Ep #312: Brannon Moncrief - Post COVID Practice Acquisition and Transition Opportunities - Here's What You Need to Know]

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David Phelps: Good day, everyone. This is Dr. David Phelps of the Freedom Founders Mastermind community and Dentist Freedom Blueprint Podcast. Today I've got a really fun conversation with a gentleman that I had the real privilege of being referred to by another one of our Freedom Founders members. This member had done business with Mr. Brannon Moncrief, my guest today, and we'll dig in here a little bit into Bran's expertise, his background, his experience, and why it probably is very relevant to your thought processes today. So Brannon Moncrief, welcome, thanks for being on the show today.

Brannon Moncrief: Thanks for having me.

David Phelps: So Brannon, I know that when we talked previously, got some of your history. You got your finance degree out of Texas A&M back in 2002, and you moved into the lending arena of dental practice nationwide, been a lender for eight years. You had obviously a lot of experience in transitions and worked with lots of brokers, so you really got your arm in that finance, specifically in the dental industry, early on coming out of school. About nine years ago or so if I got the timetable right, you bought out a well-known practice transition brokerage here in Texas, McLaren and Associates, and you and your brother Ryan are co-owners of that company today. You took it from, obviously, a well-known, reputable company. I'd known of Paul McLaren for years. And you really built it up into a very robust practice transition company whereby you definitely have a big footprint in Texas in regards to doctor-doctor transitions, practice transitions.

So I know you're headquartered in Austin. You've got offices in Dallas and Houston and San Antonio and I think down in south Texas. But then on a larger nationwide scale, you are quite involved in the multi-practice DSO practice sales. So you really got expertise in both arenas. And I think we've got listeners here today that are in both places. So thanks for being here. Is there anything you want to add to your background that would relevant before we jump into our conversation today?

Brannon Moncrief: No, I think that was perfect and thorough. Appreciate it.

David Phelps: Well I think also just to give you a little background and make you more of a human, because you are one, you're married to your wife and you have a daughter. And you enjoy cooking, going to concerts, eating out at nice restaurants, play a little golf, spend time with family. Anything else in your hobby list that's different?

Brannon Moncrief: Well right now obviously spending more time at home and cooking and with family than out going to restaurants and going to concerts. I do have a second daughter now so I've got two daughters, so I'm really in trouble. One's four and a half and one's about seven months.

David Phelps: Wow. Congratulations. Yeah, you're in the prime of life, my friend. The prime of life.

All right, so I think a big thing on everybody's mind is the elephant in the room, and obviously the year of 2020. COVID and what that's done to not just the dental industry but the general economy. But since we're talking about finance and the oral industry, just to timestamp this, we're nearing the end of 2020. We're not done with COVID. We're still, in some jurisdictions, going into lockdown mode again for a while. But we do have a vaccine on the horizon, so optimistically we're all going to get through this. And sometime in 2021 hopefully COVID will be, as far as the virus, it'll be history. But there's still going to be ongoing ramifications, positive and negative. Both sides, right?

So kind of looking through your eyes, let's talk about the opportunities. Because there's plenty of negativity about COVID, right? So let's talk about the opportunities that you're seeing with clients that you're working with today, both on the doctor to doctor and also on the multi-practice. You boil it down how you want to and I'll just interject some questions or commentary. But what do you see as the opportunities that we have in front of us today, and for what reasons?

Brannon Moncrief: Well, I think one of the opportunities is practices in the dental industry as a whole have proven their ability to whether economic downturns, and now a worldwide pandemic. So practices that were operating at a high level, doing quite well, going into COVID, most of them have come out of COVID doing quite well. And that goes to their leadership, their team, their systems, the trust and communication they have with patients. In my opinion, that proves to buyers, to lenders, to private equity, to DSOs, that purchasing practices, starting practices, is a safe bet regardless of the snapshot in time that you're dealing with from an economic perspective or from a pandemic perspective.

We've seen that. We've seen lenders continue to be aggressive coming out of COVID. Now, there's been a little bit of reordering as far as which banks are aggressive and which banks are not. And we've seen a tremendous amount of buyer demand both in the private buyers side of the equation and the DSO side of the marketplace. So we've seen a lot of practices have a really, really strong summer coming out of COVID. And as we begin to look forward on valuations, we're going to start looking very heavily at that June to December, July to December timeframe when we're extrapolating what the annual run rate of practices is from a revenue perspective.

