

Is This the Time to Sell or Not? – Brannon
Moncrief: Ep #477



Full Episode Transcript

With Your Host

Dr. David Phelps

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

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. I'm bringing back a previous guest on some of our earlier podcasts. It's Mr. Brannon Moncrief. Brannon is the CEO and founder of the McLerran & Associates Practice Transition Advisory Service. They particularly focus on the sell side, that is for doctors who wish to sell their practice to either DSO organizations or to private practice doctors, doctor-to-doctor transitions.

I think what you'll find is with the many years Brannon has had in the financial marketplace, particularly in dentistry, how much it relates to what we do in Freedom Founders in the real estate marketplace. The capital constraints today, liquidity, interest rates all play into how these transactions go through the models. And I think you'll find this to be applicable to whether or not you're going to sell today, or you're just looking to be a better investor overall. Enjoy and let me know what you think.

Well, Brannon, it's always a pleasure to have you back. Conversations with you are always very insightful at this time in the market, the economy, particularly with our industry dentistry, and the huge opportunities that many of our colleagues, have taken advantage of or many are looking at transitions, right?

And there's so many ways to go about a transition. What'd be wise for someone in their career path, what their goals are, so many elements.

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

You've been in this industry for 20 years, and I think 13 years now as the head principal at McLerran & Associates, correct?

Brannon Moncrief: Yes, sir.

David Phelps: And I was just remarking as I always do before I do a conversation or a podcast with somebody like you, I like to go to the website and just see if there's anything new.

And I was just remarking to you how built out your team is. And I think maybe that's where I want to start with. You told me just a minute ago that last 18 months you've doubled. So obviously that tells me that you're busy, you have plenty of, quote, "work" to do, which in your case, just so people are clear, you are what we refer to in the industry as a sell-side advisor, meaning that you work with practice owners who wish to sell, correct?

Brannon Moncrief: That's correct. Yep. We're on the sell side all day, every day.

David Phelps: So I'm just curious in all your years in the industry and in the finance markets, have you ever been part of the buyer's representative?

Brannon Moncrief: Never been on the buy side except for when I was a dental lender. We were lending money to buyers of practices.

So I guess you could say for the first decade of my career, I was on the buy side, providing financing for doctors to inquire, start, and expand practices. Since I've been on the sell side, we've remained on the sell side. We don't believe in dual representation. We think that's basically impossible to do in a fair and equitable way.

But we do have two members of our team, Matt and Jet, that we took from the buy side. So both Matt and Jet were on the buy side for private equity-backed DSOs. So they know all the tricks of the trade on that side of the

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

table. And yes, we invited them to join our team and come sit on the cell side of the table.

David Phelps: Well, very, very smart because yes, as better than anybody to have the bench perspective that you and your team bring to the table. It's so important. None of us can know everything about what we do. You've got to bring people in that can look at the different perspectives and vantages of the potential deal or transition or transaction that's going to potentially happen.

So I think that's very, very wise. Also, I just want to make a plug for your website because you have a lot of great resources and a lot of great podcasts like this one as you have done in the past where you've had different people go down different avenues of what does this look like, and how would I go about—I'm a dentist, even thinking about this. Let's start with looking back the last—maybe it's a half a dozen years or so, you tell me, but that seems like that's when private equity really started to ramp in to our industry in a big way. It's been around for many years. And product equity goes back to the eighties.

But as far as our industry, dentistry, seems to me that it really started migrating in more heavily about six years ago or so. And to that point, that's why you're so busy today because it's still a big player in the market for transitions. What's changed, let's just take the last 12 months.

I know what's changed, you do too, in terms of the economy and interest rates, cost of capital, but weave that into make it in terms of layman's terms or for us or anybody who's like non-economic, what does it mean for what you see the marketplace to be today? How's it changed?

Brannon Moncrief: Yeah. So the market's changed in two ways. I'll get to the past 12, 18 months and what's happened in that period of time because there's been major shifts from a macroeconomic perspective that have impacted private equity and therefore impacted DSOs and really any private

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

equity-backed company, whether it's in dentistry or the million other small business verticals that private equity is rolling up, but you're right in the sense that really private equity-backed DSO activity has caught fire in the past 5 or 6 years, and the consolidation of the dental industry has really sped up during that time frame.

