

**Howard Farran:** Today is going to be a wonderful podcast. I have probably the smartest lawyer that ever lived in dentistry. I am your biggest fan. I can't ever go to a lecture where I hear a dentist – we are talking about Dental Town dentists – say oh my god there are lawyers on there for free that will just tell you the greatest advice in the world. You are so smart and you are what – second or third generation dental practice law?

**Jason Wood:** Second. My father is one of my partners.

**Howard Farran:** So you already were learning this stuff in grammar school. It just comes through. You are so smart, you are so educated it is an honor that you took an hour out of your busy schedule to talk to us townies today. Gosh, tell everybody what you do.

**Jason Wood:** Well, what we do is basically we try to protect doctors on their business transactions throughout their career. It doesn't matter what it is. We tend to think of ourselves a little bit more than just attorneys. Sometimes we are life coaches, shrinks. We take an active role in their careers. Anything from an associate agreement to an acquisition to a partnership, to a start-up, to a lease you know, just all of these things they may see.

**Howard Farran:** I think what you were saying about a life coach we just – Doug Carlson just wrote an article that the number one financial disaster a dentist ever has is losing his license and number two is a divorce. Buying and selling a practice you are thinking 10, 20, 30 years down the road it is just amazing. Also, what I love about you is I hate to say this I don't want to throw my professor under the bridge they are not usually the best business people in the world. If you can do amazing endodontics it doesn't mean you know how to buy or sell a practice. It doesn't mean you are a lawyer. You seem to know more about root canals, fillings and crowns in dentistry than any dentist knows about law. What I wanted to start with you is something simple. Tell these dentists the low-hanging fruit, what they are not thinking about in buying and selling a practice and hiring an associate and then I also wanted to get your view. You are out in California and a lot of dentists – Socrates said there were two emotions: Greed and fear. A lot of them are fearful of corporate dentistry taking over America. For an old dog like me who will be 52 next week this is round two. When I got out of school Orthodontic Centers of America made it all the way to the New York Stock Exchange and then fabulously exploded. There were, I think, 11 or 12 traded on NASDAQ they are all gone. Then 10 years go by and you don't hear of any of this and now they are all back again. I want to ask you being an old-timer do I have a bias since the first round all failed the second round is doomed to fail? How does this – how does corporate dentistry play into buying and selling a practice? Is it time to just throw in the towel and sell out and go get a job or?

**Jason Wood:** I tell you what in my opinion that is the biggest issue facing this industry. It is not insurance reimbursement, it is not the doctor down the street from you or even across the hall from you, which unfortunately, most doctors that is what they care about. What is my competition doing rather than oh crap we have got 15 now 20% of the marketplace is now corporate dentistry and they are more efficient than me, they are open more hours than me, they are doing a bunch of procedures that I am not doing. It is a great analogy for looking at the first round and what happened. The problem is that all of these corporate chains the Heartlands, the Aspens, the Pacific Dentals, the Midwest all of these chains they have studied that. And they know what not to do this time.

You got three or four main models that these corporate players are using and they are not letting up. Ten years ago they were less than 10% of the marketplace, now 20% may even 35% of the marketplace. What does it mean for an old-timer versus a young dentist? Well, obviously the older doctors are probably going to be protected in terms of the values of the practices and things like that. But to be quite frank the younger dentists if they don't pony up and start realizing that oh crap if I continue to work as an associate or I continue to be a cog in the corporate sphere there is eventually going to be a suppression of wages. There is eventually going to be a time when dentistry is going to be a candid in the medical profession. Where practice values are basically worthless. You are working for a giant corporate chain where we have already seen the PBS specials and things like that about how there is pressure to produce. How maybe just maybe the non-dentists are pushing a little too much on the clinical aspects. There are a lot of things going around with these corporate chains. Unfortunately, the generation coming up I'm fearful of. They do not want to own practices. They believe in job security rather than practice ownership. It is a huge issue.

**Howard Farran:** Because we have two factors at play. I was reading in the Harvard Business Review or The Economist that it is real easy to look at a market and realize that there are boys and girls. There are white, Latino, African-American, Asian and that is real easy. But what people usually miss is the psychological thinking differences between the senior citizens, the baby boomers, the generation Xers and the Yers. What we are seeing in the 20 richest countries and we are seeing it most in Japan is their birth rate fell below one child per family and you need 2.3 to maintain. These Japanese women are saying are you kidding me have a kid and have it just spend 10 hours a day in high school trying to get into the best high school and the best college. Then 10 hours a day in college trying to get the best job and then work 70 hours a week and chain smoke and drink sake and die of a heart attack at 65. I would rather have a dog. When I go into these dental schools a lot of them I would say – I have no hard data on this, but it seems about a third have a dentist somewhere in their family or uncle or whatever. And you are right. Those generation Xers and Yers say I am not going to work that hard. I am going to work three days a week. And then we got the other variable where now 45% of the graduates are women. Let me ask you this – if someone is going to get a job in a corporate chain do they need legal advice on their contract or do those guys not bed 1%?