David Phelps: Yeah, that's a great point to make because we know historically without a pandemic, COVID, if a practice, if any kind of business had a decrease in their run rate, you know, just something happened, something blew up in their practice, well, it's going to take some time to rebuild those numbers and see what the overall direction of that business is. But in this case, everybody dealt with COVID. So what you're saying is, we look at that as an isolated time period, but then we just look at it historically and say we can extrapolate ... just take that piece, knock it out. What you did after COVID really shows to your ability, your leadership, your team, your business model, that shows it's got strength.

And for the most part, would you say lenders, that's what they're looking at from that ... So COVID, the downturn, even if you didn't get back all the way to your 2018-19 numbers, if you're strong in that second half of the year, you're going to be looking good?

Brannon Moncrief: Yeah, absolutely. I mean most people are treating COVID as an anomaly. And in most markets across the country, practices have rebounded quite well, again, that were doing well going into COVID and that had good leadership and good communication with their patients and staff during COVID. So obviously there's some pockets around the country that were hit harder and it's been more prolonged. Major metro areas, New York obviously one of them, LA another, that have been hit really hard and haven't fully recovered. But you're finding that lenders that get it and buyers that get it are digging into the numbers from not just a 10,000 foot perspective and looking at annual revenue, they're literally tracking month to month, week to week, how has the practice rebounded coming out of COVID? And what does it look like through the end of the year?

You know, we've seen a lot of practices that have really, really strong June, July, August coming out of COVID, and then had the numbers laying a little bit in September, October, for numerous reasons. We had obviously the second wave of COVID, and then we had a gap and some hygiene schedules. But for the most part, that second half of the year for many people mirrors or is better than what the second half of the year in 2019 looked like.

David Phelps: I know when you and I spoke together a month or so ago, at that point the lending environment, the actual lenders that you work with, and other brokers and dentists who are in the midst of transitioning their practice, the lender dynamics change. You know, we know that the national lenders, the big ones, Wells Fargo and Bank of America, have always been big players. What shifted during COVID? And is that still shifting right now in terms of different lender specifics in terms of who's being more aggressive and who's maybe still sitting back a little bit? Has that changed much or is it getting back to where we were?

Brannon Moncrief: It's starting to loop back to where we were. I mean coming out of COVID, we knew with my finance background that was going to be one of the things that we had to quantify if, you know, what was the lending landscape going to look like? Who was going to finance our transactions? We got on the phone with all of our national , regional, local banking relationships to talk about, what's their perspective with COVID? What is their credit department going to be looking at? And we began to dig in with our clients into those weekly and monthly trends to make sure that we were tracking what was important to the lenders and telling the story, and talking about how the practice did in '19, how it started out 2020, when it closed, how long it was closed, when it reopened for business, and what it's looked like since then.

What we found is that yeah, some of the national banks that were huge lenders in the dental industry for a long time kind of tightened up and were very conservative coming out of COVID. And rightly so. They have a huge amount of exposure to the dental industry because of the hundreds and millions and billions of dollars of loans that they've done over the past 10 or 20 years, and they had to see how this was all going to shake out before they potentially threw good money at what could've been bad money. Whereas a lot of the local and regional lenders that understood, I think, how COVID was impacting their local, regional market more so than how it was impacting the national market, were a little bit more dynamic and aggressive. They saw it as an opportunity, I think, to pick up market share in an industry where they had been competing with these big banks, and some of them getting priced out of the market. And they've been wonderful to work with.

So I would say that we shifted most of our business to the local, regional lenders over the past six months. But now we're starting to see the national players that have always been really good to us and good to the industry start to open back up and get more aggressive and kind of go back to business as usual.

David Phelps: Brannon, one of the niche areas of expertise that I believe you bring and McLaren and Associates brings to the marketplace is the fact that with your finance background, with your experience in I don't know how many hundreds of transitions you've personally been involved in, but plenty, that you really built an advisory company that helps the client, in this case the dentist, who is either on the buy or sell side, but where the financing's a big part of that, right? Financing's everything, is that you know what the banks, the lenders, are looking for. You know within a box what their criteria is, and that allows you to build your runway, if you will, the pathway to a transition for a client based on a model that, even though it changes, relatively quickly this year, but those changes, you've got that dynamic.

