An Argument For DSOs: Compliance, Consolidation & the Future of Dental Practice - Brian Colao: Ep #572

Brian Colao (00:00)

And you really got to do your diligence on these things. It's tough because they didn't teach you this in dental school. You didn't go to school for this. And I can tell you there's enough DSOs out there that most folks will find something that's a fit for them. They really will. But you don't want to misfit it. Even if you got fair value, you go from your own practice to now being unhappy to go to work every day.

Dr. David Phelps (00:21)

Decades ago, I hustled to grow my dental practice and real estate empire. Society patted me on the back and every new deal and patient reinforced the success they said I had. Then my daughter Jenna was diagnosed with leukemia. Nine years, several intense chemo treatments and years of epileptic seizures, my daughter was given one more miracle, a life-saving liver transplant. In that hospital, I realized I wasn't successful. I had money, I had real estate assets and a business, but the only thing that mattered was time with my daughter.

In that hospital room, I decided to sell my business, leave active income and sustain my lifestyle with my real estate assets. Now, Jenna is healthy and all grown up and me, I am teaching others to do what I did. And I continue to uncover the principles, strategies and lessons we can apply in business and investing to create ultimate freedom for what matters most to each of us.

Welcome to the Freedom Founders podcast.

Today's guest is Brian Kaleo, Director of the Document DSO Industry Group and a key figure in the legal and structural evolution of DSOs across the US and globally. Brian has worked with over 780 dental organizations and has been instrumental in creating the legal frameworks that define compliance in the DSO space. this episode, we'll talk about who has the advantage and who is bearing more risk in today's DSO landscape, what mistakes to avoid before selling your practice, and how to know if you're a good fit for the DSO model.

A new graduate with debt or mid-career doc feeling the burnout, this conversation will reshape how you think about your future in dentistry. Join me now with Brian Kaleo. Well, Brian, so good to have you this afternoon. I've been looking forward to having this conversation with you. You are really in my mind and I think ■

many in the dental industry who know you, but you are really a forefather of the DSO private equity movement in dentistry. Now private equity has been around for decades, but obviously involvement in healthcare, dentistry, and many other areas started a few decades ago. And you were right there in the forefront. I think it'd be interesting for our listeners to understand a little bit about how you stepped into the arena. And really, I think we're on the forefront, as I said, of setting some of the compliance regulations that were.

Obviously not established at all back in the day and this comes out like the early 2000s with Ortho Alliance and Ortho Centers of America, right? There was a lawsuit involved in that. Do you want to get just a little bit of the background there and how you got engaged in that?

Brian Colao (02:47)

Well, yeah, David, thanks for having me. It's a pleasure to be here. Those very kind words you were saying, I think were a real nice way of saying you're old. You you've been there at the very beginning. All this I am in year 31 and you were very charitable when you said like the thousands. It was more like the mid 90s that I was involved in some of this stuff. But yeah, you know, the joke that I make, you know, that's still funny to this day is nobody goes to law school to be the dental guy. Like it's not what you're thinking about.

when you enter law school. But, you know, I've loved it. I've loved every second of it. And that's exactly, you know, sort of what happened to me. So then you get to your question. Why did you become the dental guy? Like, how did all this happen? in my case, I was the new guy, had a law firm around 1996 or seven, something like that. And some orthodontist came in with significant issues about evaluating their legal rights under the very first version of DSOs. It was like you say,

orthodontic centers of America, Orth Alliance, one of them was New Image, Apple Orthodontics were another one. There were four or five companies, a lot of them ended up merging altogether, nobody had really reviewed this area of the law. No, but even the courts, mean, first of all, not really any attorneys did and there were no cases on it. So there were no courts that had evaluated, you know, what does it mean to commit the corporate practice of dentistry? What is illegal fee splitting? What

Is a compliant management agreement look like? What does a non-compliant management agreement look like? And I was faced with evaluating and answering all those questions and

coming up with ways for DSOs to operate in a regulatory compliant manner and what is compliant and what's not. And we ended up arguing over a period of years from the mid 90s until the mid 2000s to various courts throughout the United States as to what is legal, what's not legal.

what would be allowed. And not only did the cases that I handle make the law in that area, those cases have all been published and that is the law. But also it set the stage for me to develop the industry standard diligence guidelines for how you conduct diligence, how you figure out if something's compliant, if it's not compliant, what are the workarounds, how do you correct deficiencies. There's a whole area of diligence that developed around all of this.

Dr. David Phelps (05:10)

So today in your profession and who you serve, you serve anybody that has any needs in terms of dealing with this environment, whether it be a DSO or a dentist or a dentist group, do you work on both sides and help them navigate? Where do you stand today? Because you represented, I guess, both sides, right?

Brian Colao (05:29)

It's ■ somebody that started on the prosecution side and went to the defense side. You know, it's very common that, you know, if you have a long career, you'll end up on both ends. A lot of the great defense attorneys in criminal law started off as prosecutors. you know, so that's very common in the law. For me, I represent primarily DSOs, you know, now. You know, I will represent individual dentists and practices as long as they're not taking positions against DSOs. Because I've devoted my whole career at this point to

going forward to creating regulatory compliant DSO models. I represent my group, 72 lawyers works for me. So me and my group, we represent over 780 dental organizations in all 50 states, six Canadian provinces, Europe, Japan, and Australia. So, the days of me, somehow being against DSOs, that's over with. That's like I used to be in the prosecutor's office. Now I'm in the defense attorney's office or something.

