



The Deal Room Podcast

Episode 164 – The inside story from an aggregator: how to drive transaction success part 2

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Transcript

Joanna: Hi, it's Joanna Oakey here and welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice Aspect Legal. Now today we have the second part of our two part series talking with one of our clients, Peter Hughes, from Kikada Lane dental to bring you the real story of being in the middle of a transaction and discussing a different take on aggregation models. Now if you haven't heard part one, I highly recommend you head back to your podcast player and go to the episode just before this one and seek out part one of this two part series. In part one, we looked at the real story of being in the middle of a transaction. We looked at the unique model that Kikada Lane uses as an aggregator of dental practices. We look at the issues aggregators can have and we look at the practical steps Kikada Lane takes to enhance deal success. We look

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at valuation models. We look at explaining the accounts normalization process. We look at where deals can go wrong and we give you a lot of insights about the deal process. But today we are in part two of this two part series and today, we look a little bit more at acquisition models, we look at the risks. Like for example losing high performance. We look at a potential better way to eradicate those risks of acquisition. We discussed the importance of HR advisory and recruitment for aggregators and also for businesses and dental practices as a whole. We look at the benefits of having a larger support team behind a smaller business or practice we look at how to test an aggregation model we look at the concept of branding or not rebranding as the case may be we point out some early wins that Kikada Lane that are experiencing that show how the model is actually working in practice. We look at the short and long term plans. We look at differences between aggregators in the industry. We also give a client perspective on working with the team over here at Aspect Legal, and we round it up by providing a bit of a cautionary warning for sellers to make the most of your exit price by ensuring that you don't leave it too late. Well, you're in for a fabulous end to our two part series with Peter Hughes of Kikada Lane dental buckle in and here we go.

And maybe before we do that, maybe if you could give us a little bit of a background of where you were before you had this idea of Kikada Lane.

Peter: I've been all over the place to be perfectly honest. I've had a bit of a torturous journey. Maybe let's start from an academic standpoint, because I sort of left the field there, too. I did a dual undergraduate degree in architecture in environmental science and then did an MBA after that. And I was fortunate to win a few awards when I did my MBA and I was invited by the university to undertake a doctorate in Business Administration. So I completed that over a five year period. So you know, I guess I'm a jack of all trades, master of none in many.

Joanna: Not at all, I'd say master of them all, I'm fascinated in your initial studies, I don't think I ever knew that. That's fascinating.

Peter: Yeah. So the thing that Architecture taught me more than anything else was how to problem solve. After that point I practiced as an architect, and I got into project management construction. And it was mainly funnily enough geared around health facilities. So that's where I got my grounding in the healthcare space. And I guess one of the largest chunks of my career I spent with the very largest giant company called Land Lease Corporation. And I was there with them when they become you know, from a standpoint of being a big Australian company, and going on to become a big multinational and global enterprise. And I spent 11 and a half years with them. And I started off in a business development role and I ended up as the CEO of their global healthcare business. And I spent three and a half years of my time with him working in the United States living working in the states. And I was fortunate enough that I worked with some of the real big names over there, like Mayo Clinic, Johns Hopkins Medicine, Harvard health, Mass General and UCLA. So I got some fantastic exposure into what was happening at the cutting edge in healthcare, and particularly around technology and how technology was going to impact patients' treatments from a number of different standpoints. So it

was a big, lumpy business that I had, I had projects around the world office, even back then 20 years ago, a lot of those projects were valued at well over a billion dollars back then. So it was a lot of pressure. But it was a real point in the sand for me from a career standpoint, because I learned so much during my time with them, I guess I came back to Australia, after my time with them and did some turnaround assignments in some large research facilities, I did a big project for Epworth Healthcare down here in Victoria and build a new hospital in Box Hill and became the operational CEO of that hospital. And that was again, a very interesting project. Even though I constructed a hallway for them, I never really run one from that standpoint. So again, I learned a lot.

