The Deal Room Podcast

Episode 262 – The Ins-and-outs of Dental Practice Sales: Insights on selling a dental practice with Carl Burroughs

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Joanna:
Carl! Welcome along to The Deal Room Podcast.

Carl:
Thank you very much for having me again, Joanna. It's an absolute pleasure to see you.

Joanna:
It's always a pleasure to have you as the show caller. It's always a pleasure to have you on the show. Okay, so today we're talking about earn outs in dental practice sales. And you have so many examples and so much insight into this industry, I think. So I really am looking forward to digging into this. But I think it'd be really useful for our listeners who haven't heard the other episodes that we have recorded together to give them a little bit of insight into your background, you know, your involvement in the dental industry is so varied, I just think it's really useful. If you give us just a really quick,

Carl:
I'll make it snappy. Been in dentistry for 22 years, fell into it's, by accident in got involved in in marketing route still involved in marketing, and that's been the mainstay. And that's kind of opened the doors for everything else started a dental corporation 16 years ago, that was called dental partners, now renamed Maven. And today I'm not only do I do the marketing, but I head up a ray white franchise that is dedicated to the sale of dental practices.

Joanna:
Absolutely fabulous, wonderful. Well, look, today we're talking particularly about earnouts in dental practice sales. And you know, I find earn outs are one of those areas that are completely not understood by dental practice owners as they get into the sale, you know, they meet a pool of buyers, and then they get concerned when one of the offers or indeed perhaps all of the offers contain earnouts within them. So I thought it'd be good if today, we talked a little bit about them, we normalize them from the perspective of you know, so our sellers understand that they can be a normal part of a sale, but also some tips and tricks along the way. So what is it that you? I mean, I'll start out by a comment, I think one of the things from my perspective, and I'd love to hear your perspective on it, one of the things from my perspective is sellers shouldn't be concerned about the concept of earnouts as a whole. If you're striking an ounce out entirely. From what you're prepared to accept in a deal, you're going to be cutting out a huge part of the potential buyer pool, what are your thoughts on that call?

Carl:
Absolutely. And the concept of earnouts is absolutely fair and rational. If you've agreed that you're going to be hanging around for two years, three years or more, then having a contractual and financial element of that is very fair and reasonable. The caveat is depends who you're dealing with. So it's you've, you've picked a very interesting topic because there's very much is

The Good, the Bad, and The Ugly with this particular and I'm sure you've seen many of these transactions as well. The actual concept very fair and reasonable. I think the the bottom line is, who's on the other side and who you're dealing with.

Joanna:
And let's in that sense, then perhaps it makes sense to, to break these into two, let's talk about selling to a corporate and then selling to a private buyer. So let's maybe separate those two out. Let's start first with selling to a private buyer. What are some of the things actually, before we do that? What are some of the differences that you see in that buyer pool in the way that a private buyer will behave when they're thinking about unannounced versus a corporate?

Carl:
So the earnout is probably less prevalent with private sales. I think the buyer may not necessarily be aware of them. Often, they're not quite so ruthless in their negotiations. So it's often a softer transaction. And I'm not necessarily saying that they shouldn't. But I don't see too many worthy conditions that are only onerous. And sometimes it's a relatively modest figure involved as well. And I haven't seen too many of them go bad over the years. I've certainly certainly seen a couple that have gone bad where the seller has missed out, because they haven't, they haven't got the additional payments at the end of the period. But it's not widespread. In my experience. I think most of those transactions go quite well.

Joanna:
But then on the flip side, corporate buyers, what's the you know, what's your experience? Seeing that

Carl:
Yeah, well, that's a complete mixed bag. And, and yeah, before, we're going to talk about maybe some of the disasters in corporate dentistry, there's been plenty that haven't been. So there's been there's been some good transactions where there's been in and out period, your dental partners, sorry, dental corporation who started the same time we started dental partners, very much had that model. And most of those transactions went in the favor of the seller. And in fact, quite a number of those dentists were given the opportunity to sign up for another own out, even though they'd been fully paid at the end of that period of time, they were given another bonus if they stayed another two years or three years. So most of those people ended up with a, you know, a very good transaction. Since then, there's been a number of other corporates that have been formed. Some of them have claimed a, you know, virtual equity situation, which is almost like an urn out effectively, where you've got a delayed payments, you know, and some of those payments never got made. And some of those organizations don't exist anymore. So it's, you've got to look beyond the sales pitch. You know, and corporate dentistry is actually you know, rationalizing again, at the moment, I don't know if you knew but Booper, wanting to pull out of Australia and sell their clinics, another group called Akira, are actually openly on the market. So there's going to be another round of changes in that, in that particular pool.

Joanna:
And that's it. And that's an interesting comment. I know, we're talking about earnouts. But interesting talking about the state of the market as well. What what do you think the impact of these changes in the market right now are on your average seller?