It was really important because nobody had seen any of this before. And the DSO industry wasn't very large back then. And somebody had to step out and establish the law in this area and create the guardrails for how you conduct business. And I think the industry recognized that because the rest of the story is when those cases were over with, a lot of private equity groups and DSOs started calling me or like

startup DSOs that had funding that wanted to be big started calling me and saying, hey, you seem to be the only person that really knows what's compliant, what's not and how to do this. You know, is there a legal way to do this? And I said to everybody that asked me back then, yeah, I mean, you those particular some of the people in those cases didn't follow the rules, but there is a way to do this. And I know how to do it. And of course, I'd be happy to help. And then my phone started ringing off the hook. So starting around

the mid 2000s, I began creating regulatory compliant DSOs throughout the United States. And I've, you know, sort of continued doing that. And it's ironic just in your career. Now I defend DSOs if somebody says a DSO is doing something wrong, you know, for probably at least since

mid 2000. So for at least 20 something years, I've been defending DSOs. you know, look, oftentimes they're wrongly accused and everything's right.

Sometimes if there's something wrong, I'll fix it. That's my job to say, you know, if something's not compliant, we'll correct it. we defend here, my group, know, DSOs and all manner of regulatory investigations, litigation, any problem that could occur in a DSO or a large group practice, you know, where that's what we do. That's what our group does. And we fix those things or help in those instances.

Dr. David Phelps (08:12)

Brian, are the regulations, are they nuanced state by state by state statutes? mean, so there's.

Brian Colao (08:19)

There's

no federal, like if you're like, yes, I that question, what you're asking all the time. Is there an overriding federal regulation? No, I mean, it might be easier if there was, but there's not. This has specifically been left to the states. A lot of cases have come up where people have even suggested like, you know, the Supreme Court or somebody should make a national rule and every single time they've said, this is an area of the law, know, healthcare that is specifically left to the states unless Congress decides to pass a law like.

Like everybody's got to follow HIPAA or OSHA. Everybody's got to follow OSHA. But when it comes to the corporate practice of dentistry and fee splitting, there are a few states that are lenient that will actually allow non-dentists to own dental practices. And that's okay. The Supreme Court said, we're going to leave it to the states. I think it's like four states. If those individual four states want to do it that way, they can. But if it's a problem for these other states, we're going to let them do their own laws. So where we are is approximately

46 of the states will not let non-dennis owner control dental practices. Four of them will, but of course in no state can unlicensed people actually do clinical stuff. And that's all 50 states. You have to have a license to be able to practice dentistry.

Dr. David Phelps (09:34)

So let's take a macro view of where we are in the industry and the consolidation today. Again, you got 30 years of watching the trends. What do you anticipate? If you have with your crystal ball, how much more consolidation will there be? Will there still be sectors of private practice niches left? What do you see if we look out five, seven years from now? What do you anticipate the best of your ability?

Brian Colao (09:57)

Yeah, know what I've what I was saying before sort of the great M &A drought that started in 2022 when we hit our record year of 2021, I said, look, 10 years from now, 10, 12 years from now, it's going to be 80 % DSOs. And it's been it's about 30 % now. You know, I said that and around, you know, it was 28, 29%, you know, when I said those things in 2021. But the interest

rate environment

has made it difficult to close as many transactions as we historically did. So it's kind of slowed down considerably from 2022 to the present. The interest rates are going down. The chairman of the Fed is going to leave office. They're probably going to put some money in that's more favorable on lowering interest rates. So I feel like 26 will be a much better environment. So if you're asking me, which I often do get asked now, it's about 30%. What do you see? I think

15 years from now, we probably will be 75 to 80 % DSOs. I've expanded the timeframe a little bit. We were going at such a heck of a clip in 2017, 18, 19, after COVID, the end of 20, all of 21. We were going in such a, I thought if that pace continued, gosh, it's gonna be about 10 years and we're gonna do it, but that pace has not continued. It slowed considerably. I think it will fire back up again.

in the near future, but it's we're not going to hit that pace of 2021. Money's not free anymore. You know, so, you know, I'm given like a 15 year forecast right now. You know, I think your question was five to seven. know, if it's 30 percent, five to seven years, maybe it's 40, 50, you know, 50 percent ish, something like that. And if we go out to 15 years, maybe we're going to end up 75 to 80 percent is my best forecast right now.

Dr. David Phelps (11:49)

We both know that there are people that take both sides of the pendulum or both sides of it. You some people like DSO is bad, bad for healthcare, bad for dentistry. And there's other people say, well, it fills a void, you know, in a free marketplace, there's going to be, there's a void to be filled. And certainly we know that in overall healthcare costs in general, we had, you know, Obamacare came out, can paint that however you want to, but there's been a healthcare crisis. Insurance drives, certainly dentistry and much of healthcare, the reimbursements to the

providers, practitioners. So the ability for a solo or small group to be profitable in today's environment, particularly with higher wages, higher overhead costs, compression with reimbursements, it's difficult. Not impossible, but it's difficult for the average practitioner who back when I came out of school could pretty much open up, put a shingle up. And if you were decent and ethical, you're going to be all right. Today, it's a different ball game.

So that's obviously a big part of why the consolidation is happening because you leverage the efficiencies of a capital-based organization, right? You want to jump in and...

Brian Colao (12:57)

Yeah, I think it's become even more difficult, right? What you're saying is what I used to say, and it still applies. Everything you're saying still applies. But what you're saying was sort of what I would tell people in 2018, 2019, 2020, 2021. What I tell them now is it's gotten worse, right? What I used to say is, look,

The average debt coming out of dental schools quarter million plus dollars. You know the prices you pay you don't get the volume if you were a solo practitioner you don't get the volume discounts at DSOs do you're not trained in business. They're trained in negotiating reimbursement rates. They're trained in negotiating.

supplies and equipment and volume based discounts. They're trained in HR. They're trained in negotiating with landlords and leases and, you know, various other site selection and, you know, other type things of labor employment regulations. But it's gotten so much worse because since then, we've had the great lockdown and COVID and everything else and the great inflation. And post 2022, everything that I just said applies plus on top of it.

