

## Why? or Why Not? Join an Invisible Dental Support Organization (IDSO)

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*The following is only a summary. To read the full report in lengthy detail, please call.*

### Top 10 Reasons Why Doctors Choose to Partner with an IDSO

- 1) **Diversify and liquify your primary asset:** As the U.S. enters into its worst recession in history, cash is king. An average LPS client takes at least \$5,000,000 in cash off the table by selling 60% to 90% of their practice for cash at close and retaining equity ownership in the balance.
- 2) **Taxes:** Proceeds in a transaction completed in 2020 and early 2021 will most likely be taxed at 20% maximum federal tax rates. Later in 2021, rates could be double (Biden suggests 39.7% vs. 20%), costing doctors millions of dollars in a typical LPS transaction. State tax rates will also rise. Watch out for tax policy retroactivity as in 1993 and California today.
- 3) **Upside Equity Gains:** There is considerable upside value potential in the retained equity ownership if you choose the right partner. The actual historical gains of doctors vary wildly, but 10X return on retained equity has not been uncommon in the last decade, 3X-5X in five years has been a median and a few have hit 20+X with a 10-year time horizon. Nothing is guaranteed, but historically dental has been extremely lucrative for financial sponsors and their doctor partners. Many of the IDSO financial sponsors have successfully built and monetized multiple DSO groups over the last decade.
- 4) **Administrative Headache Reduction:** With few exceptions, all IDSOs will reduce the doctor's administrative and human resources (HR) burden. They will take over banking, benefits/administration, taxes, credentialing and negotiations with payors. Thereafter, each IDSO has different levels of administrative support which you will understand in detail prior to entering into a transaction.
- 5) **Purchasing:** Volume dictates lower prices on all supplies and team benefits. As just two examples, famous brand clear aligners may cost \$1400+ per case for you, but \$800+/- for IDSOs. In the implant world, most IDSOs are paying HALF or less than you are for the most popular brands of implant systems.
- 6) **Synergies with other Partner Practices:** Depending upon the IDSO you choose, there may be synergies with other partner practices to increase referrals to your practice. This is particularly true in specialty practices.
- 7) **Marketing:** If you or your chosen consultant are not 24x7 marketing experts, particularly in digital marketing and social media, you are vulnerable to your competition. With an IDSO partner you gain superior marketing resources that are data driven and professionally executed. It is rare that an IDSO marketing team does not improve a partner practice's marketing efforts at a lower cost.

8) **Growth:** Office expansion, new offices and acquisitions of complementary or competitive practices is a distracting, expensive and personally risky strategy. An IDSO partner has experts and teams to help you execute growth strategies at your direction. The number of available smaller, deeply discounted “tuck in acquisitions” of older doctor practices has never been higher. To complete them takes time, expertise and focus which an IDSO partner can provide for you. Effective growth adds substantially to your income and retained equity upside as you will own part of what you build or buy with your partner’s capital.

9) **Recruiting:** Even during COVID, recruiting new doctors is challenging in many areas. Today’s doctors are interested in stability, growth opportunities and certain geographies more than others. IDSO partnered practices have a much higher success rate of attracting the best associates than an independent doctor for multiple reasons, including equity ownership offered and financed for them by the IDSO.

10) **Defense:** Like it or not, DSOs of all types are already in, or coming to your area soon. With or without you, they will execute all of the above strategies which will only intensify the competitive pressure. You are the local store vs. Walmart, it is only a matter of time. Look at MDs, over 70% are affiliated with their versions of a DSO. Doctors who are the first in their area to partner with an IDSO achieve the highest values. The second doctor acquired in an area will typically achieve a 20% or higher discount to the first.

### **Top 10 Reasons Why Doctors DO NOT Partner with an IDSO**

1) **Ego and Prestige:** Many doctors have done exceptionally well in the 10-year economic boom that ended in February of 2020. They enjoy the concept of owning and operating their own business, alone. As the DSOs continue their rapid consolidation, growing at 15% per year, doctors must be prepared to work harder, smarter and longer to compete with the assault of better equipped groups with far superior resources. If you do not believe in partnership, for whatever reason, an IDSO partner is not a fit for you. While IDSOs do not dictate the day to day operations of a practice, they will need to be consulted for any large capital purchases or major changes in strategy, just as you would do with a doctor partner.

2) **Taxes:** If you believe that tax rates will decline in the coming years, you will achieve a higher net value, after tax, for your practice in the future *if practice values do not decline*. I would personally be interested to understand where this opinion originates, given the cost of the COVID bailout alone and the growing antipathy against wealth and income.