**Jason Wood:** I tell all of the schools that I'm allowed to speak in basically, I don't mind you going to work for a corporate chain. I have no problem with that, but you get in and get out. You learn from them. You use them the way you want them to use you. What are the positives of the corporate chains? Well, production. You are going to learn how to sell dentistry. You are going to be more confident in how you do that. You are going to be just inundated with patients so your hand speed is going to be there. There are definitely benefits there that I want young associates to learn. I want them to learn efficiencies. I want them to learn some of the business aspects of being in a corporate chain so what they can do is once they got that clinical backing where you know what I really do know myself now as a dentist. I know what I like. I know what I don't like. Then after a year, maybe even two going out and acquiring a practice or the demographics are right doing a start-up – I definitely don't necessarily disagree with a short time gig. It is that – what I am fearful of and what really this entire profession should be fearful of is the generation coming out now there is really two facets that are scary. One of them is there is a lot lower percentage that want to own their own practices. It is staggering. I want to say – if you want to look up the figures ADA came out with the last year it is a very good publication and overall the generation coming out is much less likely to own. They are willing to sacrifice ownership and the security that comes with that to what they term as job security. It is not really job security when you look at the data. It is I need to pay student loans they are going to give me \$150,000 maybe even \$175,000 as a base and therefore I know that I can pay off

my loans with a \$150,000 salary. They are willing to forego the possibility with risk that they can make \$300 or \$400 or even \$500,000.

That coupled with the huge increase in the female dentist population where now the incoming classes are 51% plus female and this isn't to harp on males versus females.

**Howard Farran:** Oh please do. Please do.

**Jason Wood:** As long as I'm at work and I'm not at home I am very, very courageous in that. Get me at home and I am sheep. The ABA statistics were shocking. Basically, the ABA statistics were saying that males are two times as likely to want to own a practice as a female. So when you extrapolate that out we have at least 50% of the graduating classes are becoming females. I'm sorry are females. You now have almost a two to one less likely that they are going to own that is amazing statistics for corporate dentistry. They don't want people who are entrepreneurs. They don't want people who want to own their practice. They want people – I don't want to say lemmings, but people who are going to be okay being long-term associates. Unfortunately, for some reason women are increasingly – are comparing the ability to have a practice with the ability to have a family. If you look at statistics women who acquire practices actually have a better family continuity and the ability to provide income and they can do it on a part-time basis three days a week or using schedules since they are the owner to work around games, work around the ability to pick up their kids, drop their kids off. I really want women to be empowered to know that they can do both. I really want those statistics to come up.

**Howard Farran:** You said you didn't know the reason. I think the reason is that and economics I got an MBA they say all people chase incentives and the \_\_\_ is that women dentists always marry men with great degrees and jobs. 30% of them marry a male dentist. If it is not a male dentist it is an engineer, a lawyer, a physician or whatever. And the dentist always marries the hottest girl he saw at the bar and nine times out of 10 they will never have a job their entire life.

**Jason Wood:** Women are definitely smarter than us. Don't get me wrong on that.

**Howard Farran:** They marry with their brains and we marry with our eyeballs and it is a lifelong advantage to be a woman and marry a short, fat, bald dentist who is going to make money because the women – the probably just figured okay a man is going to be a useless pain in my butt anyway. He might as well have a good paycheck. I always hear women dentists say to me in dental schools say it is just easy to fall in love with a man that has a job as it is to fall in love with a man who is not going to have a job. If you are going to fall in love with a man might as well get one that has a job. I want to throw the dentists under a bus. There is 168 hours in a week. The average dentist works 32 hours in a week it is facilities being used 19% of the week and these people are coming out and they just want a job. The patients phone – I mean if you look at the data when they are closed Friday, Saturday and Sunday how many incoming calls are coming in that are never answered, whatever. A lot of it is the fact that the dentist is too lazy to say I should get an associate. Let's be honest, I don't want to work Friday, Saturday and Sunday and why don't I just work three 10 hour days and bring in an associate to work three 10 hour days. My patients get twice the access to care with not an additional dollar of fixed cost increase in rent, mortgage, operatories, utilization all of this stuff. Then they use this excuse well Jason, I am in Parsons, Kansas and nobody wants to live in Parsons, Kansas. The Navy can get you to go sit in the middle of the ocean in an aircraft carrier that won't even land for half a

year. Parsons, Kansas might be a little on the boring side, but the middle of the ocean has got to be the most boring place on earth. They could be more proactive.