The cost of labor is the highest it's ever been in the history of the industry because of the great resignation and so many people left to get hygienists, to get assistance, to get front desk people, even associates. The cost of labor is the highest it's ever been, number one. Number two, the cost of supplies and goods went up first because of inflation, second because of tariffs and trade wars. So it's the cost of supplies and goods is almost

the highest it's ever been due to inflation. The cost of just basic utilities and other expenses of running your business have all gone up. So you've got expenses the highest they've been probably in the history of the industry. But yet reimbursement rates, as you pointed out, have remained flat or only gone up a tiny amount. So dentistry now lives in an unnatural state. I always use the plumber. You call your plumber, David, you know, your pipes are leaking. Hey, can you come fix my pipe?

He's gonna say, yeah, David, I'm happy to come out, but know, fuel costs went up. I gotta hit you with a $25 surcharge to come to your house. You know, I'm still gonna come, I'll do it, but you know, it's fuel, I gotta go out there. And you're gonna say, all right, you know, that sucks, but I need my pipes fixed, so come on out and you know, here's your $25 and let's go do it. Dentistry is an unnatural state. We can't do that. We can't say, hey, our cost of labor went up, our cost of supplies and goods, our rent went up, our utilities went up, gas went up. So guess what?

all you patients, now you've got a $25 surcharge. We can't do that. So we live in an unnatural state. So the only way to navigate this unnatural condition is you've got to do a top to bottom analysis of the organization and you've got to promote same store growth. You've got to either do, you got to bring in more patients.

You got to do more with your existing patients or do the top bottom analysis and cut all unnecessary expenses and promote operational efficiencies to lower your overhead. And if you can do those things, you can still compete fairly well, even in these challenge conditions. If you can't do that, we're going to struggle and no disrespect to any of the solo practitioners that are listening. I like them all, but

They may not be equipped. You when I teach now in the dental schools, what I ask on my business of dentistry classes, how much training have you got on negotiating with landlords? Like, How many of its training have you got on ordering supplies and equipment? None. How much training you got on labor and employment lawyers, a law and how you hire people, how you fire people, how you, you know, discipline people and do HR like not.

You know what type of training you got on site selection for opening up offices or what? You know, none. We just go down the list. So the DSOs have trained business people that are trained in all of those areas. So the DSO model makes the most sense as it's ever done in the history of the industry with these extremely challenging conditions that we're in right now. So I think where we are right now, this unnatural state where you've got to.

you know, squeeze as much same store growth as you possibly can, and you've got to make the organization as efficient as humanly possible, really fall, you know, promotes the DSO model, falls in favor of the DSO model. Now, I'm not saying that solo practitioners can't be successful. They can, and there will always be a place for them. But I think if you're a dental student coming out of dental school, or even if you're a practitioner and you've done this for 25 years and you're in your 50s,

and you're like, I'm a little tired, how do I compete in this environment? The DSO model becomes very, very appealing for both of those groups.

Dr. David Phelps (17:37)

Yeah, well, that's where I was gonna go next is kind of the profile of those dentists who would fit well today into a DSO model. We already mentioned the younger graduates who come out of school with immense amounts of debt today. Back when I graduated, it was very reasonable to go out and get full funding for a practice to start up today with that kind of debt, the banks are gonna make those loans. So that's one sector, but let's talk about doctors who have been in practice for a while and particularly.

As you said, after COVID, with the great resignation and just everything that people went through, there were a lot of doctors who just, they were in their latter part of their career anyway, said, I'm out, I'm done, I'm not coming back. This COVID thing wore me out. So if they had the right profile of a practice, and that's something we don't have to go into today, but I know there's a profile, then that would be potentially a good way for them to go. A lot of them just said, I'm exhausted, right? I'm just done, somebody come and save me.

Brian Colao (18:26)

get relieved, right? Why are they exhausted, right? Typically, it's not if I said, you know, David, you got to treat patients from nine to five or eight to three or something. You know, that's normal work. you're probably right, you're not going to tell me, my God, I'm exhausted. I just can't do that. So why are you exhausted? You're exhausted because you're you got to negotiate with the lamb. You've got to

be HR with all your employees. You got to fight with the hygienists over what they want to get paid or not get paid. You got to fight with the other staff members over what are they happy? Do they need raises? What's going to happen? Or somebody's maybe behaving improperly. got to now you got home at five, you got to fire that person. That's the whole evening. You got to go get you got to do the accounting. If there's legal compliance, you got to be in charge of all that stuff. And there's no time to play golf.

and you're exhausted and it's a miserable experience and maybe I'm just getting your 55, your 58, your 57. Well, there's an answer. You can affiliate with a DSO and on day one, the DSO says, yeah, we got the landlord, don't worry. We got the supplies and equipment, we're handling all that. We got the employees. Now all the non-clinical employees are our employees and even though you're employing the clinical, we got HR. If there's any issues, turn it over to us.

in consultation with you will handle the whole thing will get your approval. But if we got to hire somebody, we got to fire somebody, we got to discipline somebody, we're handling all that the

accounting we got it, you know, there's some law or some nonsense dental board complaint, we got it, we got legal lined up, we got all this for you. And I've had a lot of clients that and friends that sold into DSOs recently, and they're in their late, these are early 60s or early 50s. And they're saying Brian.

You know, my God, I'm doing half the amount of work and that's all they want me to do. They want me just to treat patients. They don't want me doing this other stuff. I'm trained to do it. I'm doing a better job, by the way, because I never had time to look at the clinical schedule. just

Dr. David Phelps (20:19)

That's the thing to do.

Brian Colao (20:26)

We just did it because we always did it. We always did it this way. So we did it. And I because I had time, I started to say, but why did we always do it this way? And people will like, I don't know. And I'd say, well, that's not the right way to do it. I'm going to change this around. And all of a sudden, they're more efficient. They're squeezing more patients in. It's better quality of care, higher, better experience for the patient. And then they're like,

at four o'clock I'm golfing or five o'clock I'm golfing or on the weekend when I had to sit with the accountant or sit with the lawyer or do something else, I'm golfing that whole time or I'm with my wife or with my grandkids or whatever the case may be. And I love it. They tell me, I absolutely love it because the DSO has taken over all the non-clinical stuff that I hated, all the administrative stuff. They're doing all of it.