But I always had this passion of wanting to form and run my own businesses. And back in 2005, I formed this group called the Ekira Medical Group. And we had two operating divisions. One was very much a property based division where we built owned and operated large scale integrated healthcare facility, so medical clinics, and we populated them with an array of diagnostic and allied health practitioners to service the needs of GPs who are diagnosing patients in their surgeries with westernized disease states such as obesity, sleep apnea, diabetes, etc. And we created this platform where we could put all the inputs from a patient visit into one record and send it back to the GPs and sequentially schedule those appointments. So it really made it easy for the patient to come to one destination, and have a number of matters fulfilled in one visit.

And the other part of that business was a dental business and that was fueled primarily because we had dental clinics and our medical facilities and I didn't think they were run very well. And so I thought I can do a better job than this myself, so set about acquiring practices around the country, and we received an investment into that side of the business from a large private equity group that really kicked that along at a rate of knots and so that's how I really got into the healthcare space in a big way, and particularly into dental and that business still runs today and is still successfully trading today.

But I again spent about another 11 to 12 years building that business. And I got to the point where I thought I really wanted to do a few other things. And that again, I didn't feel I had the model 100% right in that business because of the sustainability and continuity of earnings position.

Joanna: And what was that model at Ekira?

Peter: It was, that was a model where we acquired 100% of the practice, and we had the principles on an earn-out, it's anywhere between usually a 2,3,4,5 year period, depending on the size of the transaction and the parameters around that transaction. But at the end of that earn-out, the principal could effectively just get up and walk away. And while there were exclusion zones and geographical restraint areas, when you lose a high performer, it can really put a significant dent in the business. So I thought there was a better way of eradicating that risk to a business by creating more of a partnership model with the principals, and incentivizing them the whole way through the journey. Even keeping in mind that where we may

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create another exit or liquidity event, it will give them the incentive to keep performing and growing revenue up to that point. And even beyond that point, because I have such a strong investment, whether it be an unlisted company or a larger group.

Joanna: Yeah, I guess giving an incentive because they are participating in the end growth that benefits everyone. And so was there anything else that you learnt from that period, where you were undertaking all those acquisitions with Ekira? One was obviously the model, but what else did you learn over that time?

Peter: I learned that a lot of dentists love the craft and the practice of dentistry, but really don't like some of the back end things that have to occur to support the practice. And one of the big bugbears is HR issues and recruitment. And so I really learned during my Ekira days that you must have a very strong and well rounded, HR advisory and recruitment component to your business to be able to support the practices and the principals. And we have that now. And I felt it was a failing of my last business, that we didn't have that sort of strength to support the practices. And a lot of aggregators will say that they've got it, but I know a lot of them haven't. And we demonstrate what we've got just about every day, to our principals, and I think it's a real strong point. And I guess the other things, you know, the financial reporting, and the payroll management, keeping up with changes in award rates for staff. IT issues, and the landscape changes, so significantly, so quickly. Then there are equipment issues, support for CAPEX and new technology. So I think there's a lot of elements there that, if you've got a solid corporate group behind you, can really help you run a very efficient practice. And I think, coming back to the HR standpoint, one of the things that I've really learned is this, you need to have the appropriate structure from a human resource standpoint within the practice. So we've found a lot of practices are overstaffed, they don't have their staff on the right sort of contracts, or agreements. And so the labour rates are excessive, and it really hurts the profitability of the practice.

Just with a few tweaks here and there and a bit of restructuring, we can create far greater and more efficient use of resources. And I guess finally, one of the things that you do get from the critical mass is procurement efficiency. And you can certainly leverage suppliers, particularly around consumable products, and laboratory prosthetics to a significant degree and you can create mass savings through the group that can be passed down through the practices so and you only get that from size and the relationships you build with your suppliers

Joanna: I love it. I love anything that's a new model and a new way of approaching things. But you know, I particularly love the model that you're talking about here, doing something a bit different. How did you test the model? How did you know that this was a model that was going to work?

Peter: Good question. Before I even sat down to write the formal business plan for this, I actually consulted with about 30 to 40 Dental practitioners, some who'd been acquired by corporates, some who are running standalone practices, some that were in advisory roles, and I just canvassed what I was attempting to do, and

asked them:

1. do you think this would work?
2. Is it a good idea?
3. Where should I attenuate it, change it, add or take things from it, to make it really attractive to a practitioner?