And so now you can help them set their goals, their expectations, particularly if you get a chance to work with them in advance, not just the day someone decides they want to sell. But "Hey, if you want to sell, work with us earlier because we can start building the game plan," and because you know specifically what the banks are looking for, you can help them with any objectives they have and maybe reaching a higher valuation. "Well what does that take with your model," right? So here's ... And you can look with your eyes, "Well hey, here's scenarios you have not fully optimized. If you want to do that, here's what it potentially could add to your valuation. Here's how it could add to your opportunity to whatever it is, to sell fractional interest if that's your game plan, or sell to another private doctor, or sell to a DSO." But you've got that background experience.

I want to make sure that listeners understand that having somebody with your experience on their team makes a huge difference in figuring out what that plan's going to be. Because it's different for everybody, right?

Brannon Moncrief: Absolutely. And understanding how banks work and understanding how private equity and DSOs work and viewing the transaction through their lens and advising clients appropriately in that regard so that when it is time for a transaction to occur, financing plays a major role. Especially on the doctor to doctor side of the equation, most private buyers are going to be looking for 100% financing or close to it.

I mean I was actually a loan underwriter when I first came into the business. So I went from banking to brokerage. We kind of re-engineered the way we underwrite our practice listings in a way to present information to buyers, advisors, and lenders where we have complete predictability regarding if we're going to be able to get financing and how much and how it's going to be structured. And it's made the process so much more efficient for everyone involved. And it allows us, like you said, to set expectations with our clients. It allows for transparency with the buyers and the lenders. It makes everything go more smoothly and more quickly. And it's one of the reasons that our company has grown so dramatically over the past 10 years is we just come at it from a different angle than a lot of other brokers do.

David Phelps: Brannon, what does the practice-buyer demand look like right now from a private doctor looking for a practice? Have we gotten through the uncertainty of COVID, which I think, as you said, good practices ... I mean obviously we know that the health care industry, dental industry is not going away. So a good practice that weathered COVID is going to be strong.

Now, what's happened in terms of COVID that's maybe caused doctors who are maybe associates somewhere to raise their hand and go, "You know what? I think I want to buy a practice." Is there a greater demand on that side? What does that look like today?

Brannon Moncrief: We've been pleasantly surprised by the amount of demand on the private buyer side of the industry. I think you've seen, one, a lot of buyers believe that dentistry is positioned well to handle any type of downturn that we may experience, as we discussed before. And that's given them the confidence to go ahead and pursue their dream of owning a practice. Now, interest rates are extremely low, so that has helped offset the cost of buying and owning a practice.

And I think a lot of people realized through COVID that they were susceptible to the mistakes that some of their owners made. So you've seen some DSO-owned practices struggle coming out of COVID because they don't have the trust or relationship with the patient, and doctors that were working in that environment have seen a downturn in their productivity, or they're not happy with the way that they were treated during the shutdown. So many of those have kind of popped their head up and said, "Hey, you know what? This just confirmed what I already kind of knew in the back of my mind, and that's that I want to be the captain of my own ship." What better time than now where there's likely huge amount of upside coming once things go back to normal to pull the trigger on that? We've been very, very pleasantly surprised by the amount of demand on the private buyer side.

Now, I will say there is a segment of the private buyer population that is no longer at the table, at least for now. And those are the buyers that maybe were a little skeptical about their abilities as being practice owners and maybe not quite as confident and competent as the doctor that knows they want to be an owner, and they've been learning about the business side of dentistry and honing their skillset over the past couple of years with the expectation that they would achieve that goal. The buyers that were chasing the smaller practices, the practices with revenue under 500,000, they just didn't feel comfortable or confident enough to take on a million dollar loan to buy a larger practice, a lot of those buyers are on the sidelines right now. So we found that the smaller practices have become harder and harder to sell, and that was already happening pre-COVID just from a cashflow standpoint. But now we found that they're even harder to sell because the buyer that chases that type of opportunity isn't buying in this environment.

