

Ep #380: Practice Transition Panel (Part 3)



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Dr. David Phelps

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Welcome to the Dentist Freedom Blueprint, a podcast about freedom—freedom from expectations of society and the traditional path to success that has been ingrained in us from our early years, I'm joined by mavericks, renegades, and non-conformers to discuss an anti-traditional path to financial freedom, freedom of time, relationships, health, and ultimately freedom of purpose. My name is Dr. David Phelps. Let's get started.

David Phelps: Hi, David here. We're back for the third segment of The Dentist Freedom Blueprint podcast, in which I am allowing you to be a part of the conversations I had recently with an expert panel on practice transitions. If you didn't catch week one or two, go back to the last two episodes and pick up to where we are today.

Today, we'll be focusing a little bit more on the business model going forward. What are the trends in practice? Who should be an owner? What should that look like? How and when? Pertaining, particularly to younger dentists. But again, for those who are already in practice and looking at the associate to partner transition model, perhaps this will also give you a clue as to how younger people are assessing their opportunities going forward, so you can decide: is there a good fit? A lot of relevance here for anybody in practice today. Enjoy this segment.

Mike, I want to give something to our listeners who are younger in career. They're maybe no more than 15 years in a career, less than that. Given the fact that we are seeing margins decrease for those who are participating with PPO insurance, we're seeing the conglomeration and consolidation with DSOs who have the economies of scale that I, as a solo practitioner, very hard to deal with.

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What advice could you give to those who have a longer runway and they're not ready to take advantage of an exit anytime soon? What do you see the future for them? What should they be considering, Mike, in terms of a longer ability to stay within profitability and not be harangued by decreasing margins and profitability?

Mike Abernathy: I follow about 15 Facebook groups, and a lot of the comments are given by younger doctors. You're reading it, you're going, "Oh my gosh, I can't believe they're saying ..." you know? I mean, I probably was saying that 30 years ago too. There's higher debt coming out, more competition, but there's some generational proclivities that are defining the limits of what they're going to be able to do. I mean, the best places to practice aren't going to be in the best places to live. It's not going to be Dallas or Denver or something like that.

I'm not so worried about their debt as their entitlement mentality, when they get out and say, "I've got a license. I'm a doctor. I deserve these things." But I think, generationally, you see millennials, X, and Ys, that they really don't want the ownership.

Now, it was interesting, in the end of 2019, in the start of 2020, when we first hit the pandemic, Facebook was saying, "Man, I am glad I'm working for this DSO or this corporation. They're taking care of me. This is awesome. I got Big Brother taking care of me." And then by about June, they're going, "I've had enough of this crap."

So it weaves back and forth. But it is concerning to me that they're not going into ownership, because I still think ownership is a great thing to do. It's not only learning to be able to provide a service in a consumer-driven business, where people vote with their feet and their

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wallets, because that'll translate to anything you want to do later. It's almost like, dude, you need to check some boxes and have some creds of just learning to do what it takes and adapt. And yeah, you want to guard core, the validity and the things that you really believe in, but you also have to embrace change.

When Alistair talked about trends ... I mean, 1973, Megatrends, that book, talked about how you could look at things happening. I think the example I gave in World War II, the access in reading, and be able to understand what was going on even though you weren't supposed to be able to, that there are states where things are happening that you can look at, like California and Florida, that'll be maybe five years ahead of Dallas, 10 or 15 years ahead of Arkansas. And you can look real smart if you start looking at the trends.

The good thing about recessions and the good thing about bad times is it's a great time to step up because, again, it's just not that hard to make this happen. And, again, when you talk about managed care, I think it's an unusual trait of dentists, where they think denial is a river in Egypt. They believe that this isn't a double standard, that, "Oh, I don't have to take insurance." Which is fine, if you make a great living without doing it. But nationwide, it's 75% in insurance penetration. There's some areas that you probably aren't going to make a very good living if you don't.

So on Facebook, I see these young people looking at this, going, "Well, I'll never do that. I'll only be fee for service. But I'm sitting here thinking, "I'd rather be a Tarzan in a managed care jungle than die in a fee for service practice and think that was bad." Dentists don't want to do

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managed care, yet when they go out and buy medical insurance they buy a PPO.

I mean, there's just some trends that are undeniably predictive of what's going to happen in the future. I'm all for fee for service practices, I'm all for managed care practices, as long as the doctor can save about 20%, he really enjoys his profession, the patients love him, there's consistency of staff, things don't roll over, and they grow in any environment.

So yeah, I'd want them to go out and do it. The debt is not that big a deal if, just, they dedicate their life, for the first four or five years, to building a practice, controlling the debt, and having goals that they stay with and stick with. I've never worked with a young doctor we couldn't pay off all of his debt in three to five years. Ever.