DSOs, though, have been around for 20, 30 years, but this evolution of DSOs over the past 5 or 6 years are very different than DSO version 1.0. DSO version 1.0 back in the 2000s, 2010s, mainly a de novo startup model, many of which were privately funded or private equity backed. It was really kind of a clinic-style model, dock in the box, didn't allow the doctors, the staff to have a lot of clinical or operational autonomy, and they had their own culture that they built from the ground up.

Those DSOs in large part did not acquire practices. It is version 2.0 of DSOs that's really come to evolution over the past five to seven years, totally different animal. Institutional capital back, private equity family office back, but focusing on acquiring practices rather than the de novo model, partnering with great clinicians, great practices, and supporting them behind the veil. They don't rebrand the practice, it's not patient-facing, they allow the doctor to really maintain pure clinical autonomy, and a lot of operational autonomy. And they simply leverage their economies of skill behind the scenes to make the practices run more efficiently from a financial perspective.

So that's been a marked change, and one of the reasons that we're so busy is DSO version 2.0 is a much more palatable transition option for practice owners than DSO version 1.0 was. So for that reason, because there's so many large multi-doc, multi-million revenue practices now, and that's been somewhat of a new phenomenon over the past decade that are looking to go to market, the valuations and the demand from private buyers isn't there for those size practices.

Whereas, once you cross about 2 million dollars in revenue, the DSO private equity valuation starts to run away from the private buyer valuation

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

substantially, and demand in the DSO world explodes. So, that's one of the reasons we've seen so much sell-side activity over the past few years, and it's certainly, ramped up over the past 24 months.

So, back to your question. Let's talk about what's happened over the past 12 months. Coming out of COVID, practice valuations increased pretty dramatically. One to two turns of EBITDA. Those DSOs that were already in the space doubled down and started acquiring practices at an even faster clip at higher valuations.

David Phelps: Can I ask you why? I think I know the answer, but why?

Brannon Moncrief: For two reasons, simple economics, supply and demand, right? A relatively steady supply of sellers, combined with an exponential increase in demand, driven by the fact that private equity was arguably, dentistry, was arguably the hottest vertical in the private equity world going into COVID.

When dentistry proved once again to be recession-proof, and now pandemic-proof, those private equity firms that didn't currently have a DSO investment, they made an investment, bought a platform, and started building a DSO. So the number of DSOs has tripled post-COVID because there's been more and more billions of private equity dollars flow into our space.

So, an increase in demand caused an increase in valuations. Also, those DSOs that were already in the game, that were maybe mid recap cycle as COVID hit, many of them got put on the sidelines for 6 to 12 months with their lenders. Their lenders wanted to see how dentistry was going to weather the pandemic and how it was going to rebound.

They needed six months of financials to prove out that dentistry was going to remain a safe place to put their money. So when DSOs are looking to recap in a three to five-year window, if you have to hit pause from an

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

acquisition perspective for six to twelve months, you have to play catch up once you get the green light.

So you had a lot more DSOs come to fruition, a lot more private equity pour into the space, and then you had those DSOs that were put on pause from buying practices during COVID finally get the green light from their lenders. They had to grow at an even faster clip than they did pre-COVID to catch up and stay on that three to five-year recap cycle window.

So as a result of a massive increase in demand, valuations went up a turn to two turns of EBITDA. And DSOs started buying practices at an exponentially higher clip at higher valuations. Well, a couple of things happened in those two years post-COVID. Some DSOs overpaid for practices. Some DSOs weren't very discerning regarding the quality of the assets that they purchased.

And then some DSOs didn't actually integrate and operate the practices that they were buying because they were buying them so quickly. So over the past 12 months, various DSOs have had to go on pause from an acquisition standpoint for the reasons that I just described. They're either over-levered to some degree and their banks have pulled back on their funding, or they're over their skis operationally and they need their infrastructure to catch up with their growth.

So for one or both of those reasons, many of the DSOs are on pause. And also because of the fact that the capital markets have been very tight, it's been difficult to hit a recapitalization event over the past 12 to 18 months at even a multiples that are congruent with the expectations that the private equity sponsors were hoping to hit by investing in that DSO, those recaps have been put on pause.

And a lot of those DSOs have decided, "Hey, we're going to focus on organic growth. We're going to pull back. We're not going to acquire practices until

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

the capital markets ease, interest rates cool off, and we're able to take on a new financial sponsor and get a new line of credit with our banks.”

And I think you're going to see in probably Q4 of this year, Q1 of next year, quite a few recap events as the capital markets hopefully start to ease a bit. And potentially, we get past this election cycle and interest rates, they might cool off a little bit. Look, a lot of people, I think, have been waiting for interest rates to completely reverse course and go back to zero, essentially.