So I guess I road-tested it to some degree before I sat down and wrote a plan around it. So I had a fairly good feel about what would work and what wouldn't work before I actually embarked upon activating anything.

There is one other thing that I learned too, and that's about branding. Some corporates go out, and they totally rebrand everything from day one. In my view, I think, 1. it's unnecessary. And 2. it erodes a lot of the goodwill that's been built up in that practice name, immediately. And you just don't get the benefit from, you know, the trading that's going on. And often when a patient sees a practice has been taken over by someone else, and it's got different colours and different names on it, it creates anxiety. And, you know, one of the primary reasons people don't go to the dentist in this country is anxiety, fear and cost. So you don't want to give the impression that you've changed anything initially, it can be done far more softly, and in a in a slower way, that brings everyone along, rather than take the hammer and smash up a new sign from day one.

Joanna: I love it. It's such a good point and rarely commented on actually. So I, you know, I just, it's quite innovative looking at it from that perspective. I guess you are early on in the model - and even though there are quite a few acquisitions that you've done so far, you have a long runway for the future. So maybe we can talk about some initial wins. So what are some things that you can see from some of these initial practices that you've acquired so far, that are really, now starting to show the benefits of how the model works?

Peter: Look, I think one of the things that we're able to do from day one is I can see when I look at a set of financials, where the soft spots are, and where we can refine things to create a far better uplift for the participants involved. And to round that out, we have a very good marketing division in our company that's very, very skilled in all aspects of print, digital, verbal, written media, that can really elevate and attract additional patient volumes to the practice. And we devise programs that are site-specific around specific spheres of dentistry, or they can be umbrella policies that we put across the whole group, and make available to everyone. But I think that's another area that obviously didn't assign or may not have a lot of skill in. But it's something our team does. And it complements the only other things that we do in the practice. So in terms of early wins, we've been able to acquire practices at an agreed maintainable EBITDA. And we've been able to substantially increase that number, even within a 12 month period, just through some rational thinking and some application of marketing, etc, that's created no stress, no drama on the principle, apart from the fact that they might need to hire another dentist or another hygienist... [quote/soundbite]

Joanna: To cope with all the new business....

Peter: Yes to cope with all the new business that is coming in! But we do that anyway for them!

Joanna: So what's the long term plan, Peter? What's does the short term and then the long term future look like in your mind?

Peter: The short term plan is to keep sourcing practices that are attractive to us to come into the group that will complement the skills that we've gotten. Other points of differentiation that we've got is a lot of other aggregators will only acquire general restorative practices, whereas we take on board specialist practices, whether they're endodontic, orthodontic, oral, surgical, etc. Because our model can facilitate taking that type of practice on board. And we see that as highly beneficial because it creates an opportunity to inter-refer amongst the group. So there's no patient leakage outside to an external practice because we can usually cope with what's required from the skills that are within the group.

So the short term plan is to keep building what we're doing to keep refining, and to more fully automate our processes and systems because that creates less stress on resourcing. And we've spent a lot of time already doing that. But I guess the endpoint is to try and create enough volume from a practice number perspective and an EBITDA perspective, to be able to create an attractive initial public offering, and to list this group to really create the wealth and the upside for the participants that have come to us and trusted us to help them realize their ambitions. [quote]

Joanna: Love it, absolutely love it. And actually, I've got a sort of a side question here. But it's back to this whole branding discussion we had but a little bit of a different take on it. I think it'd be interesting if we can just talk about from a branding perspective, where the name Kikada Lane came from?