Carl:
You it's, it's really difficult to understand what may happen. The I think the opportunity is current at the moment is, there's a real lack of dentists and there's a real lack of dental staff. I don't fully understand why because when before we went into COVID, everybody was saying there's far too many dentists and people having to work three jobs. And now, it seems to be impossible to recruit a dentist, I think with the instability of knowing that your place of work is for sale. And that's a lot of that's a lot of practices in just those two, and then there's other corporations who are muted to wanting to sell as well, it may encourage more movement, and that may be good for private dental practice owners, because they may suddenly have a bit more choice when they put an advert in for a dentist or a DA or a receptionist or a practice manager. So I think that could be one of the positives and would be of instability might get people moving a bit more in terms of how it affects the private practice owner in other ways. I don't think it will. You know, the success of a individual dental practice is very localized. It's very much based on what you do within that, practice yourself. Your own sweat, equity, you know, all the things that you do. And again, you see practices going ballistically well, where they have a lot of competition, because they do the right things and you see practices fairly where they have no competition because they don't do the right things. So I think the practice owner is is very much in the driving seat when it comes to their personal success. And I don't really think that any more changes in the corporate environment is going to really, really affect them a great deal. I think the one big takeaway from all the corporate dental groups is the public don't care about the the brand above the door. A lot of those dental corporate have sort of compared themselves to Specsavers this hour will be the spec serve as a dentistry. And but we know when you both you and I wear glasses, we know that there's nothing relation ship building about going to the optometrist, you know, a machine does most of the work. It's not scary. But we do care about who does dentistry. So I think that branding is far less important than the corporates realized.

Joanna:
So fascinating comment. Yeah, it really is an interesting to talk about what's happening in the market. But of course, we're talking about earnouts. Let's I shouldn't forget this, we must come back to earnouts. So maybe let let's give some tips and tricks to our listeners. And I do think that first one to reiterate is and you know, we haven't even talked about what earn outs are so for anyone who is listening, and who doesn't know what we're talking about when we're talking about an earn out. What we're talking about here is a component of the sale price that is paid at a period of time, usually 12 months, two years or three years after completion of the sale. But with that post completion payment is based on the performance of the practice when it's in the hands of the buyer or the new owner. And, you know, the reasons for a buy in, Carl, you said,

right in the beginning, there's many rational reasons for buyers to want a component of the purchase price being in and out. And, and that really is because there is this risk in taking over a business like a dental practice that the the value that they're buying, which is, you know, staffing, but also the client base, you know, the patients won't, won't last post transition. So that's, it's, it's a, you know, a way of sharing risk, I guess, between the buyer and the seller,

Carl:
absolutely. And particularly in the current marketplace, where it's very, very hard to recruit dentists. So if you're selling your practice, and you've said to the buyer that you will be there for the next three years, then as I say, it's very reasonable to have a financial component to that. So you don't walk out the door the day after. And so if that, if that buyer knows, they've got three years to replace you three years to get to know the patient base three years to to transition from the seller to the buyer, then that's a very good transaction for hopefully, for both parties, certainly for the buyer, it gives them a dentist who is well known, it gives them that that brand loyalty to that dentist. And then obviously for the seller, depending on what stage of life they are, if they thought about it, your work early enough, then that could actually work for them. You know, a friend of mine, where I live locally sold his practice, and continue to stay in the practice for three years, and was very delighted with the transaction and remembering ringing me up and saying I've had a pay rise, I've never worked so much money in my life, because he got paid as a dentist would normally get paid well, before he was just, you know, taking whatever was left in the till. And so yeah, so things like that can can happen. So the the concept is, is absolutely fine and reasonable, then it really is down to down to the parties involved.

The first piece of advice I would say to anybody going into this this type of transaction, is make sure you got a very good light. Make sure that you know, it's so important. And you know, in brief, we talked about the corporate transaction separately. Even more important, what people don't understand with the corporate earn out is, if the corporation asks you to commit to time, that's perfectly reasonable. But let's say they asked you to commit to other things. So like a certain level of production, that can be very much taken out of your hands. So let's say that the cooperation rebrands as many have, and your customers don't like the new branding, and don't associate with that, well, certainly to expect you to continue with to say the same level. But then you've fundamentally changed something.

Maybe there's a absolutely onerous head office that upset all the staff, I've seen this happen, HR hasn't been handled correctly, things change, you can't buy the birthday cake any longer. You know, so the the and then your staff leave. And if you staff leave, that can affect the patient, the patient can be equally as concerned, when a nurse they've got to know, over many years leaves as when their dentist leaves, it can have a profound impact. So if that contracts in a corporate situation, is expecting you to continue doing certain things, you also need to make sure that contract says that that is only fair and reasonable if the corporation doesn't change other aspects. And the other aspects are really your branding, marketing, special offers HR, all things that can fundamentally affect your ability to actually fulfill your contract.