But I think you and I would probably agree that I don't expect that to happen, and what we're currently dealing with is an adjustment to the new norm. Interest rates are very much in a normal range at the moment, historically speaking, but private equity got spoiled for about a decade, where they were operating with ideal macroeconomic conditions, historically low-interest rates, very loose capital markets, unfettered access to leverage at low rates, that is an ideal environment for them to operate in, and the game has changed over the past 18 months, and as a result, the private equity sponsors are going to have to readjust their expectations as to what their returns are going to look like at recap.

A 7x return on invested capital is off the table at the moment, but there still is the ability to generate a 2-4x return on invested capital. Still an amazing return over a 4-6-year window, but private equity has not yet come to terms, I think, with the new norm.

David Phelps: You said so much. You said so well, and just from our camaraderie and the conversations we've had over the last several years, I could have you doing this same scenario for my real estate investors because it's exactly the same situation because the capital markets drive everything.

And in real estate has had the same advantage that private equity and in the DSO arenas had low cost of capital, the ability to use the financial arbitrage and consolidate and build. And but also correlate, yes, much on pause, the

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

syndicators in our world, which would be the DSO market in your world or the dental world, same thing.

They've had the luxury of being able to turn the money relatively quickly and get to hit those recaps. Now, we're seeing the same thing in real estate. Well, there's a pause. We're not going to see those recaps or those sales as quickly until, or if, the interest rate situation mitigates a little bit.

You also made a great point in that we're in a very, quote, "normal" interest rate environment if we go back 30 years. Quite normal. However, we both know in any asset class that's taking advantage of the low-cost capital and the huge amount of liquidity in the markets, that's driven the asset prices up.

And as you said, there's operators in the DSO world, there's operators in real estate that way overpaid and they're paying the price and they're over levered and they're paying the price, at least going on pause, if not worse. So let's take all this. And is this still a good time for a doc who's thinking about selling, should they like wait and see what happens? Or is there a reason to like to go ahead and take, start, take a look at it? How are you advising your clients today that are reaching out to you to get your advice?

Brannon Moncrief: It's a great question. So because of what I just described, most people would believe that valuations have cooled off and probably come back to their pre-COVID levels.

But the reality is we actually haven't seen that happen. While a third of the DSOs are on the sidelines, they have been replaced by younger emerging DSOs. You know that 3 to 10 location practice owner that has 2, 3,000,000 dollars in EBITDA that recently took on private equity capital, and still has plenty of cash and plenty of access to leverage, albeit at a higher rate to continue buying practices.

So those smaller emerging DSOs have kind of stepped up and filled the void that some of these DSOs that are either over-levered or over their skis

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

operationally have left in the marketplace. And as a result for, you know, quality, class-A assets, the demand's still there, and the valuations have remained pretty steady.

So if you are considering going to market in the next 6 to 12 months, the buyers are there and the valuations are there if you have a strong business. What I will say though is that all DSOs still talk as if they're healthy and they're buying. And the reality is we know who isn't buying and who is buying, so diligence is critical in this environment.

Making sure that you're looking under the hood and doing some diligence on the buyers at the table to figure out, do they actually have the money available to close your deal and are they positioned for long-term sustainability and success. And that's a big part of what we do as sell-side advisors, constantly vetting buyers.

We have a person in our office that that's really all he does all day long is investigate buyers, onboarding new buyers, talking with buyers that we know well, trying to figure out any point in the day, the week, the month, or the year, who's who in the zoo, who's hot, who's not, who has capital, who can perform, and who do we believe is going to be successful long term.

All of these deals are going to have some sort of equity component to them. And if done right, the second bite of the apple could be as big or bigger than the first. So many people get caught up on focusing on the EBITDA multiple or the initial valuation, but fit, deal structure, and the sustainability long-term of that buyer and the ability to get to that recap event at a good return is as important or more important than the initial transaction at close?

David Phelps: Totally agree. You're right. The diligence in knowing who's a real player and not just probably stringing people on. I'm sure that you've seen that happen where someone's engaged with potential buyer and they get strung out when that buyer's just trying to hold on, and see if there's ever a time when they can close the deal.

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

And then the poor doc who thought they were going to have a sale wasted a lot of time and energy and nothing goes to fruition. So that is exactly why it's so important to have somebody in a team that has their finger on the pulse of the markets from all the vantage points that you have to assess whether or not there's a good fit.

