income is not guaranteed. Doctors will also grasp that an IDSO transaction can provide not only diversification with cash in the bank, but also a partner with which to weather future storms.

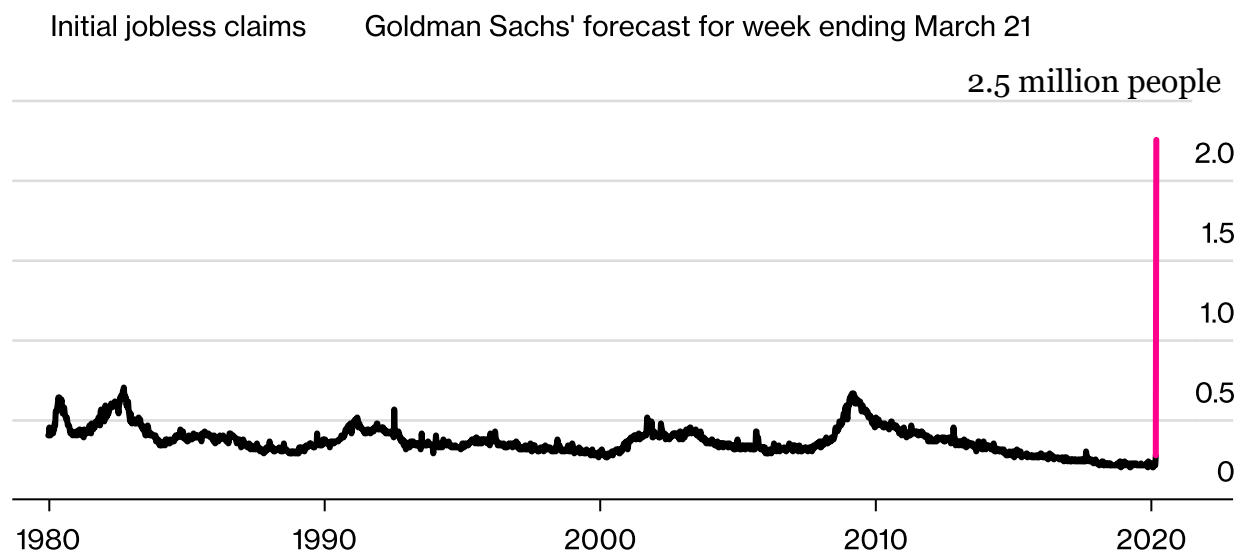
The former doctor's response to the LPS value estimate of: "THAT IS NOT A HIGH ENOUGH VALUE, I WILL JUST WORK ANOTHER 7 YEARS AND GET THE SAME AMOUNT OF MONEY" is no longer true. The world has changed. Liquidity will be king.

In the future, practices may be illiquid as they were in 2008 to 2012 with few exceptions. The 2020 crisis is far larger than 2008 as it will abruptly DEPRESS GDP and unemployed millions of U.S. workers in a matter of weeks, not years.

**A week ago, Goldman Sachs predicted Q2 GDP at a 14% decline. By Friday it was a 24% decline. J.P. Morgan is now forecasting a depression starting in Q2. They optimistically forecast a short duration due to the resumption of normalcy in Q3. But just using the D word is unprecedented. We think they are optimists...But we have a window for great practices through the end of 2020.**

### Unprecedented Wave of Layoffs

Coronavirus effects expected to throw millions out of work



Source: Labor Department, Goldman Sachs

## Coronavirus Impact on Practice Values; *Important Tips and Buyer Update*

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In our bulletin on Sunday March 8, we pointed out that declines in practice revenue and EBITDA could have lasting effects on practice values. Fortunately, in speaking with multiple IDSOs this week, they have confirmed that they will consider post-closing earn-out partnership structures to enable doctors to recapture practice valuation drops caused by the Coronavirus.