Joanna:
And the way I look at this from the legal perspective, and that we look at it here at Aspect Legal is sort of breaking down these elements where there are earnouts in relation to what controls you have as a seller in relation to protecting the business, the business's ability to perform in a way that will drive the earnout and that both a mixture of these things that you're talking about in terms of the control of the behaviour of the organization. But the on a separate note, it's also about the way in which the calculation of the earnout comes out which can become quite technical but really important, for these dental practice owners to understand. So, for example, because quite often there's terminology that I find isn't, you know, dental practice owners aren't generally across aren't using in day to day, you know their day to day, you know, operation of their business like focusing on EBITDA, and what what is incorporated in the calculation of the accounts and earn out accounts and a bit to just, you know, to make it clear, you can have an announced that relate to the revenue of the business or you can have burnouts that relate to the profit of the business, and the profit, the terminologies, there's a bit there. But I often find also a lot of work needs to be done in terms of what expenses you will allow to be included there, because you don't want the buyers to load up the accounts with a whole heap of expenses, because you have that differing, you have that differing perspective of a seller who's in an urn out versus a buyer, the buyers want to want to invest in growth in the business, because their their ultimate requirement of an acquisition is to grow it. But in order to do that, they often have to invest. Whereas when you're a seller, you don't really care about that investment in growth, you just want, you know, the profit to be maximized to your target. So I think it's those sorts of things getting your head around those sorts of things as well.

Carl:
Yeah, no, absolutely. And, you know, I've seen it where the, you know, onerous head office costs have been put back to the individual practice, while suddenly you've got a cost now that you didn't have before you went into the transaction. And usually, the way the contracts are structured, there's really very little you can do about that other than argue, and and then that doesn't create for a great working relationship. So you're already on the slippery slope. You know, it's, I think, with the say, with the with the private sale, it's, it's far safer than with some of the corporations. The other the other caveat is, maybe you're happy with the amount that you've got, without the earnout as well. So sometimes the corporations are paying a premium for a practice. And I've seen that before, where the initial payment is probably the same. If you've got from a private buyer. So then your risk factor is minimized. And then it's just more down to disappointment if you don't get the second payment.

Joanna:
Yeah, really good point. Yeah, it is a good point, as well, you know, and it's a good point in relation to the way in which the structure is set up for the component, how much what percentage are you getting? Is the upfront versus what percentage sits in that burnout? And indeed, what are your own restrictions? You know, are they are they required to continue to be

involved in the practice as a dentist for a particular period of time, because I know, they're, you know, quite often in these sort of situations, business owners once they've sold the, you know, it's hard for them to keep mentally connected to the business, particularly under new ownership.

Carl:
Yes. And we've we've things that maybe they weren't required to do, you know, some of the corporations can put huge amounts of admin back into the, into the practice that wasn't there before. And that can become highly frustrating just doing reports and pushing paper all the time. So, so culturally, you know, you've got to be careful that you're moving in to sounds like we're having a go at the corporates, they're not all bad. They're certainly one, there's better ones and worse ones within that within that sector.

Joanna:
But I guess the point is about surrounding yourself by people who understand the differences between the good and the bad, the people who understand the differences,

Carl:
and also understanding your own as a seller, your own motivation, and maybe maybe pondering on that somewhat as well. You know, if the if the sale is purely driven by greed and getting the very best price, well, you've probably got to understand that that comes with some risks as well. If the certainly is driven by you know, getting a good price, but making sure that your patients are being treated the way that you've treated them for the last 20 or 30 years, then that's probably going to point you more into a into a private sale. It's probably going to be a you know, a happier transaction that you feel good about.

Joanna:
Look, brilliant points. And I'm sure this will be a very valuable snapshot into this area of what to think about as a dental practice. Moving into thinking about the exit of your practice, Carl, for all of our listeners who are interested in finding out more about how they get themselves ready for sale and get themselves to the market, how do they contact you?

Carl:
Contact me by email, and which you is just simply carl.burroughs@raywhite.com on my mobile, which is 0416190000. What I would say is, start early. If you're thinking that you may want to either sell your practice or retire in three, four or five years, start today, because long you have to plan. The longer you have to work out your strategy, the better transaction you will get. So even if you think it's, you know, down the track, when it's a rush, and when it's done in a hurry, generally, the transaction doesn't go as well.

Joanna:
Absolutely love it really wise words, Carl, and of course, we will put all those links in the show notes. So if you're running along the beach right now listening to this half your luck. If you're in

the commute to work, don't worry, you'll get there soon, I'm sure. But you'll you'll be able to access all of this in the show notes so don't have a crush on the way, Carl. Fabulous. As always, absolutely fabulous to have you on the podcast. Thank you for being a guest of The Deal Room Podcast.

Carl:
Thank you for having me.

Joanna:
Well, that's it for this episode of The Deal Room Podcast. We hope you're now primed for your next deal with these pointers and have enjoyed these fascinating insights.

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