What would you say – a dentist's bread and butter is a cleaning exam and a filling and a crown and a root canal. What is your bread and butter? What do you do? What things do you do for dentists? What is your 80/20? What is 80% of what you do?

**Jason Wood:** Eighty percent of what we do is probably acquisitions, sales, partial buy ins. We are doing probably 150 to 165 acquisitions or sales a year whether that is full buy outs or part buy outs.

**Howard Farran:**With that, what do the dentists usually don't understand going in and what you are going to educate them on buying and selling a practice? They probably think it is pretty easy. This practice listed for \$500 grand so I write a check for \$500 grand. Why do I need Jason? What do you usually end up educating these guys that they didn't know going into buying and selling a practice?

**Jason Wood:** Really the business side of it and also the legal ramifications of a lot of provisions. There is just so much misinformation out there about things like restrictive covenant and my duties as the custodian of records and what do we do about mid-treatment provisions and how does that impact malpractice? And taxes and what is the difference between stock and assets. I am being told to buy stock. I mean there is just so many little things that add up. Unfortunately, there is a lot of misinformation. Even if you go on Dental Town you go oh, well covenant \_\_\_ compete aren't enforceable. Where did you hear that from? Because you know –

**Howard Farran:**The bartender told me.

**Jason Wood:** Yea, exactly. Or I read about it or my buddy's friend said this. When taken out of context information can be a killer thing.

**Howard Farran:**Tell me if I'm right on restrictive covenant. I have heard that they are enforced, but if you are too greedy on the restrictive covenant the judge can't change the terms of it. The judge can only uphold it or throw it out so if you are too greedy like if you say okay you can't practice in Arizona then she says no that's not true. Now he can go across the street.

**Jason Wood:** It depends on the state you are in. Every state is different and we are dealing really with state law issues. The quickest and best way of explaining it is as long as the covenant is reasonable in what is called scope and duration so geography and time it is going to be enforced against owners. Now, when we are talking about associates it is a completely different ball game. In some states covenant not to compete against associates after the duration of the contract are completely invalid. Other states you can do it. The argument is okay well is it two years, is it five years, is it three years. That is an argument that we can all have. In most states as long as an associate has a covenant not to compete it is reasonable it is going to be upheld except for those states, which have what is called a strong public policy against enforcing those covenants. But when we are talking about acquiring a business every state allows that. It just depends on how they allow it.

**Howard Farran:**A lot of people will just cut and paste a contract they found and they will say like 15 miles for five years, but in Manhattan nobody is going to uphold a 15 mile restrictive or in San Francisco. In New York a mile might have 10 times the density of 10 miles in Parsons, Kansas.

**Jason Wood:** Absolutely. What you need to know is what is reasonable. But even in Manhattan you can – and there are ways in which we protect this. We don't just add standard language. We add the language that protects it from the judge being thrown out. Hey, judge, you can't just throw this out. You got to come up with something that is reasonable. What we do is we try to show this is what the selling doctor told me that they were pulling patients from. I am relying upon that information in making this restrictive covenant. I usually recommend a zip code analysis and things like that to determine the reasonableness of the covenant. We are always trying to build and protect in a contract. There is – just talking about reps and warranties. Typically, there is only going to be about eight reps on warranties. Again, I am pretending I am the buyer all of a sudden. In our contract we have about 32 to 35 provisions that we are trying to protect against. For instance, does the seller waive co-payments? Have there been any outstanding liabilities associated with employees that we need to know about? Has there been any litigation? Any chance you have ever been brought up for anything with the State Board just on and on and on that we talk about.

What we are trying to do is we are trying to get information from the seller. If the seller objects to something you need to follow-up. You can just oh okay. I'm sorry for putting that in there. You can't do that. You got to go okay why are you objecting to a provision that says you have to waive co-payments. Okay so you sometimes waive copayments for a family. Great. That's wonderful. We don't care about that. Versus well 70% of my patient base is union and the union member came in and told me that if I try to take copayments they are going to take their business down the street. That is a big difference. We need to know about that. Provision after provision after provision in the contract can really decimate a young person's career.