I don't mess with any of it. I just treat patients and it's more enjoyable for me. like, you know, hypothetically now that I'm 57, you know, I'll probably practice till I'm 65 or maybe later. And I like this. My next eight years is kind of like nine to five. And I just kind of go about my business. So it really works for people like that. It works for people right out of dental school, obviously, you know, cause they've got big debt and they just want a lot of DSOs have programs where they help you pay back your loan, work there.

They don't have to take out a bank loan on top of their other loans. You know, and you know, that works real well. You know, it works for all other people. It works for dentists that want to start families. I can't tell you the folks that I've talked to, either dental students or young female dentists that come up to me and they say, you know, I just had baby number two and you know, I don't want my skills to deteriorate, but I can't work five days a week. And the DSO told me because they handle everything else. It's not like I have to have my own practice.

I can just come in there two days a week. come Tuesdays and Thursdays and either grandma watches the kids or I've arranged for, you know, a nanny for just Tuesday and Thursday. And I come in and I treat patients all day long and my skills are sharp. I'm not doing, you know, when my kids grow up, I probably gonna go back and do it five days a week. But right now I'm keeping my skills sharp, you know, two days a week. I see that an enormous amount of time where previous to that, I don't know what opportunity there might be for, you know, a young

female dentist that wanted to be at home most of the time with her children, but she can't open up her own practice and just say, gee, we spent all this money. We're only open Tuesdays and

Thursdays. That won't work. She could go maybe to some dentist in the area and say, you know, do you need me a day or two a week? And it might or might not work.

But a lot of DSOs have a shortage of dentists and they'll literally say, tell us the days you can work. Is it Monday and Friday, Tuesday, Thursday, just Wednesday? You tell us the day and we'll plug you in somewhere because we need people five days a week. And it really, really works well. You didn't ask me this, but know, who it doesn't work well with usually are really young, you know, I'd say people in their 30s, early 40s that are super entrepreneurial.

I mean, there's plenty of dentists that are 30 and 40 that have sold to DSOs, but I mean, that are super entrepreneurial and they're like, I don't want anybody else involved in my stuff. I can do it better. I want all the profits to go to me. I don't want the profits to go to anywhere else. And I will say these folks, I represent a lot of them, they're working 80 hour weeks. Now, a lot of them, they love it. That's their whole being. like, we don't mind. You know, I'm 32. I got lots of energy.

I don't mind working 80 hours a week. I'm building something. Okay, yeah, I mean, there are people that absolutely, and you know, probably a DSO is not good for them because they want their own organization. They want 100 % autonomy to do whatever they want. They don't want to share the profits with anybody else. And they're willing to just work their tail off 80 hours a week to make it happen, you know, and nothing wrong with that. I've got plenty of those folks I helped.

You're probably not a good candidate, you know, for a DSO, but it's going to be harder for those guys to compete as the years go on with the conditions. But I have some they love it. That's just their very being. They love building it. And it's not work to them to work 80 hours a week. A few husband and wife teams, they're both dentists and they they, you know, they work with each other and they enjoy, you know, because they're still spending time together at the practice. So it's like you're spending time with your wife, but you're building, you know, the practice they like doing.

And that, you sometimes brothers, family members, you know, that's all great. They're probably not the ones that are going to affiliate with the DSO right away. But for a huge, huge segment of Dennis, think DSOs make a lot of sense,

Dr. David Phelps (25:01)

You spent your career building a profitable practice that actually impacts your community. Now private equity calls, DSO sends shiny offers, and suddenly everyone has an opinion about what you should do next.

If you're dentist thinking about selling, transitioning out, or just trying to figure out what your practice is really worth, you don't need more noise. You need a circle of people who get it. This is why we've built a new private Facebook community for dentists who want straight answers, real comparisons, and the confidence to negotiate from strength, not fear.

No jerks, no sales vultures, just dentists sharing what works, what doesn't, and what to watch out for when the too good to be true offers show up. Inside the new group, you'll get access to tools, field evaluation resources, and conversations with docs who've already been where you are. You're not up against one buyer. You're up against an industry that does this every day. Together, we level that playing field.

If you want support without judgment, clarity without the pressure and a community that protects its own, you belong here. Go to freedomfounders.com slash exit ready dentist to request access to the private Facebook group. Take back the leverage. Don't transition alone. That's freedomfounders.com slash exit ready dentist. In your experience, Brian, are the DSOs in general today pretty good at

Brian Colao (26:27)

you

Dr. David Phelps (26:33)

be discerning, doing their due diligence, their vetting, not just of the practice. Obviously, they look at the practice, see if that practice fits, but as you said, the profile of the seller, the owner who's now selling, who's going to be working back, whatever the terms are, that's a critical piece, and they know it, obviously. But as you said, the dentists themselves, many times they don't know what they don't know because they've never done this before, right? So they hear different things out in the space and they go, well, I can get this big multiple or it's...

It's a dream thing. And as you said, for some people, it's actually absolutely perfect. But I guess my question is, since the dentist typically doesn't know what they don't know, you're not representing them, you're representing the DSO, who does the dentist go to to be profiled? Or is the DSO doing a good job, enough of good job of that to check the box and say, hey, Dr. Jones, love your practice, love who you are, but frankly, I don't think you're ready for this. And here's why. Or is the DSO just kind of think, man, I'd love to have this practice. We just bring this guy in. We can probably win him over.

I'm just curious.

