

**Ep #276: Robert Montgomery - Practice Valuation Post  
COVID - What You Need to Know**



**Full Episode Transcript**

**With Your Host**

**Dr. David Phelps**

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

You're listening to the Dentist Freedom Blueprint podcast, powered by Freedom Founders with your host Dr. David Phelps, where the word retirement is bad and true freedom can be secured in three to five years or less. You'll get anti-traditional advice to maximize the value of your practice and multiply your transition options. Create safe and steady wealth building through highly curated real estate and build extraordinary freedom for what matters most to you without depending on the volatility of Wall Street. More at [FreedomFounders.com](https://FreedomFounders.com).

David Phelps: Good day everyone this is Dr. David Phelps of the Freedom Founders Mastermind community and Dentist Freedom Blueprint Podcast. Today with a special guest, a gentleman that I've followed for quite some time. Had the chance to interact with recently, who is very relevant to the discussions in whatever's going on in the healthcare field and in dentistry for sure. And that's Mr. Robert Montgomery. Rob, how are you doing today?

Robert Montgomery: I'm doing well, David. Thanks for having me. It's good to see you, good to be on the show.

David Phelps: Rob, you have been in the healthcare arena from a legal and law counsel standpoint for about 20 years. Your firm, Robert H. Montgomery, the 3rd, Esquire, based out of your hometown Philadelphia but you're admitted to the bar and I think a dozen different States across the country, somewhere in that neighborhood. So, and you've been in the healthcare, dentistry and veterinary medicine, particularly for about 20 years. Worked with hundreds of dental and veterinary deals, different transactions ranging from the practice startups, the equity buy-ins, complex practice acquisitions.

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

David Phelps: You focus on the legal business needs of your healthcare clients, advise on practice acquisition sales, purchase startups, lease negotiations, buy-ins, partnership agreements, employment matters, forming and structuring dental service organizations, operational issues, financing, real estate sales acquisitions as well as general corporate and business matters. And as I said, you're out of your Philadelphia office. You lecture all across the country to different audience, a speaker for ideal practices. A highly regarded national dental practice startup consulting firm and you're also the co-founder with our good friend Paul Goodman of the Dental Amigos podcast, which, uh, great to be on with you guys, a week or so ago.

David Phelps: As I said long time Philadelphia resident, graduate of Temple University Beasley School of Law in Philadelphia. Strong local ties and you're a former marathon swimmer, which I found out a week or so ago. That's awesome. Participant in the Around Epsilon Island swim. You currently live in the Center City, Philadelphia, your wife, your daughter, your family pets. In your free time you enjoy golf, skiing, sailing, especially regardless with your daughter. Fantastic, fantastic background. You swim a lot but maybe not so much right now because of the shutdown and a lot of facilities are closed at the present time.

Robert Montgomery: Yeah. I'm hobby deprived as with the rest of us, with free time and none of my usual fun things to do but you know, we're getting by.

David Phelps: So podcast is a new hobby, right? I hear it and talk about what's going on. So obviously in the last month, since about the middle of March, you know the country and certainly the industries that you and I both have our affinity with, healthcare, dentists. You know, we've gotten to this shut down for the most

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

part and it's really turned the world and country upside down in so many ways. A lot of... I don't want to call it all panic. I mean there's some panic out there for sure. I think, you know more calm minds are prevailing today, just realizing that there's a lot of work to be done from where we are today and going forward in the next weeks and months. And you know fingers crossed, get to see things open back up again on some basis maybe in the next few weeks, maybe in the next month or so.

David Phelps: Always difficult to say but we focus a lot in the recent weeks on just dealing with the shutdown, staff, unemployment, furloughs, layoffs, the SBA loans. Just trying to manage the cashflow through this time. And now Rob, I think it's time we've got to start looking forward a little bit more and projecting what things potentially look like on the other side. I'm of the opinion... And I want to hear yours because again, you've been thinking about this a lot. Looking at it, you've got your, I call a 30,000 foot elevation, view of healthcare and structures and practice sales and evaluations, all that stuff, from a very high standpoint and you're in the mix all the time.

David Phelps: But on the other side, we can talk about going back to normal. I don't think it's going to be absolutely normal, I don't think anybody does, but how long do we stay in a different state? What's that look like? What are your initial thoughts from a broad view? You can start with the economy as a whole and then dial into the niches that we like to talk about.

Robert Montgomery: Yeah, I think obviously things are not going to return to the way they were. Maybe never, ever will be, but certainly it's going to be a while. You know several years until I think we start to see revenues get back to what they were pre-COVID. I think that the other thing, it's important here, for our dental clients is to realize that different parts of the country are going

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

to be impacted differently from a disease spread control and also from an economic impact standpoint.

