The Decathlon Dentist - Case Study of a Practice Transition - Kyle Francis, Bill Ladd, Jared Duckett: Ep #437

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Dr. David Phelps

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Kyle Francis: Having different voices into your life whenever you're making these big decisions is really, really, really important. And making sure that that person who's giving you the advice, their incentives align with whatever your success ends up being.

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. Welcome back to the podcast.

This week I want to give you a brief intro and a summary of what was covered and who was on this particular conversation.

I brought on Mr. Kyle Francis, a longstanding broker in the dental space. Mr. Bill Ladd and Jared Duckett of Duckett Ladd, CPAs who specialize in dental consulting and accounting, as well as real estate, which fits very well with Freedom Founders.

We took on a case study, and we're going to do this from time to time. The three of us really enjoy digging in and looking at the particulars and the nuances of the decision tree that many in our industry, our dental colleagues, are looking at today, or have looked at, or will look at in the future.

When to know when to take some chips off the table, who to sell to, when to sell, how to do it, how to structure it.

It's a world that nobody was really trained in coming out of school. You learn how to run your business, and then you get offers from various entities who say, “We'll pay you large multiples for your practice if you'll sell today, and stay on and we'll make life good for you.”

Now, of course, I'm placating what really is a very much, much more detailed and complex situation. And so, we took this case study, kept it anonymous, but brought enough facts and figures to the table that I think you'll enjoy listening to it and probably gathering some insights for your own situation.

Of course, your situation won't be anywhere identical to this one, but you'll understand some of the variables that need to be looked at.

And what are the key … in my opinion, despite all the financial aspects, the contractual agreements that have to be put into place, the culture and how much money is being taken off the front end, how much is back ended?

It's really what's the real purpose behind the sale of the practice for the individual business owner, the dentist? What is his or her real goal? Are you at the end of career, you want to get out and you want to find the best exit?

Or are you looking at more money you've ever seen in your life? At least you think, and you want to take that money now? And how are you going to navigate that if you're maybe in your late 30s, early 40s, or maybe early 50s, and you still have some years to practice?

Anyway, without more detail, let's get in the conversation. Leave us some comments at the end. How much did you enjoy this? Would you like us to do more of these conversations on case studies?

Well, good day everyone. This is Dr. David Phelps of the Freedom Founders Mastermind Community. I'm joined by Mr. Kyle Francis, Bill Ladd, Jared Duckett.

We're doing some case studies, looking at some situations with some of our colleagues, our doctors in dentistry, and where they are in their life and their career path, and what's kind of options they're looking at.

And taking these apart anonymously so that we could maybe possibly share these with some of you in terms of where you are in your life and some of the variables and the considerations you may be making as you go down your path.

So, Kyle Francis, you brought our case study today. Why don't you give us some of what you consider from the highlights, from the notes you provided, and we'll take it from there.

Kyle Francis: Well, so, I chose this one just because we're in the middle of it right now, and I'm really trying to figure out what is best.

So, maybe to start out with, man, I really like this guy who owns these practices. A really, really good person in total. You could tell whenever he graduated that he very much wanted to be great at ministry. So, he got involved in all sorts of different stuff.

And he's a learner for sure. Not only did he invest in a whole bunch of clinical training, but I think along that road, he decided, “Well, maybe I should be a good business person too.” So, he invested a lot into consultants.

Whenever I'm saying a lot, I mean hundreds of thousands of dollars into consultants and he's grown something.

So, whenever you look at the top 20% of dental practices out there, it's a 1.5 million practice. He has above a $6 million practice. In total, he has three locations. He also, has a airway practice that he's put up and then also, a dental assisting school. So, a lot of different irons in the fire in total.

He's not as active clinically at this point. He still loves doing airway implant, and he still does spend, I think, a day or so clinically a week.

But his family is also, really involved in the business as well. So, wife definitely involves, I think that their life kind of revolves around the business a bit.

I do think that as he's tried to get really good at the business, I mean, he's going a whole bunch of different directions. So, there's a lot of balls in the air, just trying to manage all those different things as well.

And then he is also, started fast on a lot of stuff. Starting fast isn't necessarily a bad thing, but I think it probably shows in total from his profitability standpoint.

So, he also, put a DSO infrastructure above everything. So, he kind of has a couple of centralized services that he ends up having for all his different practices.