Brian Colao (27:30)

Yeah, those are really good questions. There's like three or four questions in there. They're really good questions. So a couple things. The best DSOs that are performing well now. Yeah, they really had discipline and who they brought into their organization. And they always did that. Like even even during the heyday of 2021 or 18 or 19. They did that. Everybody's getting better at

because some people really, like you said, just brought everybody in, particularly in 2021 when they thought the Biden administration was going to raise the capital gains taxes, you know, like 37 or 39 % from 15%. Everybody, you know, did a lot of deals that maybe they would have back if they could, but, you know, they did and maybe learned some lessons by partnering, you know, with the wrong person. So in 2025,

I think everybody, you the ones that were good at it previously are still good at it. And maybe some folks that weren't the best at it, boy, they got a learning curve and they got real good at it and are, you know, doing a really good job now. But I give a presentation, even though I do represent the DSOs primarily, I give a presentation on picking the right partner, because it helps the industry, the DSOs know that I'm doing this. And they're like, we like this, go go out and tell as many people as you can.

about all these stories and things because it does not help a DSL like you might say, well, Brian, you say this and then somebody doesn't do a deal. Well, if they're not a right fit, it doesn't help anybody like the DSOs are actually happy. If you saved us from somebody that wasn't a right fit. And you know, the things that I talk about, when I say pick the right partner.

And the DSO, the good DSO say the same thing, like, like very similar. I'll give me I'll get up there and say it and they may say it a little differently. But they're saying the right thing. You know, this is what we look for a partner. And this is what you should look for. And if it doesn't fit, you shouldn't do a deal and we shouldn't do a deal. And the things that we look for one, what is the track record in the industry? There's been too much David, you know, during the heyday of this thing of certain folks.

that didn't fundamentally understand the business of dentistry that were still buying DSOs and then trying to keep everything the same and didn't really understand what they bought. know, does the DSO fundamentally understand the business of dentistry? You know, and what is their track record? And what have they done previously is one thing sort of to look at. Another thing to kind of look at is, you know, the management style.

You know, what are you going to have to change your PMS system? You know, or are you going to keep it the same? What changes are they going to make to your operation post closing? A lot of sellers just see the money. They see the LOI, the letter of intent come in and like, wow, you know, nobody's ever given me that much money. I don't care what happens. Just give me that money. No, no, please don't do that. You need to care a lot because some folks that have picked the wrong partner.

have come to me post-closing and said, you know, I'd give all the money back right now if there was a way to get me out of this deal and just give me my practice back. Because it's like when people ask me, it's like a marriage. I mean, not a romantic marriage, but a business marriage. People sometimes ask me at conferences, they'll listen to my presentation and they'll come to me and they'll say things like, who should I affiliate with? And I'll laugh at them a little bit and I'll say, that's like you just asked me who you should marry.

Now, if you were my best friend and I knew you for years or I came up, you know, hung out with you, I said, hey, you're gonna hire me and I'm gonna spend, you know, 50 hours with you. Now, at the end of that, I might be able to say, you know, who you should marry or who you should get in business with. But if I just met you at a conference, it's like you asked me who you should marry. I mean, do you like a lot of management? Do you like hands-off? Do you like micromanagement?

What operating systems are you on right now? What changes are you willing to make in your practice that are going to be comfortable for you? What changes if you're asked to make are going to be really inconvenient and bothersome, you know, for you? And you really almost got to spend a lot of time, not just with the business development folks, but with

people at the organization, other dentists that I've affiliated, maybe you go spend a day with another dentist that affiliated with that organization. I mean, it sucks. You may lose revenue that day in your practice, but maybe it's worth it to go through that so that you sit with them and you say, tell me what a typical day in your life looks like. You know, what kind of support do you get? Do these folks

call you every day of the week and demand some report or are they sort of hands off once a month or once a quarter? You've got to talk to them. What changes have you been asked to make? What operating systems are you using now that maybe you weren't using before? Do you like them? Do you not like them? What's the culture post-closing when they start employing your non-clinical employees and you're not the employee anymore? What's the feedback been? Do people like them as an employer or are all of my employees?

that I've worked with for all these years, suddenly gonna be unhappy with their new sort of employer. And you really gotta do your diligence on these things. And I can tell you, there's enough DSOs out there that most folks will find something that's a fit for them. They really will. But you don't wanna misfit it. You don't wanna make the wrong partner.

Dr. David Phelps (32:51)

No, 100 % agree. And I think your advice of find someone else who has already done business with them, doing business with them, spend some time there. mean, far worth their time to do that.

Brian Colao (33:02)

So

we'll let you David like sometimes people think if I asked they're gonna get offended. No, they don't want you there if you you know, basically close the deal and you're like, I'm miserable what's gonna happen? You're not gonna work hard. You're not gonna be invested in it. Your production is gonna go down the DSOs don't want that to happen. So they're kind of like please.

go sit with some of our folks. And if this isn't good for you, we'll all have a beer, laugh about it, and you'll go on with your life. And we don't need you to do something that's going to make you uncomfortable. It doesn't work for either party. So I think if you ask the buyer, who can I go visit? Who can I chat with? Who can I call on the phone? Whose practice can I walk into? They will willingly start handing you lists. And a lot of them will even say, here's our list, but go on the website.

Find one of our practices and even if it's not somebody we told you about, call them up and ask them to come over. We don't mind.

Dr. David Phelps (33:57)

Yeah, that's full transparency and you can't do better than that. What in your opinion do brokers play? Can they be a good assist in putting together the right parties in your experience or does it just depend?

Brian Colao (34:08)

It depends. It's like anything else. You know, like I'm a lawyer. There's bad lawyers. There's great, you know, average lawyers. There's really, really good lawyers. It's the same with brokers. I work with them day in and day out. I'll just tell you what the best brokers do. The best brokers are not just looking for a commission. They're looking to really get to know you. It's not

like, David, you're selling. OK, send your financials over. I'll get you somebody. No, they're like, let's sit for several hours. Tell me, how did you build this organization? What were the principles you built it on?