Robert Montgomery: Different governments in different States are responding to and managing this pandemic differently and the economic outcome of those actions is going to be different from place to place. And so I think it's important for people to realize now more than ever that every situation is really unique. And so what might be the case for the industry in Dallas, is going to be different in Philadelphia, different in New York, different in Seattle and different in Miami.

Robert Montgomery: And I think people need to be mindful of that. And while it's good for dentists too to reach out and try to collaborate and share ideas, that's really an important thing to keep in mind. It is not... We are one country but with very, very different parts of this country and we're all kind of in different places. And so, you know I think that what, how or when it's going to end and how it's going to end is going to vary greatly. And so I think a lot of that is going to drive, kind of what the opportunities are and what the course of action is for dentists around the country.

David Phelps: Robin in your work, you're obviously involved in, have been involved and will continue to be involved in a lot of transactions. Whether it's startup practices, associated partnership structures by sales, what's happening right now just in your business and with transactions overall? Is there just a general pause, are there some transactions going through right now? What are you seeing out there?

Robert Montgomery: Okay. The overwhelming majority of deals right now are on pause. We still have a few deals that are active and have closed recently or will close in the near future. But most people are taking things slowly. Where we have letters of intent with a longer period or expectation that's going to take longer to

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

prepare documents, longer due diligence periods. Really, you know giving buyers the time to see where things are going to shake out. And I think that really the discussion that needs to be had in that context is, what will practice values look like post COVID? And who's going to really accept the risk of market changes, you know? And I think what a practice that was valued at pre-COVID may not be worth, going on post-COVID, the same amount of money. And you know whether that's a lot or a little remains to be seen.

Robert Montgomery: But I think that buyers and sellers are going to need to come together on that very fundamental principle, which is who will bear the risk of, you know post-closing cashflow being one thing, in revenue rather but then profitability, you know? And I think that it's reasonable to expect that there's going to be a decrease in revenue, I'm not going to say get back to normal, once things start to open up more. But at the same time, with the decrease in revenue and increase in expenses and overhead.

Robert Montgomery: So overall we're looking at a larger drop in profit from a practice. And you know, for a buyer right now they need to be thinking about, well, you know, how... Where is my strategy for allocating that risk with a seller? Is it a no with the seller? Where the seller has some sort of contingencies, revenue or profit contingencies that need to be met post-closing.

Robert Montgomery: Because as a buyer, you're buying something that is a projected revenue. What the anticipated cashflow is in the future. And right now it's hard to see a scenario where it's not going to drop. You know it's just a matter of how much and for how long? And I think that, that one vehicle is something that people, if they're buyers should be considering as part of the

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

discussion and negotiations. You know, if the practice doesn't meet those revenue milestones in the first year or second year then there may be a seller note that is decreased or forgiven entirely. Because the seller can't just possibly expect to dump a practice on a buyer at yesterday's prices and leave the buyer to worry about what are we going to do with a 30 or 40% drop in revenue, with an increase in overhead, you know?

Robert Montgomery: So that's what I'm kind of seeing from a practice transition standpoint and starting to think about. From a startup standpoint, I think a lot of people are concerned, rightfully so about the risk associated with startups. But I also see a path for startups that in the post-COVID world, the ability to market a practice as a state of the art from an infection control standpoint is really, I think almost going to be a given. If you don't have a practice that is up to snuff and doesn't appear to be compliant and doesn't seem crisp and new, I think as a practice owner you're going to be challenged, attracting and keeping patients. And I do see an opportunity for startups that are done well and really leverage in market what is the best practices from infection control standpoint.

David Phelps: Yeah, I think you're absolutely right there. I think it will be certainly some great startup opportunities for those that, are capitalized or can become capitalized well enough. That have the experience from a business standpoint, managing cash flow projections and marketing as you said. Creating a state-of-the-art experience from a patient perception which is going to be all antennas up, you know for everybody going out in the wide wild world after this is... The green light is back on, people will be looking, watching, to see who's got the right aesthetics in any kind of business but particularly healthcare settings. So from that standpoint, I believe and I think you concur... Although like I can't give you stats and nobody can, I believe that because of

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**



## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

the projected reduction in revenues, increased expenses and overhead that, Rob there's going to be practices that some won't come back.