He's not dramatic, he's actually probably more cultural than anything at the DSO, but he does technically have one. I mean, at this point, his entities, not including the dental assisting school, ends up being above 7 million in revenue.

The flip side of that is going to be, he probably runs right around a 8% or so EBITDA margin right now, all things in. Now, if you stripped out that DSO structure that he's put over the top of it, he might be somewhere in that 16 to 17% range in total.

So, not, I would say probably below average even stripping out the DSO. So, probably something around the 20% is going to be average if you stripped out a DSO of that size practice.

I've always heard that having practices 5 through 15 is the hardest part of life cycle. So, he is kind of still before that hardest part of the life cycle.

I think that, I'm probably projecting a little bit here whenever I say this, but I don't believe that there's been a whole bunch of money socked away. I think that he takes money out of the practice and he uses it for fun. So, he does fun stuff with his family. He goes on lots of trips, those kind of things.

There's also, a fair amount of debt on the business as well. So, if I look at after debt service, all that kind of stuff, I'm guessing that they're probably making something around 600, $700,000 a year out of this business, which again, for a 7 million business is going to be definitely on the lower side of what we might have expected.

I think that he really likes his status in the room is one of the — a big practice. It's like, “Oh my gosh, how'd you build that?” All that kind of stuff. I think he likes to give people advice in those types of things.

In total, we are contemplating a transaction with him where he can make a good amount. So, it's a joint venture style structure and he could sell something like 60% of the business with that 60% of the proceeds, he'd be knocking out his debt, maybe having a little bit on the other side, not a whole bunch.

The 40% obviously, is going to be in the equity arbitrage. Well, at that point, which could be a good thing in total.

The group that he's contemplating going with can provide services, all those kind of things. But essentially, you definitely need to strip out that DSO structure in order for everything to work. He likes the folks at that DSO structure. So, kind of trying to figure out what to do there as well.

So, I mean, I guess thing one is going to be, he's contemplating whether that is a good thing for him into the future or can he just like old build it and maybe sell in the future?

Maybe just as a point of context, I do think that it's probably going to get harder before it gets easier for him from a trajectory standpoint, doing it on his own.

That doesn't mean he can't do it, but it doesn't mean there's still challenges ahead and it's not like he's overcome a whole bunch of those things to this point.

Maybe I turn it over to y'all and start asking away.

David Phelps: That's a great, great summary, Kyle. I'll start just with a couple of really quick, easy questions. His age, number of years in career, and give us a little bit of his family structure.

You said family's important to him. You said his wife works in the practice. I think you made a note that she's not actually paid. That was kind of concerning to me a little bit.

Let's talk about his family. Because what I'm looking at here is a guy that, obviously, as you said, he's a learner. He wants to be the best, he's like a decathlon dentist, is what we call decathlon. He knows how to do all these skills.

He's taken all this CE in that regard. He's now, working on the business side, which is again, that's a great, great aspiration to do all this.

But what's his age, how many years has he been in practice, and what's the dynamics of his family, like age of kids? I'm curious about that.

Kyle Francis: So, two kids. And age of kids, I'm going to say I think 11 and 13 or 11 and 14, something like that. And how long has he been practicing? I think that it's going to be since 2001, if I remember correctly. So, call it just over 20 years in dentistry or practicing in dentistry.

So, I think that he first purchased this practice in the mid-2000s, so somewhere around 2006. So, he practiced as an associate before this.

David Phelps: Good, I'll defer to Bill and Jared.

Jared Duckett: Around 45 years old, give or take?

Kyle Francis: I would say maybe a little bit older than that. I would say maybe 47, something like that. 48.

Bill Ladd: So, Kyle, what brought him to you in the first place? Like what was the conversation when you first had a discussion with him?

Kyle Francis: Well, so, I think that if I say too much about this, then it might give away who that person is. But overall, I would say that he was definitely in a growth cycle.

He said that one of the very first times that he talked to me, he's like, “Look, I'm in the middle of growing this thing. I don't know if now, is the right time to be considering a transaction.” I said, “Okay, no big deal. Let's do the analytics and see.”

But yeah, he did not come to me through a referral. And he did not come to me through like, “Hey, I need some relief,” or anything like that.

So, from his mindset's perspective, he was thinking he was just going to continue to grow and just kind of fell into this situation.

Jared Duckett: So, curious, I don't know how long ago it's been since that initial conversation, but going back like three or four years on growth trends, is there a growth trend with these practices?