David Phelps: Well, then that's got to decrease the valuation of those practices, if they are to sell. If they are to sell, someone's motivated to sell that practice with buyer demand down, then if somebody really wants a certain practice because they see it strategically could be a good opportunity, if they're willing to take it on and build it up, then it might be an opportunity for that particular buyer that likes that practice in that locale. All those things have to fit of course, right? But that could be the opportunity for the buyer. For the seller, it's kind of a tough deal, especially if COVID has put them even closer to, quote, "the magical day of retirement," which maybe they thought was a few years out. Maybe they're tired of it. So are you getting calls from some of those practice owners that are, again, 500,000 or less in revenue that call you up and say, "Hey, I'm done. I'm out of here." And you've got to kind of give them ... it's kind of the realistically potentially bad news for them, right?

Brannon Moncrief: Yeah. And unfortunately, we have to have some difficult conversations. We've certainly had some coming out of COVID. That is, a lot of those doctors like you described that maybe had their foot off the gas already going into COVID, they were kind of coasting into retirement and they didn't really apply themselves during the shutdown, and they didn't have maybe the loyalty of their staff or they didn't communicate properly with their patients. And they were doing 40,000 a month going into COVID and they're doing 20 or $25,000 a month of production coming out of COVID, that value of the practice has obviously been eroded. The marketability has substantially been eroded to the point that there may not be a market for it.

David Phelps: Right.

Brannon Moncrief: As a result, I mean we've kind of pivoted our business into working with more elite practices, revenue of 750,000 or more and focusing more time and energy there because that's where most buyers want to be. Most private buyers want to be in that 750,000 to 1.2, 1.3

million in revenue. That's what they're looking for. And then the DSO buyers are looking for the practices doing a million three or higher.

David Phelps: Yeah. That's kind of good to hear from you, kind of about where that line is between private buyers and DSO buyers. Because yeah, certainly if you're a talented doctor and maybe you've got a niche and you're running some high numbers, the ability to sell that kind of practice, maybe it's kind of a boutique practice, I'm not sure, you have better words than I do for it. But hard to sell that to a private buyer. You've got to look for a buyer with deeper pockets, and that's where private equity potentially would be the takeout—

Brannon Moncrief: Yeah, there's a couple of things that cause that threshold to be right around that 1.2, $1.3 million mark. On the private buyer side, I mean most doctors standalone with a normal skillset are going to max out producing somewhere in the 800,000 to a million dollars a year range. I mean obviously you have super dentists with broad skillsets that can do 2, $3 million a year, but that's not your everyday dentist. So most doctors, if they're looking for a one doctor practice and it's going to be them and a couple of hygienists, they're doing 800 to a million, hygiene's doing 2 to 400,000. That's going to put them right around that million to a million three in revenue range being the kind of top-level practice that they're going to be looking for as a one-doctor office.

On the DSO side, you really don't start to generate substantial IBIDA, which is what drives value on the DSO private equity side of the equation, until you get to that

1.2, $1.3 million mark. And when you start to generate substantial IBIDA, that's where the value of your practice in the DSO world starts to quickly run away from the value of your practice in the private buyer world. As a practice starts to cross that 1.3 to $1.5 million revenue threshold in the private buyer world, it actually starts to decrease in value because your buyer pool starts to shrink. There's only so many dentists out there that can replicate that production and that have the confidence and the finances to close a deal like that, as opposed to on the DSO side, they're willing to pay you a healthy premium for your practice, and that's really their target demographic.

David Phelps: Can the DSO ... or is the DSO willing to pay that multiple for a super doc practice? The doc, as you said, that's an anomaly, but that has the ability to create a practice that's got run rates of 2 to $3 million? I know that the DSO wants to retain that doctor for usually some period of time. But even then, is that a viable move for a DSO? Because how do you replicate the skillsets of a high-end doctor when, again, we're talking about more or less what's the bread and butter run rate of a practice that really is the meat and the bones of what makes it produce? I did ask you that before, but I'm just curious about that. How does that look? How about super doc, yeah?

Brannon Moncrief: It's a great question. And actually the client that introduced, your client that introduced us, is a super doc.

David Phelps: Yes.

Brannon Moncrief: We were able to get a phenomenal value for his practice. I think DSOs are pragmatic in the way they approach a practice like that. There's going to be more structure involved, right? There's probably going to be some equity retention on that super doc's part, and/or there's going to be a long-term post-closing employment commitment with some type of holdback on the value tied to completion of that employment agreement.