Speaking of fit and alignment, and again, I'm speaking to someone who's seen this over and over again, but as many horror stories are probably many more than I've heard, maybe not horror stories, but what I've heard anecdotally through the grapevine of docs I speak with, and it's not even just dentistry. It's in other fields of healthcare, which where PE is also been working a number of years is docs without the help of good advisement, well, get into a deal. They don't understand the constructs of the deal, right? I mean, 'cause it's complicated. It is complicated. And then the aftereffect is they're not making the money they made as a hundred percent primary owner because that's always been because they've taken ships off the table and they're sitting there going, "Well, I got a chunk of capital out."

That's another problem. What do I do with that? And then they're sitting with a much lower compensation level and not feeling good about that. That happens quite often, unfortunately, because they did not get good advising on the front end to figure out what their goals are and what the models can look like after the sale. Correct?

Brannon Moncrief: Yeah, absolutely. And that's a big part of what we do pre-market before we ever go to market and start entertaining interest from DSOs is model out economically. Now, what is your EBITDA? What do we think the practice will trade for if and when we go to market? What are the different deal structures available in the marketplace?

And how does the economics play out not only just at close but also annually after close and then cumulatively, typically over a five-year window? And if you're gonna sell a significant piece of your business, typically a majority share, you're gonna take a significant hit in your annual personal income. So

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

you've gotta think about: what is my annual burn rate right from a personal living expense needs perspective? What is my cash at closing? What is my ongoing annual compensation going to look like, right? Am I just in an eat-what-you-kill environment now? I'm a W2 employee, pay 30% of my chair side collections, and really that's it.

Or am I in a joint venture structure where I'm going to continue to get a piece of the EBITDA? If so, what is that EBITDA going to be burdened by from a management fee debt perspective? Looking at how does that compare to your personal living expense needs, are you going to be able to live off your annual income post affiliation, or are you going to have to start dipping into that nest egg every month or every year, and therefore that nest egg that you put away at close. And then how's that going to impact the global economics? So that's a big consideration. And then also just thinking about the why, right? What were you looking to accomplish? What was the goal in affiliating with the DSO? And assuring that you clearly define that before you go to market, you control that narrative when you're on market, and you attract the type of buyer that's in a position to help you accomplish those goals.

And if you only talk to one DSO, high probability you're going to sell to the wrong DSO because they're all different. Every doctor has a little bit different why. And you really need to be doing some soul-searching before you go to market to clearly define your goals.

And that's going to dictate who you should allow to sit at the table and bid on your practice and who you ultimately sell to. So it's a balance of economics, right? Everybody cares about the initial valuation, the EBITDA multiple, the EBITDA, the total valuation, the cash at close, autonomy, professional happiness.

Are you, your associates, your staff, your patients going to be happy post-sale and long-term fit, cultural fit, yield structure fit, how does it align with your goals? So we're always looking at economics and fit and autonomy and

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

trying to balance those buckets to help our clients find the right buyer if it makes sense for them to go down the DSO path.

And I'm not going to pretend like the DSO affiliation or private equity partnership is a magic bullet and it's a one-size-fits-all all. If you've got a practice doing over 2 million, this is the route you should go down. It's a very personal decision and it should not be taken lightly. You shouldn't just have a bad day and pick up the phone and call a DSO because you got a mailer or your buddy sold to a particular DSO and introduces you and therefore you think that DSO is the right fit for you.

You've got to take a very pragmatic approach to looking at this option and getting educated before you ever start a discussion with a buyer.

David Phelps: Brannon, what's the ratio? We've been talking about DSO sales, but obviously, you also do doctor-to-doctor sales, which we're not going to touch on this like here, but you do that. What's the ratio today? If you could throw out a number.

Brannon Moncrief: It's about 50 50 and I don't know that's representative of the entire marketplace. That's what our business sees. And that's because we are very, very involved in the DSO and private equity space, but yeah, we're still selling more than 50 practices a year to private buyers.

That option is there and will always be there. While some people try to convince you that young doctors are not looking to pursue ownership, that's not true. We have plenty of wealth-qualified private buyers. There's plenty of lenders that will lend them money. That will always be an option. But when you build a larger group practice, multi-million dollar revenue, multi-doctor practice, it is harder or more complicated to sell your practice to a private buyer when you've built that kind of animal as opposed to DSO's private equity salivates for that type of practice and they're willing to pay much higher valuations than a private buyer is willing or able to pay.