Kyle Francis: I mean, yes. I would say in total there is. It's definitely more from a revenue perspective than it is from a margin perspective. So, if I look back at 2019 as a for instance, 2019 was probably somewhere in like the 4.5 million dollar range.

He did grow during 2020, which is an unusual thing, but he just bought a practice at that point. So, that was where some of the growth came from. It's kind of hard to peel away steam store sales growth, if that makes sense.

But yeah, and so, and bouncing back 2020 to 2021, I would say we saw across the industry significant growth just because of deferred treatment, all that kind of stuff. And probably came back to earth just a little bit in 2022.

Bill Ladd: This is multiple practices, Kyle?

Kyle Francis: Yes, it is. It's three general practitioner.

Jared Duckett: I guess you can say this, how much debt, like the dollar amount … I kind of reversed engineered based on what you said there, but.

Kyle Francis: Yes, I mean, I'm going to say something around the 4.5 million range, not including real estate.

Jared Duckett: Not including real estate.

David Phelps: Yeah. As you said, if he took a 60% front end buyout, that would pretty much clear his debt, but not leave much left over. Correct. Alright.

I'm trying to get a better picture of this guy. I know it's hard. Did you ever have a chance to talk to this doctor and his wife? Or has it just been … you have, okay.

Kyle Francis: Yeah, I would say more so with both than apart.

David Phelps: Okay. That's great. Pretty much over Zoom or did you ever actually have a onsite meeting? Just little bit curious.

Kyle Francis: Yeah. So, to give you a little bit of a timeframe. So, originally met probably a year and five months ago, something like that. So, I would say that over in person, probably four times, maybe five times over that time horizon.

And then over Zoom, probably another 10, quite a few. And then also, I mean, a ton of additional touch points where I wasn't necessarily working with them, but the folks on my team were working with them as well. So, maybe another 50 of those.

David Phelps: Well, I love it when I get to see both the couples together because I know in my life I have certain aspirations I want to do, but I have to say, “Well, is my wife on board for all these things that I want to do?”

And when you can get couples together, that's where all the truth comes out. Because we'll be like charging ahead and going, “Yeah, I'm doing this for the family and like I’ve build all this.”

And I'm not taking away from this guy at all because I think a lot of us are built the same way. Then bring a wife into the picture, and then I'm just looking at kids that are 14, 11. I mean, prime time of growing up.

I just wonder, did you ever get a sense, Kyle, and see any like a little bit of attention between the two where he's talking about doing all this and growing it and she's working there for free, but she really enjoys it.

Is there any aspect of lack of time to do the things that they want to do as a family? I'm just curious, what do you sense there?

Kyle Francis: Good question. I think they're both decently well aligned. I would say that it seems like they're kind of asking very similar types of questions.

I would say that the tenor of the conversations change. Again, they probably soften some whenever both of them are on the line.

But overall, I think that both of them are definitely type A in total. They're go-getters, they like to get stuff done.

And you can kind of tell they like to work off on checklists and all that kind of stuff. It seems like it's not like he's going off and doing a whole bunch of this CE and business stuff on his own. She goes, and she's involved with it. She's not going to stop.

That makes sense she's interested in that kind of stuff. Seems like a very, very strong and kind of aligned type of relationship.

Jared Duckett: Just curious, kind of in that same line of thinking, have they talked about like if they, or once they sell their practice, let's say this specific, like what's their next, like what would they do or what would that allow them to do, or anything like that?

Kyle Francis: They have been thinking about building to sell, I think for a while. They wanted to do that and have the ability to do that. And so, then it's like, “Okay, well, if you don't do this deal, what does the deal look like in a year or two?”

So, I think there's probably some FOMO there. I think that there's also, kind of wondering, it's like, “Okay, can this ship get turned around to the place that in the future is going to be dramatically different? Would it be good to have additional help in the interim?”

And so, yeah, I mean, I think they are thinking through those things. But I think depending on the time that you talk with them, they go from like, “Oh yeah, this is definitely the thing,” to, “Yeah, I don't know, is this the right time? Is it the right place? Is it all those kind of things?”

Bill Ladd: Kind of in that vein, Kyle, what was the vision behind the DSO? I'm assuming it kind has something to do with the build to sell, but like what did they have an endgame goal or what they were trying to accomplish, maybe from a practice perspective or a revenue perspective? Did they have anything like that dialed in?