So it can be done. I will say that oftentimes you get the exponentially higher multiples from DSO, private equity buyers, when it is easier to replicate what the practice is already doing and you don't have that key man issue where you have a super dentist that's going to be very hard to replace if they leave or something unfortunate were to happen to them. But it certainly can be done. We've sold both types of practices and gotten healthy multiples for both types. But I think if you are a super dentist, you've got to simply understand that you're hard to replace and it's not a situation where you're going to be able to get peak value and immediately sail off into the sunset.

David Phelps: Yeah. The buyer who would like to give you peak value wants to keep you there to help transition your skillset to somebody else, ideally. Ideally that would be the model that they try to work out, and have some time to transfer that over to whoever's going to take over.

Brannon Moncrief: Yeah, or it could be a buyer that, some buyers are willing to take a little bit more risk depending on what their footprint looks like in that geography. So if you're a super dentist and you're looking to sell, and I'm in Austin so let's say you're in Austin, if you sell to a DSO that already has a healthy footprint and a healthy stable of doctors which may include a couple of super dentists in this geography already, they may not be as concerned about you sticking around longterm post-close.

David Phelps: Got it. That makes total sense.

All right, last question for you Brannon. Young doctors coming out of school today, typically with a fair amount of debt. What advice would you give to him or her, especially if they truly believe today that at some point they would like to have some practice ownership, but they don't have the skillset, the business acumen, probably couldn't get financed right now? What would you tell them to do would be the quickest path to get them to where they want to get to ownership? What advice would you give?

Brannon Moncrief: Several things. I mean learn as much as you can about business. You didn't learn enough in dental school. Learn as much as you can through reading, online classes, watching the mistakes and successes of the ownership of whatever practice you're working in. Build your skillset and have it be as vast and broad as possible. That will make it to where you're able to look at practices on that upper echelon, that million dollar, million two revenue range.

And then from a financial standpoint, live within your means. Live within your means now, and you'll be able to qualify for financing and eventually make the type of money you want to make and buy whatever you want. Sacrifice, right? Delayed gratification. Those things are critically important so that you don't set yourself up to have ... you know, build the lifestyle that you want straight out of dental school, and then prohibit yourself from being able to further your career because a lender can't finance you.

Don't pay off your student loan debt. Put that cash in the bank. Liquidity is becoming a hot button for almost every lender, so you're going to need to have 5 to 10%. I would plan for 10% of your loan amount when you go to buy a practice in cash and liquid assets in the bank at time of application. That is something that's changed dramatically over the past five years and has become a hot button with virtually every lender. They're not necessarily going to require you to put that money down on your practice purchase. They want to know that you have a propensity to save, because saving money is a habit and it tends to continue regardless of how little or how much money you make.

And lenders want to know that you have a rainy day fund. They want to know that they haven't lent you your last dollar when they close on your practice acquisition loan. You burn through your working capital and the compressor goes out, the lender wants to know that you're not going to come back to them 45 days after the loan closed and say, "Hey, I'm out of money. I need to borrow another six grand to replace the compressor."

And then just protecting your credit. Credit is the number one character reference for lenders. So check your credit and try to get it 700 or higher. Back when I was in lending, 650 was kind of the threshold. We have seen that credit threshold start to tick up as high as, for some lenders, 725 or higher is what they want to see.

David Phelps: Sage advice. Really really good points. Well Brannon Moncrief, appreciate your time today. What's the best way for any of our listeners who are interested in getting some assistance or help in whatever their model is, how would they best reach you?

Brannon Moncrief: Yep. Best way to reach me, I mean I'll give out my cell phone number. 512-660-8505. My email, brannon@dentaltransitions.com. Feel free to check out our website, it's dentaltransitions.com. But I'm always available to give people advice and spend a little time with them on the phone and help them reach their goals.

David Phelps: Well perfect. We will put the contact information also in the show notes so people can read it. If they're listening in the car, they don't have to write it down. Yeah, you are a wealth of information and wisdom, and I would just recommend anybody wherever you are in the career path, young, mid-career, latter career, you've got to be planning ahead. You've got to be looking ahead at your options, and I've found Brannon to be a really, really viable resource. So he gave you the open invitation, I would take him up on it.

Brannon, thank you so much.

Brannon Moncrief: Appreciate that, David. Take care.

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