This is an important element for doctors now considering hiring Large Practice Sales to represent them in a monetization transaction. While your trailing 12-month (TTM) performance prior to a transaction may have been impacted by an EBITDA decline due to Coronavirus, IDSOs will structure transactions to allow a new partner to recapture the value lost. Practices that resume their collections and EBITDA levels in the 12 months AFTER a transaction will be able to re-price their transactions at long term capital gains rates then.

### **Tax Rates are Driving New Client Acquisition**

The Coronavirus is actually driving up our business as doctors understand the future recession potential and the attendant value decrease possibility in 2021 and later. Last week we signed up \$19,000,000 of new clients bringing the last 30 days to over \$30,000,000. We expect more than that in the next 30 days as doctors want to complete transactions while the 2020 federal tax rates of 20% apply. If a Democrat gains the White House, the leading candidates have all proposed 40% and higher tax rates on gains from a business sale.

### **What the Smart Doctors are Doing to GROW Collections in the Next 30 Days**

We talk to dozens of doctors every day from Honolulu to Boston. This week, each doctor was asked: What is the status of appointment cancellations and what their plans are for the next 30 days? Reactions varied wildly from closing their office to expecting 20% year over year growth.

- Large OMFS Practice: *“We are contacting all of our patients scheduled for summer wisdom tooth extractions and with school out, urging them to come in earlier. This will increase our spring revenues and reduce the summer stress.”*
- Two Doctor Ortho: *“We are contacting our future set consults to invite them to come in NOW since school is suspended. Email makes it easy and it is working.”*
- Three Doctor GP: *“We have had cancellations, but also have a waiting list for complex procedures. We are enticing those patients with the new schedule openings to get the most profitable cases to come in now. Our collections will go up unless it gets a lot worse.”*
- One Doctor Ortho: *“We are using any openings to offer completed case patients to come in for a scan to join our **Retainers for Life** program; the most profitable service we offer. We have not had the time in the past to invite them to our office again.”*

Clearly, LPS has brilliant clients and this is part of why we achieve great values for them!

### **Buyer Update; Mixed, but OK!**

One of the most powerful tools in achieving the highest values (besides LPS not getting paid by buyers like all the other guys) is to create a bidding contest from multiple buyers for our clients. Without eager buyers for larger practices, we have no business.

Our discussions with buyers this week were mixed. Our first calls were of course to buyers in the \$200,000,000 of client transactions in the closing process for March and April. Each of these reaffirmed their commitment to closing on schedule. One suggested that he will be asking for a larger escrow on a \$28,000,000 deal.

Another group with which we have no transactions pending, but to which we have sold 20+ practices in the last three years, was informed by one of their money sources that all acquisitions were on hold.



## Coronavirus Could Impact Your Practice Value for The Next Three Years

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*Your practice value today and in the future is at risk due to the potential of declining collections in the coming months. Practices with declining collections are difficult, and in many cases impossible to monetize at the high values for which LPS is renowned. Potential IDSO partners will examine three years of a practice's financial results as a part of their value determination.*

***This is not just a short-term issue.***

03.07.20, Washington, D.C: 5:00 EST UPDATE. The Association of Dental Support Organizations (ADSO) just announced the cancellation of their annual event scheduled to start on March 11. This is the biggest event of the year for DSOs and was to be held in Maryland, just down the river from Washington, D.C. LPS was a sponsor of the event.

The ultimate effect of the Coronavirus on the U.S. economy is an unknown. However, based upon the current activities in other developed countries, we can reach a general thesis as to the potential impact upon the U.S. and on dental practice values.

**But first, let's put the Coronavirus in perspective.** The World Health Organization statistics at 3.00PM EST, March 7, 2020:

- 103,168 confirmed cases
- 3507 deaths
- 95 countries with confirmed cases

As compared to:

**On one of the worst days for Coronavirus in China** (February 10, 2020), **108 people died**. But on a given day, globally:

- 26,283 people die of **cancer**;
- 49,041 people die of **cardiovascular diseases**;
- 4,383 people die of **diabetes**.
- 2,191 die from suicide
- 2,740 die from mosquitoes
- 1,287 people are murdered

*Source: Peter Diamandis from [www.Diamandis.com](http://www.Diamandis.com) (interesting to read)*

In terms of actual deaths, Coronavirus is not yet a “rational” fear. However, the public's perception, reaction and changes in behavior are what is important to your practice. And behaviors are changing rapidly.