Peter: I knew you were gonna ask me this one. When I was writing this business plan, I thought, well, I really wanted to be a disruptive influence to all the other comfortable aggregators out there. And to create something that was a little bit different. To create a bit of noise in the industry. And I thought, well, what's a noisy annoying thing and I've often sat out my backyard in summer and listened to cicadas which are just are in your ear while you're sitting there trying to have a quiet drink or a conversation and I thought I don't think I could actually call the company cicada. So what's something that sounds like a cicada? And obviously the last three letters are ADA which is the dental association (I'm not that on stealing anything from them!) and then I thought well, with Kikada I really want to go on a new journey. So how do you travel somewhere? Well, you either go on a road or you go laneway so I tacked the name "Lane" onto the end of it so I created something that I guess had some meaning to me but also was trademarkable - Kikada Lane

Joanna: You've just nailed it Peter, in terms of a trademarkable and protectable Mark, which is important because there can be in this industry (and many other industries) a habit of picking names that are fairly generic and descriptive. I just

love it when people go against the grain and come up with something that's creative Peter, very creative.

Peter: Here's a lesson I learned from a communicational marketing expert ... because I thought up the name of Ekira too when I was there and everyone asked me where that came from. And I just said I dreamed it up and I there was no story behind that... But the thing that this communicational consultant told me said if you can use the letter K in a name and keep it short people remember it well.

Joanna: I didn't know that, I might have to rebrand Peter. Fascinating. I've heard a lot in marketing but never heard that one. I love it. K and keep it short. There you go listeners. You've got some trademark branding tips here today as well.

Okay, I love it. I just I love what you're doing.

I love being on the journey with you. And I love someone who enjoys creating the process and innovating it with me because I'm big into that side of things. But yeah, I love where you're going. And I just really wanted to dig into this story today. And I think what we might even do is we'll have you back in 12 months time and we'll do a recap where are we at now

Peter: Hopefully down the lane a bit further...

Joanna: Down the Lane! Yes, I love it. And hopefully it might be a bit of a different year to 2020!

Peter: I would just like to give you a plug to you Jo, you have come on the journey with us and for anyone out there. The Aspect Legal team is an absolutely excellent law firm to work with. They're very responsive, very supportive, and their work is exemplary. So there's a shout out to you. [quote/soundbite]

Joanna: Peter that's so sweet of you. Thank you. Wonderful. Well, look, I just want to say an absolutely massive thank you for coming on to the show.

We have a lot of accountants listening in and a lot of dental practice owners. So if any of these accountants identify, within their client base, some practices that they think really should be talking to you, I guess first thing number one, what do you think is something that will help them identify who it is that might be a really good fit with you? And number two, how do they contact you?

Peter: We've obviously got a website, www.kikadalane.com.au My mobile number is 0417006200 and I am always willing to talk to anybody, at any time. But I think multi-chair and multi fee-earning practitioner practices are attractive to us.

But I think one of the cautionary things I would suggest to anyone out there thinking of selling or being acquired is to not leave it too late because you don't want to leave it to the point that you reach retirement and then find there's nothing

there at the end. For anybody we find the best practices for us are the ones where the practitioners are in the prime of their career, they've got 20 years of work or so in front of them and they have a real fire in their belly to want to perform. We find they just go gangbusters! So they're the ones that are really great for us.

Joanna: Wonderful. And we'll put a link in our show notes, of course. So if you're running along the beach, or doing whatever you're doing or listening to this podcast, you can just click into the links and you'll get through to Peter or Kikada Lane and the team to express your interest.

So Peter, once again, I just want to say an absolutely massive thank you for giving up your time to come to chat to us today on the podcast. I loved it. And I hope you had a bit of fun too!

Peter: I did. It's a pleasure. Thanks, Jo.

Joanna: Well, that's it for our two part series, all about taking a different look at aggregation models, with our client, Peter Hughes of Kikada Lane dental now if you'd like more information about this topic, just head over to the show notes or to our website at thedealroompodcast.com where you'll be able to download a transcript of this podcast episode, if you'd like to read it in finer detail there you'll also be able to link through to Peter Hughes and Kikada Lane dental and of course, you'll also be able to find details of how to contact our lawyers at Aspect Legal if you or your clients would like to discuss any legal aspects of sales or acquisitions. And finally, if you have enjoyed what you heard today, then don't forget to press subscribe on your favorite podcast player and maybe even consider popping over to Apple podcasts and leaving us a review but that's it thanks again for listening in. You've been listening to Joanna Oakey and The Deal Room podcast, a podcast proudly brought to you by a commercial legal practice Aspect Legal. See you next time.