David Phelps: That some doctors may be they've a place in their career. Maybe they just look at the whole scenario and say, "You know what? I think I'm just going to let it go. And I may just sell for what they can get, which will probably be a lower value." Some will try to come back Rob and probably won't be able to sustain. I'm just saying that's just what happens in downturns like this.

David Phelps: So from that standpoint, there could be opportunities. It might decrease some quote, competition out there for a while. There may be settling out to a new normal. What's the ratio of practices to population based on consumer demand? A lot of these things, again, we have to see what this looks like. So from a startup standpoint, those that have a focus there and have the capitalization, again, good time to give, be very, very focused and intentional about where and how and what that looks like. But I agree with you, I... Some real opportunities there on the forefront.

Robert Montgomery: Yeah and I think it's interesting too and obviously that's, you know, a good startup it's done right, with the right consultants, with the right demographics, putting you in the position to succeed. Definitely not the time to just hang out and see what happens. I think it's also going to be interesting to see in the transition world whether or not this is... Turns things over to a buyer's market from what has been in recent years, very much a seller's market. And you know, like you David, I'm really fortunate that I have the ability and access to a lot of thought leaders in the industry. And this has been a time where a lot of people have been connecting because they have the time to

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**



## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

take a breath and everybody's kind of reaching out trying to brainstorm and it's really... That is the silver lining here.

Robert Montgomery: I mean the community has really been awesome and I've enjoyed those dialogues with you and with others. And I have some people that I've spoken to that really, that I respect that have differing opinions on this. You know, some people and I kind of, I've always thought, you know recently that, really we're looking at, it's going to become more of a buyer's market. But I talked to a couple of people today that say, "Well, you know what, maybe it is going to continue to be a seller's market because what's going to happen with older doctors who are close to retirement, you know? Are they going to still sell their practices or are they going to try to hold on and wait until the stock market comes back or until other investments right themselves?" And so if that's the case, are there going to be fewer practices for sale?

Robert Montgomery: You know and I think that's really, it's impossible to tell right now but to me that's going to be one of the interesting things to see. You know is this going to create more opportunities for buyers, you know? And such that a buyer could say, "Hey, if you don't agree to be reasonable seller and share the risk of the..." What this practice is going to do post-closing and agree to something where there is a note that's forgiven or some sort of revenue benchmarks that are going to be required to be met to get a 100% of the purchase price, you know?

Robert Montgomery: Or is the seller still going to the king here because there are other sellers that would be sellers that are still holding onto their practices and waiting for things to come back. And that's going to be a very interesting thing to see and kind of how

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

that shakes out obviously is going to dictate which way the market goes.

David Phelps: Yeah. In the real estate side, which I know you also deal in that as well, as you said earlier in terms of evaluations, the buyer is looking at projected cash flows. What's the run rate for a particular business? Cashflow as a real estate, whatever it is. What we've been looking at on the real estate side, similar situation, we talk about, you know what's your buy box? What's your criteria, right? And in our marketplace, we recently had those discussions to see what people would say in terms of today, what's our buybacks criteria look like versus what it was two months ago? And it varied from, discounting that particular asset, whatever it was by 15 to 25%. Well is that the right number? It's risk, it's risk.

David Phelps: If I'm a buyer today of an asset, a business, a dental practice or a real estate that in the past had a run rate of X but today because there's more on rents and evictions and forbearance on loans and people unemployed, are they going to come back to work out or are we going to have a decrease in rents? Same thing, same thing as a practice. We've got to look at that and say, "What risk am I taking as the buyer?" So if I'm the buyer, just as you said earlier, I'm going to have to mark that asset down, fairly substantially in my eyes. And the seller if they're willing to participate, as you said with revenue milestones.

David Phelps: And that's kind of the way it has been, in any way with DSO is they've been coming in with a lot of liquidity. They've been pegging practice values at a higher multiple than we've seen ever in the history of dentistry. But at the same standpoint, they're having an earnout situation of, you know three, four or five years where the selling doctor participates in maintaining

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

the revenues. And if they do that then they hit those marks and all is good. If they don't, then the price got discounted. So it's kind of the same approach again, right?

Robert Montgomery: Oh, absolutely anyhow, and it's a great point Dave. I mean that's a model in the DSO transition world that, you know private equity funds and DSO buyers have employed and you know a lot of owner-operators. We can say we warned about the DSOs in the world and the evil empire that they are but, I've always told people you should really be paying attention to what they're doing. Take some cues from them, they know how to make money. That's what those people do. And so that is a much more, I think, experienced and seasoned approach to a practice transition as to, shouldering the risk. And you know, a lot of DSO is when they do that, essentially have been buying practices with the practices' cashflow, you know the seller's cashflow.