**Howard Farran:** Let's talk about one difficult thing about dentistry that you couldn't get two dentists to agree that today is Thursday. I always hear a feud about I buy – let's say I am a dentist and I buy Jason Patrick Woods' practice and every recall patient I think that what Jason did a year ago that crown needs to be redone. Then the selling dentist starts having to pay to have all of this dentistry redone. Or what if it is bad? What about remakes? Who pays for remakes?

**Jason Wood:** There is going to be a constant struggle on that. The question is how do we do a balancing act on that? We don't want to incentivize the buyer to find let's just say I wouldn't call them questionable, but maybe not perfectly done crowns or perfectly done whatever.

**Howard Farran:** Let me interject. You are old enough to remember the Readers' Digest story 20 years ago where that journalist went with FMX a \_\_\_ to 25 different dentists and got 25 different diagnosis and treatment plans from \$0 to \$30,000. On Dental Town I have never seen anybody present a case where everybody agreed.

**Jason Wood:** There would definitely be something wrong if everyone was agreeing. What we try to do is we say okay, hey we get it. There are going to be remakes. And this does come to a shock to some people, but not every dentist is 100% accurate and perfect on every single procedure they have ever done. What we try to do is we say hey, we are going to notify you. We are not going to tell the patient. We are not going to do anything else. You are going to come in and you are going to analyze it. And if its reasonable to be determined yea, this needs to be redone seller, you got first crack at it. If you don't want to do it, that's fine what we are going to do is 50% of the UCR fee you are going to pay us, we are going to redo it plus labs. That tends to take away the profit angle of the buyer, but then we also cut that time period to basically 12 months. This isn't a gravy train for you buyer, ever. You got to balance the good will you are

acquiring with the good will you are creating. So 12 months let's take out the profit angle. It tends to work out pretty well.

**Howard Farran:** Let's talk about what everybody always wonders how do you value a practice, Jason? A dentist always thinks his practice is worth somewhere between \$2 and \$3 trillion. Is there any rules of thumbs that you can just say?

**Jason Wood:** There are definitely rules of thumbs. As Tim Law who posts on Dental Town a lot says those are worthless. And this is my opinion – I tend to think my opinion is probably one of the best because I am very humble.

**Howard Farran:** I do think your opinion is the best. You are my number one idol lawyer in dentistry and there is nobody in second place. I am starting to wonder if you – now you don't work anymore do you? I am looking at that tan you are sporting and obviously you are on the golf course all day long. How did you get that dark of a tan and still work?

**Jason Wood:** I made the very wise decision early on to become my kid's coach in multiple sports. I was scared out of my mind the first time and I loved it. I loved every minute of it. The byproducts are good. You get a shiny forehead that looks like you are a multi-millionaire.

**Howard Farran:** How much is my practice worth?

**Jason Wood:** In my opinion the two main arbiters of value supply and demand and what will the bank finance.

**Howard Farran:** Good point.

**Jason Wood:** Two identical practices let's say they are both doing 40% profitability. One is in Kansas. One is in Newport Beach, California. The Newport Beach practice if looking at it without any information is going to be worth the same amount of money as the Kansas practice. The big divider there is not reputation, is not patient flow, it is not profitability. It is the demand that 150 buyers want that practice. And so that is why you see Seattle, Chicago, California, New York City basically any hot spot in the country \_\_\_\_ any place where doctors want to move to there is going to be a higher value associated. There is no rational basis for it other than supply and demand.

**Howard Farran:** Where are you in California?

**Jason Wood:** Right now I am in my Orange County office.

**Howard Farran:** Orange County. That's LA.

**Jason Wood:** Yea. Typically, rules of thumb you are going to see 80 to 90% of gross revenues as the value of the purchase price. Now you still have to take into account profitability. I have the fortune or misfortune if you will of working with brokers nationally. I have had some brokers tell me that profitability doesn't matter at all. And so a practice with 90% overhead is going to be worth the same as a practice with 60% overhead. Now we all know that is complete crap if you will. It matters – in my opinion as long as banks are lending, as long as those interest rates are going to remain low you are going to see very high values of purchase prices provided that you are in an area where people want to move to. Now my advice for buyers

go to those places that no one wants to go to. Not only are you going to get a better purchase price, but you are going to have less competition. You are going to make a whole heck of a lot more money and who cares if you can't go to a theater show that you really don't want to go to anyway. So you can't go – I got one of my clients who I love he moved to LA specifically and I kid you not so that he could have whatever kind of food he wanted at 1:00 am. My response to him is why the hell are you up at 1:00 am? You are a business owner for crying out loud. My advice for young docs go where other people won't go. You are going to make a whole heck of a lot more money. Believe it or not you are going to come to find you actually like the quieter life. You actually have the ability to hang out with family, slow down and enjoy actual interactions with real life human beings. I mean that is what I would say for buyers.