Kyle Francis: I do think that he was given pretty poor advice from some of the consultants that he worked on or worked with in order to develop this ecosystem. There were many choices that could have been made differently.

But there were incentives from the consulting side that ended up leading him down this road from a cost perspective and from a billable hours perspective and all that kind of stuff.

So, guys, for instance, a company that size does not need a DSO. They're just completely and totally superfluous.

Jared Duckett: I was going to kind of ask this DSO he has in place really has no market value in his sale. Because you would straighten it out. It's just-

Kyle Francis: Yeah. And he's also, too small to go to directly to private equity. So, private equity group could use a DSO. They don't already have one developed all that kind of stuff, but he's not anywhere close to the EBITDA metrics in order to make that work.

So, you probably need to view 2.5 million dollars above EBIDA in order for that to make sense.

David Phelps: So, this couple drivers work together well to try to build something great that could be sold. And I'm kind of getting a picture, again, you've got to tell me if I'm wrong, Kyle, I mean, still very vibrant, they've got energy.

But at some point, I'm just thinking through my own life, as you get to a point you've built, built, built and you're looking for, okay, well, where's the top of the mountain? Where's that?

And I think that's what we're trying to figure out. Do they try to carry this further themselves? But looking back in time in the last three years, yes, they've grown top line revenue, but as you said, margin wise, not so much.

In fact with a 7 million revenue and you're taking home 6 to $700,000, unless I'm seeing that potential to grow dramatically in the last next few years, I'd be thinking too, “Okay, we've done really, really well.”

I'm not taking anything away from this couple. I'd say, “We've done really, really well. We work well together, but is this really getting us to where we want to go?”

And it sounds like without making some kind of change, whether that's go with the plan that you're laying out as a potential sale or deconstructing, reconstructing what they've built, they're just going to keep pounding away.

And I don't see them making a whole lot of progress. It's just taking the course they're on. That's what I sense.

Jared Duckett: One thing you said, Kyle, I think is that like when you're on the phone talking to them or whatever, that they're kind of gung-ho and then they start second guessing like, “Well, is now, the right time?”

What's going through their head? Do you think when they say, “Is now, the right time?” Is it the market value? Or is it, “Once I sell, where's cash flow come from?” That sort of thing. Or maybe something else.

Kyle Francis: Yeah. So, I think some of it's founder syndrome. Are you guys familiar with that concept-

Jared Duckett: Yeah, I am.

Kyle Francis: … at all? Maybe I'll share it just in case. So, founder syndrome is an entrepreneurial concept and essentially it's going to be this business that you've created kind of becomes a member of your family.

There's a lot of emotional ties, all those kind of things. Yes, it's provided really nice income stream for you, all those kind of things.

But you really care about it. You care about the people in it, you care about all those different types of things. You've invested so much of your time and effort and energy into it.

And he has built it and it wasn't a 7 million practice to start with. So, there's pride, there's always emotions that are tied up in it.

So, I think that's pride part of it. I think the other part of it is going to be, okay, well, if they did invest into the growth of this thing is like, well, is there a possibility of this is being sold too early?

And so, we run into that a lot. So, a lot of the different groups and a lot of the founders we end up working with are going to be on a trajectory.

And so, if they continue on in this trajectory, do they end up pushing up margins by pushing down expenses and all those kind of things. And is this just kind of, again, from a timeframe perspective. Is it time?

I would say that it does not seem like they have incredibly expensive taste or anything like that. So, I don't know that they're necessarily worried about cash flow going forward.

I think that there would be some relief from the debt perspective in total, but I haven't heard them talk about like, “Hey, how much are we going to be making into the future,” very often.

I mean, obviously, we do a waterfall to show how that all works. That has not been a question for us.

Bill Ladd: Couple of questions, is the debt primary acquisition debt?

Kyle Francis: Yeah, well, primary. There's a lot of equipment debt in there too.

Bill Ladd: Okay, okay.

Kyle Francis: I’ll say, by the way, that also, probably leads me down the road to like, hey, the type of advice that is being received. He's got all the toys, all of the toys.

Bill Ladd: So, when you think this through, we say one practice, but let's try to break it down to three practices. Are they all created equally? I mean, are they all kind of middling EBITDA?

Are there any that are really high performers and some that maybe are not getting the attention they need or maybe not clicking off the results they should?