David Phelps: Yeah, with discipline. Yeah. [inaudible 00:07:15].

Mike Abernathy: Yeah.

David Phelps: Yeah. Brandon, I'd like to get your take on the same question. As you're advising or giving counsel to those who come to you to ask you ... whatever stage they're in. But again, younger docs ... same thing, what additional points of reference would you give them?

Brannon Moncrief: I mean, I agree with Mike, in that practice ownership is still the best avenue to pursue in dentistry. I love how he related it to other aspects of your life, and just a better understanding of the world, through business ownership.

We have seen the private party docs that have bought practices over the past five years thrive. Those that did it intentionally and were prepared have thrived and

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increased revenue, profitability of the practices they purchased, almost across the board. So I think it's still the best route for a young dentist to pursue. Money's cheap and relatively easy to get. And the DSO option is always out there later down the road, if they want to take a look at it.

And to go back to some of the comments that Mike and Alistair have made regarding DSOs, from a seller's perspective, I love that you've got a really balanced panel and some of the information that they've given some of the people that are looking at the DSO option. I would say their comments should serve as a warning. And if you are going to pursue the DSO option you've got to start with why, you've got to be intentional, and you've got to be pragmatic. You've got to understand your options, explore your options, and make sure that you create a highly competitive environment for your practice so that, at the end of the day, you're going to end up with the best result.

So I appreciate the warning that they've given, regarding hot money and how private equity works and what's happened in other industries prior to that money entering the dental industry. And it's critically important that everybody get educated about their options, rather than you have a bad day and you respond to a letter you got in the mail. And before you know it, you've sold the goose.

David Phelps: That's right.

Brannon Moncrief: Because we see that happen over and over and over again. And it's the reason that we've become an advocate for sellers in the DSO marketplace.

David Phelps: Great, well said.

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Hi, Dr. David Phelps here. I started my real estate investing portfolio back in 1980. Inflation was running at 14.8% and the federal funds rate was at high of 20%. This, after a decade of hyper inflation, along with a very anemic economy called stagflation. Now look where we are today, we have hyper inflation again, interest rates going up, possibly triggering a recession. Could be back to the '80s.

I know how to navigate these times. I've done it. I built my whole portfolio during times of a lot of volatility. I'm proud to announce the release of my newest book, Inflation: The Silent Retirement Killer. I've packed it full of information about how fiat currency can undermine the hard work and the wealth that you've tried to create. You've got to do things differently to protect that wealth going forward, and the wealth generation you hope to pass onto your heirs.

You can download a digital copy of my book for free at inflationbook.com. That's inflationbook.com. Author Venita VanCaspel once wrote, "Inflation takes from the ignorant and gives to the well-informed." You want to be well informed in this case. This is what I call a great wealth transfer. Be sure you're on the receiving side, not the giving side. Download a free copy of my book at inflationbook.com.

Same question, let me go back to the other three of you ... Alistair, jump in ... the pathway for younger docs. Any additional caveats or heuristics that you would give them to consider?

Alastair Macdonald: Well, I try not to put my thumb on the scale too much with clients of mine. But I definitely will in this case, for business ownership. While I teach and help with strategy and tactics and these types of things, team

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cultural leadership training, et cetera, this is really just a Trojan horse into which I've really inserted my deep-seated Machiavellian grand scheme, which is to just help people love business ownership. It's just one of the most gorgeous laboratories of self and global discovery, that is unmatched. I mean, there is nothing else that's going to keep you as honest, reward you as well, and punish you for your foolishness, like business ownership.

We've got this saying in Zulu, "[Zulu 00:12:02], the sharp end of the spear." I chose to put myself there with my first business at age 18. And I've never looked back. So I definitely am a fan. Beautifully, if we're quite honest with ourselves ... which is the root of all progress; honesty ... dentistry is, to a certain extent, somewhat of a walled garden, as a client and friend of mine put it.

And it's true. We don't always want to hear that because we want to make sure that we're exceptional. But there is an element of it being a walled garden. Even a poorly run practice is going to give you a great lifestyle. This is not true if you're in the biotech space, for example, or many other sectors. And so this is a huge luxury. And I actively encourage practice ownership, because what this does is it gives you either a hammock into which you could lie and kick around and work for 20 years to have a beautiful family and lifestyle. Or you can choose to see that net not as a hammock but as a safety net, and get out there on your trapeze act and really go for it and do cool, big, exciting things. I think business ownership is just a beautiful invitation for just that.

David Phelps: Great, thank you.

Bill? Jared?