**Howard Farran:** And a nicer place to raise the kids.

**Jason Wood:** Absolutely. Keeping up with the Jones' is so 1980's.

**Howard Farran:** I was from Kansas, moved to Phoenix so I bought my kids a mini bike and every time they would ride up and down the street the neighbors would call the police. I'm like are you kidding. In Kansas that wouldn't have happened in Kansas.

**Jason Wood:** Absolutely not. Values, supply and demand and what the bank will lend if you want a good rule of thumb I would say as long as you are not in a metropolitan area you are looking at 1.5 times net or 65 to 70% of gross revenues. Again, those are rules of thumb so you got to take that with a huge amount of salt.

**Howard Farran:** Okay, Jason we are half done. I only get you for 30 more minutes. Let's talk about this one. I talked to people wanting to buy a practice they don't even want to start the process because they know they are not going to get financing they say I have \$300,000 in student loans, I have a car payment. Nobody is going to loan me money. Who is loaning money specifically names who is loaning money? What does it take to get a loan? Does the owner ever co-sign? And I have also heard this Jason, which makes a lot of sense I have hard consultants say if the selling doctor doesn't want to cosign your loan he is not vested in your success. Talk about that concern. Can I get a loan? Do selling dentists ever cosign? Take the finance. You started with supply and demand, but then you added your genius self that the other variable is financing.

**Jason Wood:** I would be very concerned at a consultant representing a buyer saying well I don't understand why the seller won't cosign. That to me is a huge red flag. If I am representing a seller there is no way in heck I want to be cosigning for a buyer when I don't know his case presentation, I don't know his or her reputation, his or her personality. There is no way I am going to be signing up for someone that yea, I want to sell my practice to but I don't want to be married to. It is very different from a partnership. I would be very concerned with that. Banks are lending. Let's be very clear about that.

**Howard Farran:** Are you talking about an SBA loan or? Who is lending? You hate SBA that could be a whole podcast.

**Jason Wood:** I knew I was going to get in trouble. I say it how it is. Banks are lending. You do not go SBA unless you have to. My preference is as follows: you stay with dental lenders because they are going to give you 100% of the value of the purchase price. Not only are they going to be able to provide you with 100% of the purchase price if they are not giving you 100% of the purchase price that should be not necessarily a red

flag for you, but that should be an issue for you as to why are you not comfortable lending me 100% of the purchase price on this? For doctors that have \$300,000 in debt my best piece of advice to you don't be trying to buy \$200,000 or \$300,000 practices. They do not cash flow. What you need to do as a buyer is you need to find out what can I produce. If I can produce \$600,000 a year in revenue why would you ever be looking at a practice only doing \$300,000 in revenue. You should be looking at a practice that is doing \$700 to \$800,000 in revenue. Well, why do you say that if I am only producing \$600,000? Very simple. You are not getting hygiene right now. A healthy practice is going to have 25 to 30% hygiene. When you factor that in you should be looking at practices doing \$700 to \$800,000 in revenue.

You always want to buy practices that support how you can produce. Back to the banks though if the dental lenders are not lending 100% there are two reasons before it is you. And that is really it. That is why I like using dental lenders, they get the industry.

**Howard Farran:** Give names of dental lenders.

**Jason Wood:** I do this all the time and I get lambast for it, but my favorite is Bank of America because they are the biggest 800 pound gorilla out there. They know the industry better than anyone else. They got a box that they understand better than anybody else. They can help – so for me that is my go to bank.

**Howard Farran:** Is that because you are in – is B of A headquartered in California? Is that because it is a local place for you?

**Jason Wood:** Well, they are national, but they are actually headquartered in Ohio of all places. They got boots on the ground everywhere. Again, that is why I like them because they got boots on the ground in every state. They are also now integrated with B of A bank so it has helped their product a little bit. I also like US Bank. They are great. They have got a different sweet spot than B of A has. US Bank is great. They got a good integration with their banks. On the east coast if all you care about is rate then I would say that PNC is a good play as well. I have some issues with their loan language that caused me to be concerned. They are like a second tier for me. There is Wells Fargo. They are working through issues that I am still not completely thrilled about, but I do deals with them.