What is your culture like? know, what's important to you? Tell me about your staff members. Tell me about what you do. You know, tell me about your payer mix. You know, they'll go through all of these things with you. What's your PMS system? What type of technology do you use in the practice? You're using diagnostic AI. What kind of infrastructure you have in place? What benefits do you have? And they'll run through all of this stuff. And then the best brokers know what DSOs potentially might be a good fit and which ones not.

put you in touch with. if you're using a good broker, it can be a godsend. It could be terrific. If it's just a broker that's just looking for his or her commission. Yeah, I mean, they're not going to add very much. I mean, they may make an introduction, you know, and that's certainly you got the introduction, but they're not going to help you decide what's going to be the best fit for you. And the best brokers will help you decide they'll make it hard on you. Like I've been on panels with some of the best brokers and they say this is, know,

The single biggest transaction you're gonna probably do in your life, this is your baby you built from the ground up, you should not just hand it away to somebody else. It needs to be hard. It needs to be a difficult decision to figure out who the right partner is. That's what the best brokers will say to you.

Dr. David Phelps (35:55)

If there was something of substance that you could change in the process of consolidation process, DSOs, the whole thing, something you could change, what would it be today? What would you like to see changed?

Brian Colao (36:10)

Yeah,

one thing would be a uniform valuation formula. There's not one. I think really that's a great question. I wasn't even thinking of it, but that's the first thing that popped into my mind. And I stand by that answer. You know, there is not a uniform valuation. And sometimes it gets confusing. You know, it gets like there's two components to it. There's the multiple that's paid and there's the EBITDA calculation. And sometimes

You might think the multiple is small, but if they're very generous on the EBITDA calculation, you're doing great. Or you might think the EBITDA calculation way too small, but if the multiple they're paying is high, it kind of...

you know, sort of works out, but you have to figure out both of them and different DSOs use different formulas and nobody really publishes it. I mean, they'll tell you what they think your EBITDA is, but in terms of exactly how they got there, everybody's got their secret sauce and their secret formula. And I just wish there was a more uniform way to go into a practice, almost like a gap, you know, generally except

Dr. David Phelps (37:15)

I'm not an accountant, I know enough to know what you're talking about in that there's different ways that people calculate EBITDA. As you said, it can be higher or lower based on the nuances and it gets very nitty gritty. But like you said, if someone is not on the forefront interpreting that and playing it back to you in a way that you can understand, then you're going to be confused.

Brian Colao (37:36)

good

broker can help you or a good one. I mean, I know enough about this. Even though I'm the lawyer, I do far more than legal because I've been in the space 31 years. I know a lot of business stuff where I can sit down and I can say, look, this is consistent with market. This is off market. This isn't, know, on a lot of things just because of my unique nature of being in dentistry 31 years. But you need you need professionals the way the market is right now to help typically.

to help you interpret it. Maybe if there was a dentist that somehow was a CPA or an MBA or something, maybe that, and there are a couple, but it's very, very rare. If there was that, maybe they could cross compare two or three letters of intent and make some sense of it. typically, when I'm talking to sellers and other people, there's a lot of confusion. They'll say, we've gotten three offers and.

They've each given us a different EBITDA number and it's a little unclear to us as to why we got a different number. They're each paying a different multiple, you know, and you're always struggling to find what I call the best overall value. And the best overall value price is just one component of many. And very often, almost every time, the highest price is not the best overall value when you consider everything else.

Sometimes if the price is high, it's because they've got to pay that. They have to do it because they're new to the market. Maybe they don't know what they're doing. They have no track record. So they got to pay you more money to go there than, you know, than an organization with a proven track record. Some of the best organizations with proven track records are disciplined. They're like, look, this is how our system works. We've been doing it 20 years. Here's our track record. Here's all the people that, you know, did well in our system. But guess what?

we're not paying more than X and we understand you may walk away. We get that, but we're not paying more than X. That's what we're doing. Somebody else is like, I'm going to pay one and a half X or I'm going to pay two X or something. And it's easy to get bewitched by it. You see it. You're like, wow, that's a lot of money. But I'll leave you with this or on this point, I'll leave you with this. Very often there's a 60 40 rollover involved, right? And let's say you did

Dr. David Phelps (39:31)

versus.

Brian Colao (39:51)

a $10 million transaction. I'll just use that. And you got $6 million cash at closing. Okay. And you got a $4 million rollover. And then another person offered you instead of a $10 million deal, they were going to offer you I'm trying to use, you know, easy numbers, say they offered you $12 million or something, right? And that's 1.2. So you took 60 %

1.2, which is, you know, it's probably I'll have to figure out that math, but let me just be, you know, instead of ■ getting six million dollars at closing, you know, on a 12 million dollar deal, let's say you got seven million dollars at closing or seven point two million dollars at closing. Now, look at that 40 percent on the 60. That's four million. If that thing does really, really well and returns three to four to one on the next turn.

That $4 million is worth between $12 and $16 million. When you got $10 up front, then you got between $12 and $16 on the second deal. If you got $12 million up front, but then you basically got zero or got one to one on the rollover, you're doing so much worse than on the lower multiple, on the lower purchase price deal. The $10 million deal is worth so much more.

than the $12 million deal.

Dr. David Phelps (41:19)

tell you what, if you're gonna be 12 today, I'll just take it and we'll call it good.

Brian Colao (41:22)

Yeah, but you wouldn't get 12, you get 60 % of 12. what I'm saying is that of 12 is worth so much less than the overall deal on 10 million because you're playing for the rollover is all I'm trying to say. I maybe pulled my calculator out. happen. But making, you know, if you're very often, people will get the lowest amount of all the offers. I get five offers.

The lowest amount of cash at closing ends up being the best deal in the long term for him. And had they taken the largest amount of cash at closing, that may be all they get or they get that in a tiny amount and they don't participate because, you know, the company maybe doesn't have as big a track record or doesn't do as well. So we're looking always David at the best overall value is what we're looking for.

Dr. David Phelps (42:09)

Yeah.