Kyle Francis: So, one location is going to be right around the $4 million range. One of them is going to be right around 1.5. One of them is going to be right around 1.1 in total. And those are going to be a little bit of old data sets. So, it's going to be kind of a little bit above that.

I think that's going to be much more based on how long they've had the practices more than anything else. But I would also, say that the person went on a rocket ship and the others too heavy yet to do so.

David Phelps: What's the division of productivity? And you said he's doing maybe, you say he's like a day or so a week, and he does primarily likes to do airway.

But there's implants, there's ortho, there's endo. Does he have other specialists coming in or are these all GPs? What's the makeup of the production overall?

Kyle Francis: He's doing under a million by himself in total. But again, kind of the higher dollar type of procedures in total. From a personnel standpoint, it's all going to be GPs in this office. There's no rotating specialty.

Quite frankly, I think he likes to do that type of work. So, if he's going to be choosing what type of work to do, he would choose to do that type of work.

Jared Duckett:: He wants to stay on afterwards. If the sale trade takes place or transaction takes place, he would stay on and keep doing that. Yeah.

Let's say he's at 17% EBITDA, so one, based on a 9X where he is at revenue wise, one point is roughly worth if my math's right, 630,000 of enterprise value.

How easy would it be to, I'm going to use the word squeeze another couple points. I know he is not going to go from 17 to 27, but over the course of another 12 months, 18 months, do you think he could squeeze up to 21 or based on trends, is that like, “I don't know. We've tried that.”

Kyle Francis: Yeah, I would say here, I'm going to pull up the P&I games to make sure I'm not saying it incorrectly. So, we've already kind of adjusted the advertising down from kind of an above and beyond advertising spend.

I would say the dental supplies and lab bees, based on the type of work that he's doing is not completely out of the realm. It's what we would consider just above industry average. But with the type of work that he's doing, it's probably close to what I might expect it to be.

His biggest thing is going to be payroll. Which is the hardest issue to solve in dentistry in total. Two ways to solve it. You can either produce up to your current payroll or else you need to make sure the head count is requisite for the type of revenue that you have.

And he does not seem like the type of person who would be wanting to make those type of cuts. Like he'd probably be trying to dig his way out of it from a revenue standpoint, which probably takes more marketing.

So, typically, whenever I see outsize payroll like this, it looks to me like a probably an 18 month issue to work through something like that.

I would also, say that the type of deal that he is getting right now, I would have a high degree of certainty that in 18 months if he did decide to do that, the type of deal that I ended up getting him at that point is probably a turn and a half lower in EBITDA. This is kind of a unique situation.

Jared Duckett: Hmm. That's a key piece of data.

David Phelps: Why do you feel that would be the case, Kyle?

Kyle Francis: Because of the type of deal structure that he has. And again, not giving too much away, I can say it offline, but I'm not giving too much away. He's the beneficiary of a group type of environment. So, it's not just him, if that makes sense.

Bill Ladd: Makes sense.

Jared Duckett: Did you say a turn? How much?

Kyle Francis: Turn, turn and a half to make, that is my guess. I'll go with the turn. Let's not go a turn and a half. I think it's probably a turn.

But you could definitely say, I mean, like in that interim I do … so, you asked a specific question. Do I think that those things could be worked on? Yes. Do I think they would be? That I don't know yet.

Jared Duckett: That's maybe the more important question. Yeah.

Bill Ladd: Well, and probably another question would be what would it look like if in that interim he unwound the DSO? What kind of support is he getting from his own DSO? I mean, is that a practical step or would that be extremely difficult to unwind?

Kyle Francis: If it was me advising him, I would say take it apart tomorrow.

Bill Ladd: Yeah. Okay. So, the value is not being added commiserate to what it's costing?

Kyle Francis: Yeah. Now, he's invested a lot into it. So, I mean, he's probably got 300, $400,000 but to me, that sunk cost, get rid of it.

Bill Ladd: Yeah, agree.

Jared Duckett: Tough thing on his side, right?

David Phelps: I was going to say that based on his personality, that's probably a tough thing for him to do. Correct? Give something up that he's put time and effort and money into. He's going to have more, I hope.

Kyle Francis: It'll be hard for me, right? Yeah.

David Phelps: Me too. You said he's invested in himself, obviously CE, and you said hundreds of thousand dollars in different kinds of coaching. Some of which may be helpful but disparate.