Robert Montgomery: And I don't know if owner-operator buyers need to go quite that far but, you know definitely look to the DSOs for the cues with, this is how we're going to assess this risk. This is the price that we're going to put on that risk and this is how we're going to offload some of that risk or share that risk with the other party. And I don't think it's unreasonable, you know? I mean, if a seller thinks that they're going to be able to transition to practice on what were pre-COVID valuations, you know I think that's unrealistic.

Robert Montgomery: But a lot of that, though David, I feel like it's going to depend on whether or not this remains a seller's market. And if it does, then the sellers are going to be able to say, "No, you know what? I don't want to do that. You know I'm not willing to accept that note. Or that revenue milestone is part of an

## Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know

earnout because I have five other buyers who would like to buy this practice."

Robert Montgomery: I almost see a scenario though where initially a lot of people who have been in the market to buy a practice are still kind of working off of that mentality. And I've kind of heard that from some folks in recent weeks that, "Well if I ask for that, what if the seller doesn't do it?" Well if the seller doesn't want to go along with it then maybe just hang out, you'll get another practice. I guarantee it, there will be other practices for sale in the next few months.

Robert Montgomery: But that's sort of a mentality that it's just been ground into people who have been dying to transition into ownership. Who keep running into these ultra competitive situations with five or six potential buyers, a couple of private equity groups and you know the quote unquote quality practices, as our mutual friend Jamie Amos likes to talk about a quality practice being one that's, grossing over a million dollars and has the infrastructure and the right culture.

Robert Montgomery: That's been such a hard thing for potential first time buyers to get their arms around because of the market. So I think people are going to have to, as buyers sort of transition their mindset to the fact that, hey, you know what? I don't have to be so desperate, for lack of a better word, anymore. I can sit back. You know let me sort of name my price and the terms and the structure of the deal. And you know because if this seller won't do it, I'll find one that will.

Robert Montgomery: And you know people need to really be aware that more so than ever, there is risk in buying and transitioning dental practices. And well pre COVID, you know the default rates were absurdly low on dental practice firms. That's not going to be the case going forward, you know? That things are

[Dentist Freedom Blueprint](#) with Dr. David Phelps

## Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know

going to change and that risk that you and I are talking about is going to manifest itself sometimes, David into deals that don't work out, deals that fail.

Robert Montgomery: And so now more than ever, buyers have to be realistic and really look at the fact that, hey, I have to think about what this risk means and if it's too risky maybe I should pass on it, you know? And whereas in the past that's sort of like, "Yeah, I'll do it. Worst comes to worst I just won't be as successful." These are one, transactions for most people and you know you're not going to get another shot at it. So, don't just jump on the first thing that becomes available now more so than ever, is my advice.

David Phelps: Yeah, totally agree. We've got some great people in the real estate arena that I've done a lot of transactions, a lot of deals with and oftentimes I'll lend money. And they've watched the shifting the market and they want to bring me some deals in the last 10 days, two weeks. And I just said, "Hey, not time. That's not prime time yet." They're not ready yet, go, come back in a few weeks or a couple months, we'll see what things look like.

David Phelps: So I'm going to kind of go deeper with this one area because I think this is this important and I just... You know with our conversation today, this is why I love the brainstorming Rob because we just start thinking and drawing down. I know a number of dentists who are, let's say late fifties or early sixties, I know you know the same, and some of them were right there at what I call almost the finish line.

David Phelps: They were at the two yard line. They were in an LLI, due diligence was rolling down the pipeline. They were ready to sell to somebody. It could have been a DSO, it could have been private. And as you acknowledged earlier today, most of those,

[Dentist Freedom Blueprint](#) with Dr. David Phelps

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

not all of them, most are on pause right now. And they're finding that these sales are, at least for right now, are not going to go through.

David Phelps: Now doesn't mean they couldn't pick back up again depending on what happens in the marketplace. But what... My point is, older docs who were right there mentally kind of checking out, just almost felt like the money was in the bank. They were going to sell off and do whatever. Now they have the kind of grueling aspect to go back and crank things back up again out of this pandemic shutdown.

David Phelps: Not really something that they want to do, but you... You'll have to do it. So here's what the opportunity is, and it's kind of what you laid out and I don't want people to miss this, is that if there is an older doctor, this is time to collaborate and be willing, potentially, to offer the sale of one's practice, if they're motivated to do that. Not next month necessarily but maybe it's in three months, six months maybe it's within the next 12 months which is not a long run, right.