Well, mean, your point about new organizations to the industry sometimes have to pay more to attract any kind of business. And if you're staying in for the longer game, the additional multiples, then you want to be someone who has a track record because you don't know, look, newcomers to any marketplace, particularly in the marketplace we have today, which is not what we had, as you said, four years ago. If you don't know what you're doing in the capital markets and you don't know how the money works and what your leverage points are,

could get in some trouble really quickly. again, those bright shiny objects of people that hang out there and that could be in any industry. We're just talking about dentistry. You're right. You have to be so careful. Take the better deal, which often is going to be that lower overall price point. yeah, the entire formula looking together at the capital stack is what you're looking at and

measuring that against what is the probability of this going through with this company versus company B over here that hasn't played through a full cycle yet.

Brian Colao (43:02)

people have gotten in trouble in situations where they overpaid for stuff. And, you know, I've had multiple clients that your case studies I've looked at where somebody was willing to overpay and buy a seller a said no, you know,

I know you're overpaying, I'm not going to take that I'm going to take the lower offer and they ended up solid, they got less money, but the organization was solid. And then they sold the organization and the second equity event was great for them and it worked well. And then I've seen people that have taken the overpayment and taken the more money and then they're still waiting for the second equity event or when the second equity happened, maybe they just had their principal returned to them with no appreciation and they didn't do very well, you know at all. So

You know, and there have been some where they've paid a lot and they did well on the second equity event, but you've got to be real, real careful. And this is where a good broker or a good attorney or a good accountant can really, really help you as opposed to somebody that's just looking for a commission and really isn't interested in digging into the facts and figuring out what the best fit and the best overall value for you is going to be.

Dr. David Phelps (44:12)

This has been a great conversation and we could go on for long time, but I'm not going to hold you to that today. I'm going round it off here and toss one to you that you could go anywhere you want to with it. We've probably kind of covered it in many different directions here, but let's just say, what would be the first thing a dentist, and again, I'm talking, it could be a young dentist, it could be a mid-career, so it's a very general question, but what is the one first thing a dentist should think about before they consider an exit of any kind?

That's a wide open question, but pick something in that you think we haven't touched on that should be something that it could be financial, it could be non-financial. ■ We talked about life where you are on the spectrum of more and more time. ■ Is there a key thing that you think we haven't touched on? guess is what I'm asking.

Brian Colao (44:57)

Education.

mean, maybe we did touch on this, but I can't talk about it enough. Educate yourself on the options available in the market and what each of the partners are offering. It's tough because this is not dental school. They didn't teach you this in dental school. You didn't go to school for this. Again, you might want an advisor to help you through this process, but you've got to educate yourself as to what each of the different potential partners might be offering even before you even have any.

Just say, what would my options be here? And there's a couple things. One, calculate your EBITDA. Okay, get educated on your EBITDA. what we know if a lot of people may be listening to this like EBITDA, what does he tell earnings before interest taxes, depreciation, amortization, it's the gold standard for valuing organizations. If you don't know what it is, you need to figure out what it is. And you need to figure out what yours is, and what you can do if anything to improve it. There's always something you can do so that you've

properly prepared your organization for a sale, otherwise you're leaving your money on the table. That would be why I give you two things. That'd be one. The second thing is educate yourself on everything that's out there. Take the time to figure out what all the available options are and compare the available options to your personal preferences, like going into a marriage. know, these are the options and which of these fit best with my personal preferences. And if you can do those two things,

I think you'll be very well positioned to explore some type of affiliation with a DSO. But if you don't do either of those things, where you don't even know what your EBITDA is, then you're at a, you don't know if you're getting fair value or not. And if you haven't educated yourself as to the options, you don't know if this is gonna be a good fit for you or not.

And I'd hate to see either of them happen. I'd hate to see you sell yourself short and not get your fair value. And I would also hate to see you, even if you got fair value in a partnership that doesn't work for you or you're unhappy, you know, every day you go from your own practice to now being unhappy to go to work every day. So those would be my two best things I could think of.

Dr. David Phelps (47:03)

And it so happens that DACA hosts a large conference every year to do just that, to educate and bring operators and dentists that are affiliated thinking about doing it. Your next one comes up in June or July? ■

Brian Colao (47:16)

this

year. It's July 15th the 17th at the Gaylord Rocky Mountain Resort in Aurora, know, Denver, basically by the Denver Colorado Airport. We're hoping you're going to come out David as my personal guest. want you there as my personal guest. Maybe you'll even we I didn't talk to you about it. I'll put you on the spot, but we've had others do it. Maybe you'll even do a couple episodes like this and interview some people there. We've tried that up, you know, some folks. And there'll be a lot of leaders that I think it might be really good for you to talk to.

at the event, I'd love to see you do that. for those listening, July 15th through the 17th, Gaylord Rocky Mountain Resort, we had 2,600 people there last year. It was the largest event in the history of the DSO industry. And I always love getting new attendees. I think it really, if you're even thinking, like, you know, someday you might sell or you want to explore your options and you want to educate yourself on DSOs, this would be a really great way to sort of.

do it in a non-pressure environment. You know, don't want to be getting your education when you got LOIs and people are over your shoulder pressuring, know, asking you to do something.

You want to do it when there's no pressure, when you can just ask all the questions you want to ask and learn all the things you want to ask. And once you've done that, you'll be well positioned then to explore what opportunities might work best for you.

Dr. David Phelps (48:35)

Yeah, education and awareness, what the options are so that you know you can plan ahead and you're not locked into something that you just didn't know about. I think it's a key to everything. The website or link for people to go and...

Brian Colao (48:48)

D-Y-K-E-M-A-D-S-O.com. You can register right on that website. If you have any questions, looking at it, my event team, Laura Blaine is on there and Lindsay's on there. You can email them and they'll answer your questions or any information you might need. otherwise, you can register right on the site.

Dr. David Phelps (49:08)

Perfect, perfect. Well, Brian, again, just a pleasure to have the conversation. We laid out a lot today, but I think, as you said, it's prudent that dentists take the opportunity to learn more about what their options are in practice, no matter where they are in the career, because there's more available to them than they think. You just have to avail yourself of the opportunities that are out there and figure out what works best for you. So I thank you again for your time today and for everything you've done to bring to the forefront what's happening. And you're right in the middle of it, so you have your hands on it.