It sounds like there's really been no good orchestration, maybe some perversion of incentives in there somewhere for some of the consultants, which unfortunately, that's out there.

Is he part of any other group? Kyle, well, all four of us know there's some very, very good consulting groups that have great reputations about helping docs figure these things out.

Where it's not just solo one consultant to the doctor, but they're actually amongst peer group who have practices similar, disparate but they're figuring stuff out together. Is he part of any kind of a tribe like that?

Kyle Francis: Yeah, he is. And I would say he's kind of maybe the big man on campus within that current group. So, he probably needs a little bit of a different type of outlook where people have grown 10, 15, 20 million orgs, those kind of things.

And just to garner best practices rather than him giving best practices to someone off. So, it probably is a different room as he would definitely be moved by.

David Phelps: I know what I would do if I were him and as much as I know about him, which I don't know very much at all at this point, but I think making these decisions, the person who is the doctor here and his wife, they really need a lot of clarity.

And I think obviously you said fast starter. So, "Let's go do that because we could do that. We could build a dental assisting school. Yeah. Got it. Check the box. Did it. Did this, this."

It just seems like they really need help with getting clarity about really what's important to them and coming together and saying, "Could we strip out the DSO. Do we want to keep doing it this way or do we want sell out now? What does that look like?"

Culture's a big deal. And again, I know that every DSO opportunity is different. Everyone has a personality. Kyle, you know them very well because you work with so many of them, but it sounds like he's really enjoys the culture and the people.

If I'm buying him out and as we're talking about here, we see he is got tight margin and I'm the bean counter looking, "Okay, opportunity here. So, we got to strip some stuff out." Is that going to go against his personality? Is that going to be a little tough for him to deal with?

Kyle Francis: No, that's a really great question and maybe I should have clarified that. At this point, he knows that that needs to happen in order to contemplate a transaction, but I don't know if he's wrapped his head around is going to be, let's say he decides not to do it, that still needs to occur.

And so, I don't know if he's done that type of analysis. But to your point, if he decides not to transact, I mean, my thought would be put him in a different room where he gets different types of voices and then also, make sure that he understands like this still needs to go away. There's just not going to be a really great place to put this.

And if you contemplate a transaction in the next three or four years, we're probably not going to be growing to the point that this is ever going to be necessary.

Jared Duckett: It's almost like he has a just, oh, he has all kinds of options, but it's kind of … I agree with what you just said. I think either way he goes transact now or not transact, he needs to strip that DSO away and save that money. I hate to say it.

Depending on how much support it's giving those practices, if it's not giving it much, then strip it away.

In your mind, Kyle, I mean, you said that turn based on the opportunity now. That's worth a lot right now, right?

Kyle Francis: It's not nothing. And so, that's kind of where my brain ends up going back to, it's kind of funny that this is where I was going to end.

But if it was just a normal style transaction. So, it's like, “Hey, I can get you this exact same deal in 12 months or 18 months.” I 100% put them back to work. I definitely do it. I don't think I have a doubt in my mind.

But I do have a little bit of opportunity cost in the back of my mind, which is like, “Oh okay, there's going to be some benefits that he's going to be able to get earlier rather than later here.” And that has made it harder.

And I'll tell you where I've been leaning and you guys tell me whether this is the direction that you might lean as well. My lean is going to be call it like 55% sell. And it's just barely.

And I don't love that feeling, honestly. Whenever I'm giving advice on these types of things, I like having a sure direction. Which is like, “Okay, this is the way that you need to go because of X, Y and Z.” A reasonable person could say like, “Nah, I want to go back to work on this.”

Jared Duckett: If it was apples to apples, multiple now versus multiple 18 months, 24 months, whatever. I agree with you. Strip off the DSO and go back to work and try to get some more points. That’s how I would see it. But that's a nuance to this, I think.

Bill Ladd: I think a question for you, Kyle, the clarity you gave us as that he's kind of part of a group quote unquote that makes this a unique deal. Would there be opportunities could be a part of a different group in the future that might … I mean, that's a question I would have.

Kyle Francis: Great question. Maybe. So, I think, I mean look, there's always different types of scenarios. There's like, “Oh, this is kind of unique.” And in some ways I end up, if I'm giving you advice to someone, I say, “Okay, so, this seems unique to you. How unique is it in total?” All that kind of stuff.