3) **Timing:** The peak in practice values was in 2019. The COVID era values today are near the 2019 value levels, and actually higher for some specialties, but in general they are off by about 5%-10% depending upon location, specialty and snap back after the shutdown. If you believe practice values are going UP and taxes will not increase, you should wait. LPS has been exceptionally accurate at forecasting values on both a short- and long-term basis. We strongly believe values in 2021 and 2022 will decline further due to the dramatically increased supply of practices available to IDSOs. Supply and demand dictates values in every market. **To put this in perspective, we completed \$200,000,000 in IDSO transactions in 2019 and should hit close to \$400,000,000 in 2020. With COVID.**

4) **Fear of the Unknown:** Partnership with an IDSO is a major change in your life in some ways, but in reality very little is different. The process which LPS undertakes on your behalf is designed to help doctors fully understand, **in minute detail**, what life with a particular partner will entail, post-transaction and for the coming years or decades. Prior to choosing a partner, doctors meet not only with the management of the IDSO, but will also speak peer to peer with other doctors who have joined the IDSO they are considering.

Many doctors are surprised to learn that an IDSO has no interest in nor capability to operate your practice. Their goal is to support doctors with resources, not manage them or change what they just spent millions of dollars buying. Most doctors are shocked to learn that not much changes unless they want it to. Doctors are ultimately always in control; they generate the revenue and are the golden goose.

5) **Fear of Forced Change:** Doctors do not want to be told what to do, when to take vacations, how to compensate their team members and be forced to buy certain types or brands of supplies. They also do not want to be forced to change their operating hours or payors accepted. The myth is that an IDSO partner will force these types of changes. The reality is that they do not, in most practices. Certainly, they will have policies and procedures as any larger organization, but **you will understand these potential changes with an IDSO partner long before you even contemplate a transaction with them.**

6) **Concern for Partners and Team Members:** In a multi-doctor practice, transactions are customized to enable each partner to meet their personal goals. Some younger partners may want more equity and less cash now, versus older doctors who may want more cash and less equity due to their time horizon. Team members are almost always ultimately happy in these transactions as they typically receive better benefits at a lower cost.

7) **Dentist Offspring:** Many doctors would like to hand their practice down to children who are dentists, or soon to be dentists. This is completely understandable and actually a driver of many transactions. With an IDSO, the parent doctor can monetize a part of the practice value for cash now, while the child can retain equity ownership and continue the practice legacy for decades.

8) **Associate Doctors:** Doctors often want their associates to become owners in the enterprise. It is a promise made by many doctors to their recruits. Fortunately, an IDSO's entire business model is based upon having owner doctors, the associates are, in the minds of the IDSOs, the future owners/operators of the practice with their IDSO partners, once you are gone.

Virtually all IDSOs will create a path to ownership for your associates, often with the IDSO providing a financing mechanism to achieve meaningful ownership.

9) **Elimination of Personal Tax Strategies:** Doctors often have a relatively low personal tax burden due to their ability to maximize tax deductions through the practice. These strategies may include employing family members, pension contributions, travel for CE and many other ways to reduce an onerous federal and state tax burden. The common view is that all of these will be eliminated when joining an IDSO partner. In fact, this is not true and there are various mechanisms to continue to enjoy tax advantaged strategies, even when partnered with an IDSO.

10) **Lack of REAL Knowledge:** There are multiple horror stories of doctors selling to DSOs over the last two decades who have had bad experiences. While many of these are completely true, a significant number of them were self-inflicted wounds by the doctor due to a lack of knowledge of the process and/or the partner. And many were created by bad advice from amateur advisors. There are thousands of very happy doctors who were represented by competent advisors and created win/win transactions with IDSOs, perhaps less so with branded DSOs. The unhappy doctors often had no advisor and entered into improperly structured transactions that were doomed from day one.

Doctors who take the time to learn about their options, hire a competent advisor and fully understand the pluses and minuses of joining with an IDSO will end up in a valuable, growing relationship for years or decades in the future.

### **Is This Self Serving on the Part of LPS?**

We decline over 90% of the doctors who request our representation. If we do not believe we can achieve a transaction at the values we estimate, with a partner that the doctor will be successful with both short (cash) and long term (equity gain), we do not accept them as a client. The reason is simple. LPS is only paid upon the successful completion of a transaction. We are paid ZERO if a transaction is not completed, and when a transaction completes, part of our fee is paid in the equity you receive.

LPS advises only with those doctors who are committed to the process and are open to learning. If we cannot find the IDSO which is the right fit for you, you do not complete a transaction. We both lose. Fortunately that rarely happens!