**Howard Farran:** What about Chase?

**Jason Wood:** They are in and out of the market. For me – tell me if you are committed or not. Don't come in and come out, come in and come out. To me that is not good and I am protective of referrals so I tend to say until you prove it to me I am not going to recommend you.

**Howard Farran:** B of A is your top choice, but go back to why you don't like the SBA.

**Jason Wood:** You don't need it. Typically, you are not going to need it. Now 25 years ago it was a great play for dentists, but you don't need it. They are going to especially with bigger practices it is a great back up play don't get me wrong. The order that I like – dental lenders, local banks that do a conventional loan then the SBA. For me it is a fall back position. Then if you can't get any of them to sign up for your loan because of bad credit or whatever then go to the I don't want to say loan sharks, but the loan brokers. That to me is the order in which people should go. The reason why I don't recommend SBA 1. You pay a ton of fees to the SBA. You pay about 3% of the purchase price of the practice. If you are looking at a \$800,000 loan you are looking at \$24,000 in loan fees that you don't have to pay going conventional. The reason why

– well, why don't you recommend local banks number one. Well, I don't recommend them solely because they don't know the industry well enough. They are going to provide a good rate that you usually are at or maybe even slightly better than some of these dental lenders. There is going to be some strings attached or they just don't know the industry as well which causes me to have concerns as to how they value whether or not they should be making this loan.

**Howard Farran:** So Jason, let's reduce your years and decades of history on this. Just since the recession of 2008 to 2014 so just in the last eight years a dentist is buying a practice how many of these – what percent would you say they did a bankruptcy it didn't work. What is the fatality rate of buying a practice?

**Jason Wood:** Historically, 1% or less.

**Howard Farran:** Wow. Are you kidding me?

**Jason Wood:** Yea.

**Howard Farran:** Wow.

**Jason Wood:** I will tell you this back in 2005 there were some major banks, GE, HBSC these other major banks that were loaning and they didn't – and this is why I have issues with local banks and SBA and stuff. They were loaning based upon the industry not based upon the specifics of the practice. As a result – when the crap hit the fan the historically default rate, 1%, in those portfolios for those companies they skyrocketed past 20%. And it was solely because they were making loans that they shouldn't have made in the past. Meanwhile, these other banks, these dental lenders they up ticked a little. They went up to maybe 2%, but because they knew the industry they didn't have these portfolio losses that destroyed other companies. And so for me doing a start-up is still more risky and will grow increasingly more risky than an acquisition.

**Howard Farran:** Why is that?

**Jason Wood:** Typically, the demographics again, assuming normal human rationale and things like that which is completely ludicrous these doctors are gravitating towards metropolitan areas. As a result they don't have the demographics to support a start-up. And so they are trying to do a start-up in Irvine, California, in Chicago. Not just Chicago but I want to go to Dupage County Chicago where the family income is so much higher there. Yea, did you stop and look at the dentist. The population ratio it is 800 to 1 how are you going to survive in an 800 to 1. So start-ups for me are more risky and statistically you are going to make less money doing a start-up than acquiring a practice as well. The reason there is time, value and money. Day one of you acquiring a practice you have immediate cash flow versus doing a start up. One to two years later you are going to turn a profit.

**Howard Farran:** I just want to interject that in my market, I live in Phoenix, Arizona from the 2008 recession to now we had 85, 86 practices go under. Half of them were start-ups. The other half were elite cosmetic dentists who could only do cosmetic dentistry. Could only do root canals, fillings, crowns, \_\_\_ [00:39:46] partial dentures all of that. I want to ask you this logic that I have in my brain is right or wrong – when dentists tell me that they just want to buy a \$250,000 practice and grow it to a million they don't want to pay for a million dollar practice. I always say and I want to see if you agree with this logic. I say well look, if you buy a \$200,000 house and a million dollar mansion you buy a million dollar mansion you still have a

million dollar mansion. If you buy a \$200,000 house a year later you get \$200,000. If you buy a million dollar house and sell it a year later you have a million. I mean what you are buying is what you said is cash flow. I would rather buy a huge cash flow than a little cash flow because you still have the cash flow.