And look, I do think this is unique. Do I think it's an impossibility that something like this could come up across the road again? No, but I would say that there are some strong financial and emotional ties to this group.

Bill Ladd: That makes sense. See, that's good context there. I think I would wonder if you couldn't quantify or stress test it some way through numbers of this is potentially what it could look like now.

If we did look into the future to try to work on this. But say that we stress test it with a lower multiple perhaps, what would we have to do to try to get even back to square and what kind of work would be involved with having to do that? And is that something that you're interested in?

An interesting fact pattern here is that he's not coming to you burned out it sounds like. Which is a lot of times we see doctors disposing, they are burned out and ready to go. And so, then it's just, well, what's the best way to do that?

So, I think you are right, he has options. It's just is this option on the table compared to what the potential in the future is and what he would have to do to get there. Does the math work?

That would be an interesting calculus I would try to run through is, can you quantify what he would have to do to an EBITDA?

And my gut is that he would probably focus on a couple of practices, maybe some of those newer to really try and get them up on par with what he's doing already through his legacy because it sounds like that maybe has some good legs to it as a standalone.

Jared Duckett: And I think the big question, is he willing to do what it takes to-

Bill Ladd: Right, that's the question.

Jared Duckett: … make the tough decisions, I guess to get that. I mean, that's the biggest question.

My gut leans, I'd say it a little bit towards what you said, Kyle, a little bit.

David Phelps: Yeah. Again, this is just very superficial for three of us here listening to this. So, I could be changed in a heartbeat if I was sitting in a room with them and hearing their feedback. I would tend to lean away from the sale.

And maybe, Kyle, I'd be maybe 55% stay in, 45% sell. But again, it's very nuanced here. And as everybody said it-

Kyle Francis: Well, wait. By the way, what would be the key indicator for that for you?

David Phelps: Me?

Kyle Francis: Yeah.

David Phelps: Look, I'm just getting a gut feeling. That's all it is. Just from your very good layout of who this couple is and what they've done. I just feel like he loves the control, the ego the pride of what he's been able to build, and he's going to give up some of that directionality.

I'd have to know more about his personality to understand what makes him really tick and is he going to work well with a partner so to speak? Is that going to work for him?

That's all I'm really trying to really figure out really right now. And I can't, unless I was actually spend some time with him. So, it's a guess on my part.

If I'm thinking about it, I'm tending to lean more away from him giving up some of the control that he has. And instead go to work, strip out the DSO if he's willing to do those things.

And really focus in on what's going to increase his margins, even if he may be giving up something now, as opposed to the future. But that again, that's always a guess for any of us.

And when I look at someone who's that age, still very vibrant, not burned out, how can he stay on a plane moving forward that allows him to do the kind of things he loves to do and still could get him to a point where he's not thinking about it right now.

He's not thinking about retirement at all. I get that. He will start thinking about that in a few more years. Bill and Jared, I mean, he hasn't stuck away a lot of money. Everything's in his practice right now. It's all there.

Some day he will be thinking about that. It's not on the plate right now, but he'll start thinking about that. So, how can we future pace him five, six, seven years down the road? Where do you guys want to be? And where are your kids? Give that vision.

Sometimes that helps. If we can help, this case a couple, see down the road. You're here today, things are good, but you're trying to figure out where to go.

Well, what do you want things to look like in six or seven years when the kids are older and going to college and what's that going to look like for you? What do you want to do?

I don't know, there's a lot of subject to aspects to this as there are objective and you guys are really good with the objective stuff. I mean, just digging in on the numbers and the things that are very important.

So, I take a side of being more subjective and look at that part if I can, but I can only do so much here on this call today.

Jared Duckett: That's a great point. I mean, what you do, Kyle, like transitioning practices, there's a lot of components, but you kind of, in my simple brain, you've got like a financial component and then I'll use emotional component because I'm not a tangent.

But talking to another doctor the other day and it was, “Hey, once this practice is sold, the debt burden off my plate that is going to change my life.” And so, that emotional is like, “Oh my gosh. Like financially it's going to be good. And then emotionally it's going to be better.”

Kyle Francis: Well, it’s kind of funny from a thesis standpoint, I'll tell you what, like really if I put this one out there, I was kind of hoping that there would be a little bit of difference of opinion on it. Because if we're all kind of on the exact same page and then suddenly it's like just confirmation bias for me a little bit.