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

David Phelps: So, Brannon, for doctors who are listening to us today and been thinking about it, about a potential sale, they got the card in the mail from the DSO. They're listening to this today. Just give us a little bit of a glimpse into what it looks like to reach out to you, your team, what's involved in the initial steps, what do they need to have prepared.

I'm curious also when does their spouse, if they care to— which I think is probably a good idea—before I sell, I talk to my wife. Just give us a little bit of how that works and what they need to prepare to do to a certain point before you go even deep.

Brannon Moncrief: Yeah, so we always start with just a casual, confidential discovery call.

An initial call just to get to know each other, tell me a little bit about your practice, how many ops, annual revenue, number of doctors, location, and then tell me a little bit about you, right? What is your runway to retirement or exiting the business look like? What are your goals?

Where do you see yourself in five years? And we'll talk a little about how those goals align with what's available in the marketplace today. And if it makes sense at that point, then we'll do a deep dive evaluation, quantify EBITDA, quantify a multiple, and educate the doctor about the different deal structures, the different options available in the marketplace.

And we do all of that as a standalone engagement. And then, only if it makes sense to pursue a DSO affiliation or private equity partnership, and now is the right time, do we sign a listing agreement and take the practice to market, create that competitive environment to create as much optionality as possible to narrow in on fit, as well as to create as much leverage as possible to negotiate the most favorable economic outcome.

So discovery call, even analysis valuation, and then develop a go-to-market strategy if and when it's the right time to take the practice to market.

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

David Phelps: So how much risk is there to me as someone who's just wanting to look at this and see what it might look like, no matter what my age is, what my practice looks like?

I know just looking at your team, you've got a tremendous infrastructure in place. Can't do everything for free for very long, discovery call, obviously, you take them down a certain road to a point where you set a listing agreement, obviously, that's where you come to play. And that's assuming a transaction gets completed, which is the goal.

Hopefully, at that point, that's when you get paid and you get to pay for your overhead and keep your business going. Is there any place along the line where what's my commitment look like? And I'm speaking from your standpoint, not just the data because I understand the business model as well. What's that look like?

How do you make sure you've got a client who's—you do a lot of work for somebody and then they, “Yeah, I pulled out and I decided I want to do it.” That's how it happens sometimes. I don't know.

Brannon Moncrief: Our only upfront fee is typically 2,500 dollars to do evaluation, to do a deep dive, to quantify the economics, and really to educate the doctor.

And we spend, I would say, about 20 hours on each engagement. When we're doing evaluation, we've got a CPA on staff. We've got financial analysts on staff. So 2,500 dollars is a loss leader for me. And that's really just to show that somebody serious about learning about this option and potentially, maybe not now, but someday looking to take their practice to market.

So that 2,500-dollar fee is only paid once. So if we go through the evaluation process, we decide now's not the right time, but in two years, I want to take my practice to market and I want to try to reverse engineer my economic outcome. At that point where we've got to know them intimately and done

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

Is This the Time to Sell or Not? – Brannon Moncrief: Ep #477

evaluation, we can then serve as an advisor to them along the way as they groom their practice to take it to market.

And then when we update the valuation before we go to market, we don't charge to update it. So we only charge that valuation fee once. It's a 2,500-dollar stand-alone commitment. And then when we're ready to take the practice to market, that's when we sign a listing agreement that outlines our commission. So if and when we consummate a sale, we get paid when our client gets paid.

David Phelps: Well, that's extremely fair from my standpoint, extremely fair. Brannon, it's always a pleasure to have you. Thanks. You always bring the state of the market to us real time. And, that's what our listeners like to hear. So we appreciate, we'll have you back again because as the market changes and folds, we'll want to hear back from you.

Brannon Moncrief: Absolutely. Thanks for having me, David.

David Phelps: You can reach Brannon Moncrief at brannon@dentaltransitions.com. And the website is dentaltransitions.com.

You've been listening to the Dentist Freedom Blueprint Podcast. If you're tired of trading time for dollars and you want to create more freedom in your life, I encourage you to visit my week blog, freedomfounders.com/blog. I post weekly hard-hitting videos about creating more freedom in your life. Check out my latest book on Amazon, *What's Your Next?: The Blueprint for Creating Your Freedom Lifestyle*, or visit freedomfounders.com to learn more about how we help high income earners create the freedom to buy back their time and create more impact.

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