David Phelps: But be on the lookout for a younger doc who would grab the opportunity if you offered terms that were acceptable to both parties. This could be a place where this sector could actually put something together. Otherwise, if they want to wait, hold out for that price they thought they're going to get six weeks, eight weeks ago. I think that's going to be a wild down the road. So just food for thought there. You think the same?

Robert Montgomery: Yeah, I definitely do. You know and I think how many times in the last couple of years I've had conversations with docs at that very level you're talking about David. And they said, "You know, I want to do one of these big DSO deals with a four times in three years." Well, you know what? We don't know what the market's going to look like in three years. Now I can

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

hear every one of those conversations where I'm saying, "You know things change. There's no guarantee that these opportunities are going to still exist in the marketplace. It's a market like any other, it changes."

Robert Montgomery: I think that, it is a time that people are going to have to be a little bit more open-minded, a little bit more creative, more collaborative. I also feel like what a challenge for a doc in the space that you're talking about, that stage of their career is you know, what do you do post-COVID? You know like you... I think we agree that you know, practices are going to have to make changes from an infection control standpoint, from an optic standpoint, from a marketing standpoint, all that's going to have to change to remain relevant in the space.

Robert Montgomery: And I would think that the temptation for somebody at that, at that stage of their career would be, you know what? I don't feel like doing all that. I'm just going to kind of limp across the finish line and try to transition this practice in a year. But I almost feel like they're going to have to spend some time and money keeping themselves relevant to even have the opportunity to do a deal. Like what you're talking about, that you're collaborating with a young doc and with an understanding that there's going to be an allocation of the risk. And just doing what is a true practice transition. That I don't...

Robert Montgomery: I think if you come out of COVID with the mentality that I'm not going to change anything and just, a deal's going to come and land on my doorstep and it's going to be something along the lines of what a deal looked like pre-COVID, I think that's unrealistic. And so it's a tough time to tell somebody, "Hey, guess what? You know, things are really going south in a hurry." You're going to have to spend some more time and



## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

money to get less than what you would have gotten before. But it's the reality of the market, you know?

David Phelps: Yes.

Robert Montgomery: And what we could have gotten two years ago is not relevant today. We are where we are and you're going to have to do what you need to do to maximize the price in today's market. And the price in today's market is different from two years ago and it's going to be different from two years from now. I don't know what it looks like two years from now. It might be better, it might be worse, you know?

Robert Montgomery: But you have to do what you need to do to stay relevant no matter what. Whether you're going to hold your practice for 10 more years or 10 more months. I think a lot of times there's a tendency for people to say, "Hey, I don't want to update my practice. I don't want to buy new stuff or update the office or spend money because I'm just going to sell it soon." And I don't think that works now. I think now more than ever, they're going to be penalized by that kind of mentality.

David Phelps: Yes I agree, a hundred percent. Robin it is always great to talk to you. You always bring, you know a lot of experience, a lot of foresight into all the conversations. Best places for people to connect with you, obviously we talked about the Dental Amigos podcast but where else could people come and just to connect with you if they wanted to gain some more insights and perhaps have a chance to visit with you about their situation?

Robert Montgomery: Sure so URL for the law firm is [yourdentallawyer.com](http://yourdentallawyer.com). We have a lot of resources that are up there now. We're putting more presentations up there, there's a lot of COVID things and things to think about. Some of them just among the staff and some of them, you know podcasts and

**[Dentist Freedom Blueprint](#) with Dr. David Phelps**

## **Ep #276: Robert Montgomery - Practice Valuation Post COVID - What You Need to Know**

more formal things. We're also on Facebook at Dental Lawyer. It's Your Dental Lawyer is the Facebook page. Instagram is Your Dental Lawyer as well. So some social media places but most of our content is out in all these places, in some similar fashion. So whatever your fancy is, if you're an Instagramer or Facebooker or LinkedIner or an old fashion go to the website. We've got that content in all those places.

David Phelps: There you go perfect. Rob again, thank you so much for all your time today. We appreciate it and I know our listeners do as well.

Robert Montgomery: Thank you it's a pleasure. Thanks for having me David.

You've been listening to the Dentist Freedom Blueprint podcast. If you're tired of trading time for dollars and you're uncertain that Wall Street has your best interest at heart, then take the next step to more cashflow, security and ultimately more freedom. Text the word newsletter to 972-203-6960 to receive David's monthly online newsletter for free or text the word book to receive your new free copy of David's book From High Income to High Net Worth delivered right to your home. Text 972-203-6960.

[More@freedomfounders.com](mailto:More@freedomfounders.com).