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Jared: I agree with what you said 100%, Alistair. I mean, if you look at our dental momentum journey, phase one of our journey answers the question: is practice ownership right for you? And it's not a right or wrong answer, it depends on the individual.

So I'm a huge advocate for practice ownership. If we start talking to that young doctor and they're like, "Yeah, this excites me, this sort of thing," push in that direction, because I think practice ownership is absolutely fantastic. Because practice ownership is just not: you're doing dentistry here, and then over here you're still doing dentistry, but you're the owner. All the other things that come with it; the leadership aspect, managing the team, trying to put in processes, that's additional work on top of just dentistry. So do they want that? Does that excite them? If yes, let's go. If not, and they're like, "I kind of just want to do dentistry and stay over here," then that's the right answer for them.

We don't really steer people in the right direction I guess, or, I guess, sway them in one direction or the other, we just get inside their head and figure out where their mindsets at, what excites them. And then I guess we do steer them to yes or no. So, it depends.

Bill Ladd: Yeah, you're spot on Jared. And that's what we see, is that, realistically, when you look at the world or the economy in general, there's employees and then there's business owners. And many people are more than happy to go to a job and come home and watch Netflix, or do whatever. And that's fine. That's their lifestyle. That's what they want to do. That's what energizes them. And there's nothing wrong with that.

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We tend to try to attract people with an entrepreneurial bent who do want to be that tip of the spear, like Alistair said, that understand that it's not easy but it can be the most rewarding thing you do and it can be one of the most enjoyable things you do. But there are things, there are pillars of things you have to focus on. There is leadership. You have to deal with team. A lot of times people are concerned with teams and dealing with people.

So our goal is to try to educate and let them know what the business of dentistry looks like. Mike Abernathy's been huge for us, in trying to teach us so we could teach our tribe. And it is not for everybody. But if it is, then it's an exciting journey. And you get on that journey ... and like I said, it has a beginning and an end... and all throughout the way there's going to be ups and downs. But it is a lot of fun.

I think Jared said it perfectly. We don't try to sway people one or the other, but if they do have a little bit of an entrepreneurial bent that's when I think it's time to start educating and getting them ready for that journey.

David Phelps: Yeah. Beautiful. All right, let's put a wrap on this. I'll give my little short wrap and then I want to just go around the horn one more time, and any last comments you'd like to deliver to our listeners or to our viewers.

I would say, along this journey, the entrepreneurial journey, whatever path you decide to take, to me the most important thing is not to try to do it solo. We are taught early in life, in school and education, that we had to carry all the weight and do it ourselves. And to an extent, that's true. But out in the real world, you've got to find people wiser, with more experience than one has individually,

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and gain the collective of that wisdom to help you then gain clarity ... back to Jared's point about clarity ... who am I? What do I really want? And to be able to show me down the path, like Alistair does, as a guide: this is what's up in front of us. And we could take the south ascent. We could take the north ascent. Or we could take this over here that'll take us longer. But I need someone to give me a little bit of that.

That's what you've done here today, in a short bit of time. So that's what I will leave this with. Let me just go back to the top of my screen.

Brandon, last comments from you, sir?

Brannon Moncrief: I really appreciate being part of this and I think we covered a tremendous amount of ground today. I agree with you, it's critically important to amass the collective knowledge of your advisors to help you make intentional decisions, because they're hugely impactful not only on your practice and your career, but also on your personal life.

I can listen to Alistair talk all day. I got to figure out how to get one of those accents and get rid of my Texas accent. But appreciate you having me.

David Phelps: Thank you, Brandon.

Mike? Just flip your mic back on because I can't read your lips that well.

Mike Abernathy: You can't?

As more of you speak, I agree with you. I don't know who's going to be listening to this, but I'd like to give one plug to DSOs if you're at the end of your career. There is

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a point in your career, if you've decided: I don't want to be in dentistry, but you've been super successful, a DSO may be your only buyer. I mean, it used to be you could sell fractional shares, you could retire in practice. But when you really have a monster, that may be your only option. And it is a great option for some doctors that really want out.

And, again, David would say this, I mean he talks about real estate or some form of investments that protect your principal and has a great return and you minimize the danger to your money. I think the nice thing about listening to somebody like this is thinking ahead, further than this year or the next five years or the next 10 years. So if you're young, I mean I hate to tell you, we've been there, we're looking back. And I wish people had told me the things that these people are trying to tell you now.

So be careful who you choose for a mentor, because these people need to become partners with you in what you want to do, come along side by side. Just like your staffs, just like your attorney, your CPAs. You need to trust them. Just like getting in a foxhole, you need somebody to cover your six. And I'm very careful about who I choose. And you get wiser about that.