**Jason Wood:** I 100% agree with you that is the advice I do. And here is the thing the reply to that is going to be but I am going to be adding services. That is great. That is exactly what I want my buyers to be saying. I am going to be adding endo and oral surgery and all of these things the seller is currently referring out. Those are great things. Here is the flip side to that – if you buy a practice that is only doing \$300,000 versus buying a practice that is doing a million dollars what is your upside on bringing all of those additional procedures in? Is your upside 10%? Is it 20%? Okay. So let's apply that. 10% at \$300,000 is \$30,000 versus 10% at a million is \$100,000. Again, this is pure profit for you. Why would you want to grow something and by the way it is much easier to grow a practice from the million to \$1.25 million versus taking a practice doing \$250 and growing that \$250,000. The logic for me it is flawed, but you got to remember that it is not based upon logic, it is based upon fear. I don't want to get into debt. I got these student loans I got all of these other things I don't want to get into debt. The problem with that is you are actually significantly increasing your risk of buying a smaller practice because the chance of – you have to be perfect in a small practice. If you have a 10% drop in revenue there goes most of your profit because now all of a sudden your overhead is so much higher. Versus a 10% drop in a million dollar practice. See how you have lost \$100,000, but you are still making \$200 to \$300,000. And that still can support the livestock.

**Howard Farran:** So Jason what do you think of this logic when a dentist says I am buying a \$600,000 practice? So what is another \$40 or \$50 more to buy a year long consulting contract to walk me through the first year? Kind of my consigliore. I am only making a \$600,000 maybe I should beef it up another 50 for this transition. Do you see buying a consultant the first year value added money or do you not really see that having an effect?

**Jason Wood:** Excellent question and I am going to give the non PC answer, which I tend to step my foot into. In my opinion consultants are extremely important to doctors who have no business sense, which is a lot. And so – but then it gets down to okay who is a good consultant and why are you hiring? What are you bringing them in to do? Because that is where a lot of the consultant dentist relationships go afoul is wait a second I thought I was bringing you in to do this and all you have given me is this. I thought I was bringing you in to do systems and help my case presentation when your specialty is in employee/employer relationships. Well that is not going to help. So you really if you are going to spend the money you better be doing your darndest to do some education on analyzing who these consultants are.

**Howard Farran:** Now do you offer that as a service to your clients? What if you are representing me to buy a practice and I said to you Jason, I want a buddy, friend, consultant for the first year what would you tell me? Do you have names? Do you do that yourself? Do you have people inside your firm that do that?

**Jason Wood:** We are firm believers in sticking with what you know. And I can probably tell you 80 to 85% of what that consultant is going to tell you, but that is not doing my client a service. And you got a lot of companies out there who do that. Who oh you know, I can do everything. I am a jack of all trades. No. You actually suck at everything. I would not feel comfortable saying I can cover this for you. I would be very comfortable saying you know what given where you are, given what you need I really think that you should call so and so. I really think that based upon what you are telling me you should call Sandy \_\_\_\_\_. I really think based upon what you are telling me you may want to make a call to Sally McKenzie or Terry

Macavaney or Kathleen Johnson all of these other consultants that are out there – Bernie Schultz and all of that. They are great, but you have to do some information gathering as to whether or not they are great for you. That is a big difference. They are great versus are they great for me.

**Howard Farran:** I want to ask you another question. These guys like my friend Rick Workman who is up to 450 offices. My friend Steve Thorn who is up to 500 offices they – Rick Workman built his empire just mergers and acquisitions. Just buying practices. Are you seeing dentists with one office growing their business by doing what we call M&A activity – mergers and acquisitions activity? Jason, are you seeing people in the town saying wow, two miles up the street old man farmer Joe is retiring. I am going to buy his practice and do a merger acquisition and move it into my office. Do you see much M&A activity? Do you think it is underused, overused? Do you think it is a strategy?

**Jason Wood:** It's a great strategy. Great strategy provided that it is within a certain geographic radius to your practice. One mile away or a half mile away acquisition is going to be a lot better than a three mile or four mile away acquisition. What is also very important is how are you transitioning this. Are you bringing that doctor in and having them work for six months or is it just here are my charts I am leaving? That is going to be a big difference than really this passing of the baton over a period of time. You know? That it is really going to increase the revenue and the likelihood those patients are going to stay with a practice once the selling doctor leaves. Yes, it is a great in my opinion a great strategy. Very, very under utilized.

**Howard Farran:** Okay. So right now we know a lot of times a dentist will be talking to me about his practice is slow or whatever. I go right to the free classified ads on DentalTown.com I do a zip code search and I say you know so and so? They say yea. I say well his practice is listed for sale. How far is that from your office? Talk me through that decision. So I am looking at either spending \$50,000 with new patient inks on a marketing campaign and I am looking at Dental Town classified ads and the 68 year old dentist two miles away in my town of 5,000 has got his practice listed. Talk to me.