And I think that maybe the overall theory here is going to be like, look, like having different voices into your life whenever you're making these big decisions is really, really, really important.

And making sure that that person who's giving you the advice, their incentives align with whatever your success ends up being.

And by the way, maybe it's kind of around the margins. Maybe there's not like this exact right either. Because again, I think there's viability on both sides.

Jared Duckett: Well, Bill, what would you say real fast? Chime in.

Bill Ladd: I'm right with you guys. I mean, it's a coin flip either way. I mean, I think what's really intriguing to me from a sell perspective is that it's part of a group that there's an emotional attachment, that FOMO is real. I mean, that happens. I've seen that.

And certainly, I think that the psychological burden of taking the data out the equation and if they have good infrastructure and can provide support and he's been kind of monkeying around with the DSO, that's been a distraction. That it could potentially help.

On the flip side, I would say, all the kind of specialties that you had mentioned that he does makes me think his margin should be much higher. And that with a little bit of intentionality, that there could be some focus put on what's broken.

Not really focused on what's working but what's broken and try to kind of write that ship and put a lot of focus on those practices that are newer that maybe are underperforming a bit. And see if we can't get him up to that 20, 25 whatever percent that would be a little bit more appealing in the marketplace.

But again, I think you could try to quantify as best you can about what's the worst case scenario if we do wait and try to see what we would have to grow EBITDA to try to get to a commiserate result or one that has an upside beyond that.

So, it's really giving them good data points and letting them make a decision what's best for them as a family.

David Phelps: Well, gentlemen, isn't it all about the debt today? Aren't we in an era where it's been the more debt, the better, particularly if you have low interest rates. I'm being a little bit facetious here, but does he have some very low interest rate debt?

Kyle Francis: I think on his buildings, he does. On his equipment and all those kind of things, I would say it's probably similar-ish to what we've seen.

Bill Ladd: Just curious, where are they leaning right now? Or can you say that?

Kyle Francis: They’re leaning towards doing it. And by the way, I did not say what my lean was to them. I just essentially said like, “Look, I think there's reasonable people on both sides that could do this.”

But if I'm not close, that's typically, what my answer ends up being, which is like, “I think you could do well on this either way.”

And if they're not seeing something big, I like to tell them that's something big. But I actually typically, end up taking a devil's advocate position with them.

Because if they're super super in, I want them to understand risks. And if they're super, super out, it's like, “Well, hey, you got to understand a little bit more about this opportunity.”

And ones that are really, really close, I talk about pluses and minuses and hopefully, let them make a good decision from there.

Bill Ladd: An interesting intellectual exercise is to rewind this thing like 5 or 10 years and put some what ifs in there. What if they had not received consulting advice that kind of led to a bloated structure and equipment purchases that were shiny objects and not necessary means of production.

What if they were monitoring their EBITDA or if they're truly building to sell, monitoring their EBITDA as they go, probably generating more cash flow, potentially investing that cash flow to try and earn yield so that really they have options in another way because they have financial freedom as well.

So, you could kind of rewind it backwards and say we've kind of come to this point based upon decisions made. With a little bit maybe oversight and insight along the way, it could be a very different conversation.

More of a luxury or a decision that's not based on any particular necessity, more so just an option to explore. So, that's an interesting exercise.

David Phelps: So, you said rewind it. So, those are younger career and they're maybe in their 30s. And they're looking to whatever they want to do. Well, this would be a great case study again, to kind of show, well, there's a direction you can go here.

But what are your real goals here? What are you trying to achieve? And I think that's what comes down for everybody.

And we don't know when we're younger, really what our goals are. And particularly if you're a driver, you're a learner. That's what we're about. I'm going to go learn, I want to buy.

And probably I'm guessing with some bias, this doctor took on and agreed and accepted coaching or consulting from those who really had the direction he wanted to go.

So, it was like, “Well, that's a fit here. They want me to do this and let's all go do it.” Well, was it the right thing? No. I mean, was it right or wrong? Can't say that.

I mean, he is where he is and there's nothing to say that this couple's not successful, but what do they really want? Where do they want to go from here?

And that's what you're helping them decide, is playing both sides of it. Pros and cons, pluses and minuses. And saying,

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> “Okay, with more clarity, this is decisions you need to look at before you go and take that next step, whichever it's going to be.”

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