## **An Unexpected Impact of Coronavirus**

One of our yachts which LPS uses to entice practice buyers and reward great doctor clients is docked in Genoa, Italy a city of 585,000 people. Genoa is far from the most affected areas of Milan and north and has no confirmed Coronavirus cases. In a discussion with our captain and crew members this morning, we debated where we might move to complete our winter maintenance and repair works due to labor issues in Genoa. Spain, Greece and Croatia are all options, but we are not in the outbreak prediction business and would guess Coronavirus will be there shortly.

Like other parts of Italy, Genoa is functionally in hibernation due to the pandemic. With all schools and Universities in Italy shut down until March 15, the local labor our yacht crew relies upon to assist them in the annual maintenance and repair regimen is at home taking care of their children. People are venturing out only if required. **Most dental visits in Italy, nor in the U.S., are required. Practice revenues and profits in Italy are declining. They will do the same in the U.S.**

As the Coronavirus and the attendant media hype expands in the U.S., we can expect similar behavior here. This is likely to result in reduced dental practice visits and cancelled appointments, creating a decline in practice revenues and thus profits (EBITDA).

## **Plausible Explanation Does Not Change the Outcome**

While the impact on your practice financials is 100% explainable to prospective IDSO partners, it does not eliminate the negative impact on your practice profitability and thus the immediate and future value of your practice. Declining revenues usually result in declining profits (EBITDA). Because practice values achieved are primarily based upon operating profit or EBITDA, the math says this will impact future values for all three types of practices: growing collections, static collections and shrinking collections.

## **The Reliable Law of Supply and Demand**

The explosive growth in doctors interested in an IDSO partner gives the IDSOs far more practices from which to select partners. The IDSOs will choose growing practices over flat or declining practices, every time. Certainly, there will be the “bottom feeders” offering low values for declining practices, but that is not how LPS likes to assist our clients. We are the “unbelievable value specialists” and you don’t achieve unbelievable values for declining practices.

It does not necessarily render flat practices unsellable but it will possibly have a very significant impact on the salability and value realized by those practices with declining collections. And because the window of measurement on these transactions is the three years prior to closing, the Coronavirus could potentially impact your practice value far into the future, not just in 2020.

## **An illustrative data point of the recent growth in IDSO transactions:**

LPS IDSO Transactions in 2019: \$200,000,000

LPS IDSO Transactions in the first QUARTER of 2020: \$200,000,000++

LPS IDSO Transactions forecast for all of 2020: \$480,000,000+ (Assuming Coronavirus moderate)

## **What to Do Now?**

Unfortunately, you have no control over global pandemics and more importantly, your patients' reactions to them. However, you can market more aggressively, work longer hours and watch costs more carefully than ever to attempt to continue to grow your EBITDA through the developing storm. It is the bottom line that matters most.

## **2021 Federal Tax Rate Consideration**

If you plan to monetize a part of your practice in the next three years, now is probably a good time to understand its potential value. You should also consider the outcome of the U.S. Presidential Election as each of the Democrat candidates promise to raise taxes and eliminate the Long-Term Capital Gains tax preference, effectively doubling the tax rate on a transaction. Your net proceeds would be reduced by about 20%.

## **Baseline Practice Valuation; Why Not?**

You may also want to consider having LPS determine the value of your practice today. While this value will most likely change in the future, it is beneficial to have a base line value today. The process is confidential, free and painless. **You have no obligation whatsoever.**

**To schedule an introductory phone call, please call 844-976-5332 or Email  
INFO@LargePracticeSales.com.**