The problem is, there are a lot of supposed experts. If I was looking for somebody to invest my money, I'd go, "Yeah, I might consider that. Let me see your portfolio for the last three years."

David Phelps: Yeah. Full assess.

Mike Abernathy: Good people go, "Fine. Great. Look at it." I want to know track record.

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David Phelps: Exactly. Yeah. Beautiful. Beautiful.

Jared?

Jared: Yeah. Real quick, I just jotted down four things. And first off, appreciate you having me on here. I had a blast. You guys are way smarter than me, so I appreciate me being here.

Four things I wrote down, just, like I said, start with the end in mind. So think: what do you want out of an exit and the timeline? All right? So think that through.

Number two, consider all your options. Brandon, you went through all the different: doctor to doctor, JV, full DSO. Consider all your options.

And then when you're looking at those options, narrow them down. Let's say you're talking to one, let's say DSO, or one maybe doctor to doctor, talk to other people that have sold to that DSO. Don't ask that DSO for the recommendation. Find out who did behind ... not behind their back, but somebody that they don't know they sent you to. What's their experience now, once they've sold to that DSO?

And then four, like you guys said, don't do it alone. Do not put a for sale by owner sign in your front yard of your dental practice. Surround yourself with the right people because this is probably one of the biggest decisions you're going to make.

David Phelps: Absolutely.

Bill?

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Bill Ladd: Now you can see why I'm partners with Jared. He has such an analytic mind and can take this and boil it down to bullet points. I come from more of a 10,000 foot view.

I think what I really enjoyed about this conversation ... Brandon, you said it well ... is it's a balanced panel here. It does feel like it may have come in a little heavy-handed against the DSOs. And I think what I would say is don't look at this as a binary option, where either we hate DSOs and we not even going to consider them, we're only going to do this over here.

Do exactly what Jared said. If you've set your practice up and it has that E in EBITDA, then look at your options. It doesn't hurt to go talk to a Brandon and see what's out there, because every DSO is different. And some of them are going to be more doctor-friendly. Some of them are going to be more, near, we say, draconian. I mean, they're all different. So don't look at this as a binary discussion, look at all your options and figure out what you want and what fits that plan the best.

David Phelps: Well said, well said.

Alistair, bring us home.

Alastair Macdonald: To clarify a point that I probably hadn't made is, when we speak about valuations and so forth, I don't really see, outside of specialists, anybody really overpaying for practices today like there were three or four years ago. Just in my opinion. I don't think these are unreasonable valuations.

So if you're out there and you're thinking about doing it, of course you always want to look for a good deal. But I think that, on the whole, this is a reasonable valuation

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level that we're at. I thought it was preposterous three or four years ago.

I think the real danger is not so much securing a practice today or choosing to sell today, as much as it is baking into your plan an assumption that you will buy one for five times but sell it when that EBITDA gets back to 15 times. Based on my experience in multiple industries, in multiple cultures and environments and sectors, that hot money is extremely unlikely to come back. And this is encircling my reputation here, I do not see us selling a standard GP practice for 16, 17 times EBITDA again in our working experience.

The good news is: the industry is still so great you don't need ridiculous outcomes like that, to Mike's point. You don't need to go all in on that being your plan. If that's your plan, it's not a plan, that's hope. If you're into it, great.

Whether or not you want to buy or sell, I remind myself all the time, as I do clients, that we're all paying a price for the results that we're getting; all the time, in our health, our relationships, our practice, our business. We're all paying a price for the results we're getting. And the question always is: can I pay a lower price for the same or better results?

And you get to decide what's true for you. Are you willing to be the person that has to go down and fix the broken pipe on a Sunday morning? Then ownership is perfect for you. Is your definition of success a practice or an associateship position, or sell to or join someone else, a DSO, or anyone otherwise, and focus on other aspects of creativity and ambition in your life, supported by a beautiful stable well-earned income?

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There's no version of this that you'll do wrong. With one exception: doing what others have prescribed for you. I found that to be the only way you can really go wrong, is thinking you need to be someone else and do what they did to make yourself happy. Didn't work for me. Don't recommend it for others.

David Phelps: Gentlemen, I certainly appreciate your time today. Great panel. Great conversation. Thank you so much.

Alastair Macdonald: Thank you.

Jared: Thanks, David.

Brannon Moncrief: Thank you.

David Phelps: And that concludes our three part series on the practice transition models in dentistry today. If you're a business owner, if you're a practice owner, who is considering the different challenges and how to navigate the opportunities, but also the obstacles in the marketplace today, Freedom Founders is a great place for those who want to look at those and have the influence and the perspective of a collective wisdom in one place. Check us out, freedomfounders.com. See you soon.

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