But like nobody else, I would say.

Brian Colao (49:39)

David,

thanks for having me here. This has just been a pleasure to be with you and certainly look forward to seeing you over the summer at our event.

Dr. David Phelps (49:47)

Be great. All right, Brian, thank you much. Thank you. care. Well, personal standpoint, even though I have been out of clinical dentistry for several decades, I certainly keep up with the trends in the tracking in dentistry because I'm involved in the overall community and industry dentistry on a regular basis. And certainly there's been a large movement of the DSO product we backed groups in the dentistry as private equity has increased its

in like every industry in the country. Healthcare is just being one of those and dentistry being a sub niche in healthcare. So it's not out of the realm that private equity extends its branches. I'm not here to say private equity and DSOs are good or bad. Anytime in a free marketplace that someone comes in and does some disruption or brings something new to the table ■ that the status quo doesn't like it. And so-

I think we have a lot of challenges in healthcare overall. We have challenges in dentistry, going back to the high cost of tuition ■ that young doctors graduate with today and are trying to figure out how they go forward in a career with a lot of debt and how they have the means to pay back that debt. Well, the DSO space brings to the table a paycheck, which is very enticing to young doctors. ■ I think too that...

the efficiencies and certainly technology that private equity backed organizations can bring to the table sometimes can override what private groups can do, but there's gonna be an equilibrium. And I think that's what we're gonna see. There's never gonna be an overriding amount of DSO corporate groups that quote take over. But I think the trend is there'll be over time more consolidation, more consolidation. I think it's something we have to keep an eye on. And as individual practitioners, young doctors graduating, looking at dental school, ■

the landscape is changing. And it doesn't mean you can't have a great career in your desired profession, but I think you have to do it with eyes wide open today and really evaluate the risk and reward, the time, the investment in terms of what that brings to the table for you. And if it's something where you wanna serve people at the highest levels, then dentistry could be a great profession. In my experience where most dentists fall short in preparing for...

a transition or just a complete sale and leave the practice of dentistry, active dentistry altogether, where most fail is they just don't prepare in time. This is something that you don't want to make a last ditch effort at, ■ where you get tired or you have some overriding health complication, ■ wrist, back, neck, something that causes a disability or.

It's just a situation where you're just burned out and you just don't wanna do it anymore. You don't wanna be at a place where that's how you exit. Ideally, you wanna plan it in advance. By planning in advance and setting your practice up so that it is a better run practice, a practice that somebody would like to acquire, whether it's a private sale or a DSO group, you wanna set it up in advance to be a good, solid practice. And it's so doing.

Many times you'll find that the efficiencies and better organization you put into it as if you were going to sell, make the practice actually a better running practice that you actually can enjoy more and actually not feel the burnout and the pain that somebody feel. So number one, just the optionality of having a practice that's running better, whether you are still solo, whether you are ■ with several associates, a small group with partners, the model you choose can give you more longevity, more durability so you don't forced into a binary situation where either I have to hang on

and just endure through this until some point where I hope I have enough money to retire or you just have to let it go. And neither one of those are good objects to have to work toward. So I would just say preparing in advance, even though you might believe that your time to sell may be a number of years away, just preparing the practice, understanding what that looks like. The environment's changing all the time. And when you decide to sell, it may be different than it is today.

but you still want to know what do those dynamics look like and by preparing to sell in advance, having some advisors, getting some help in the practice, knowing your numbers are just good elements for any owner practitioner to have in place now, as opposed to waiting until the time when you feel like I need to do something. That's what I see is just failing to plan is the biggest

problem in most exits that most of the doctors try to attempt. In my experience, and I've talked to hundreds and hundreds of dentists over many years, really,

A number of think some provincially good moves on their part a number of years ago when they were ready to sell, decided to sell and where we were in the economic cycle, the multiples that were paid out in a lot of it on the front end of a buyout from a DSO, private equity backed DSO, were very, very high. And if a doctor was ready to sell and was okay with the change in culture and the majority ownership to stay on and.

lived through a contract of three, four or five years, but still gotten the bulk of their money upfront and it was a good number. I think that's worked out for a number of people. I would say though that we are in a different environment right now and there are a number of buyouts that still haven't completed. A number of doctors who have made that decision to sell in the last few years and with a higher interest rates affecting everything in the economy, including private equity, back DSOs, real estate.

really the higher rates are affecting the entire environment. Those buyouts that still have to go to fruition may take some time to happen if they happen at all. And again, I'm just speaking very broadly generally, doesn't mean every transaction is not gonna work as many will, I think many won't. And I think today my caveat would be to be more discerning about making those decisions. Again, not painting any particular.

model or vehicle being good or bad, but you have to be more involved in understanding the pros and cons. Everything in life is a trade off. There's no one size fits all. There's no one way to do it. Meaning you have to understand who you are and what's on the table for you to make choices. And having those choices and options is really the key in everything in life. Don't feel like you're forced to do something. Don't have the FOMO that you need to do something because everybody else did or everybody's talking about it. You've got to make decisions, but to make good decisions.

You've got to have the information. You've got to have, I think really a ■ board of advisors. It doesn't have to be formal, but informal around you where you curate information so you can really understand what your options are and how to make that best decision that's right for you.

If you're feeling the pressure of burnout or sensing that your practice isn't serving you life anymore, listen, you're not alone and you're not stuck. Whether you're preparing to exit, re-imagining what's next or just craving more margin and meaning, Freedom Founders helps dentists and doctors take control of their future with a proven path to freedom. This is your invitation to a real conversation that will explore how you can create a practice and a life by design, not default.

Visit freedomfounders.com forward slash discover and take the first step. Your next chapter doesn't have to wait. Let's build it on your terms. That's freedomfounders.com forward slash discover. I'd love to have a conversation.