**Jason Wood:** The biggest issue there the biggest issue on M&A type deals is actually the lease. How long does the selling doctor's lease go for? If it goes for four more years that could be an issue for –

**Howard Farran:** What do you mean the selling doctor's lease? What do you mean?

**Jason Wood:** If they got a lease for their suite or their dental practice that lasts for another four years you got to take that overhead into account when you are looking at acquiring it because it is not like you are going to be able to exit that lease. That, to me, is one of the biggest impediments where as the corporate chains three miles, four miles away they are looking at it as being not just a chart acquisition they are looking at it for being another location acquisition. That is where a lot of people get concerned is three to four miles I am going to have some campbellization[ph] of my patient base if I acquire that type of practice. Again, I love it. It is underutilized. In my opinion though due diligence on what should and should not be done and whether I should be acquiring just the charts or the entire practice we need to do a lot of factoring in.

**Howard Farran:** Okay. Let me reverse this question – throw it differently. I'm a dentist. I have never even heard the term M&A and mergers and acquisition. What would – if he put his business hat on what should he be looking for in his neighborhood?

**Jason Wood:** If I am a dentist mid-career early career I am looking for all dentists within a one to two mile radius of my practice where they have slowed down. Maybe they are only doing 200 to 300,000. They have tried to sell their practice. They didn't get any buyers. And so for lack of a better term they are kind of beaten down. Those are the perfect acquisitions for a chart sale. There are a few threads on Dental Town talking about that right now, which is good. That would be the perfect person. Basically, someone who stayed too long as a dentist as a business owner. The heyday of doing \$700, \$800,000 maybe five to 10 years behind them and they are really only doing it because they don't know what else to do. That is the perfect M&A within a one mile, maybe two mile radius of your practice. Some people what they do is they do a – they go to the dental board website for that state and they go and they get a – say I don't know what is your dental license number? You don't need to tell me. Okay.

**Howard Farran:**XYZ.

**Jason Wood:** XYZ so Howard is a strapping 51, 52 I can't go XYZ I have to WXYZ because I know that range is 10 to 15 years older than Howard. Then I take that and I –

**Howard Farran:**Oh, I see because the license numbers are in order.

**Jason Wood:** Exactly. That is what some people do. Other people just start making phone calls. Hey. I've seen you at meetings. Just wanted to see if you were in the process of selling. If you wanted to – I mean that is what some people do. By the way, that is what these corporations are doing. They are calling up the most successful practices and saying hey, you want to sell. I am doing a deal right now with Heartland that is astronomical and that is basically what they did – they cold called.

**Howard Farran:**It is a liquidity deal. I was very tempted I mean I have known Rick forever. I loved the guy. I was very tempted because there is no way I could sell my practice. Who is going to come out of school and write me a check that big whereas Rick will write it at the lunch table.

**Jason Wood:** That is actually –

**Howard Farran:**It is a liquidity play. Basically, Jason, I heard another analogy: Car dealerships are completely illiquid because they are worth \$10 to \$20 million but 100% of anyone who has \$10 to \$20 million doesn't want to buy a car dealership. So they have to give them to their kids or their sons or whatever because nobody can buy them. And once a practice gets – how big would you say a practice has to get in valuation before basically it is illiquid unless you want to sell it to Rick Workman at Heartland?

**Jason Wood:** You would be surprised. As long as the buying doctor can show that they can support the production and as long as they can show 5 to 10% liquidity. So if I am trying to buy a \$1.5 million practice as long as I can show liquidity of \$150 grand I can go in with a dental lender they are giving you that money.

**Howard Farran:**What about the big practices where they are giving you a bunch of associates and the dental office is doing \$3 to \$4 million a year?

**Jason Wood:** Your best bet is talking to your I shouldn't say your best bet – one of your best bets is to look at your infrastructure in place. You might have one of those rock star associates that allows you to get there that will acquire. But I will say if you wanted a hard number probably anything north of \$2.5 million to \$3 million purchase price. Not revenue. Purchase price.

**Howard Farran:** I want to end this seminar, this podcast I only got you for six more minutes with exactly where you started that what I love about you is 1. Your \_\_\_ everyone love, trusts, respects you. I have never heard everybody that I ever talked to about you just absolutely loves you and adores you. You have seen a townie meeting. You started saying that you are not a lawyer. Sometimes you got to play Dr. Phil shrink whatever. So Jason I want you to finish on this where we started. Go back to your Dr. Phil hat. So a man and woman gets married. They make love. They have children. They have family, traditions, cultures, Christmas, Easter, Thanksgiving and that fails half the time. And now you want me to buy into a practice and be a partner with a same sex dentist that I don't make love with, I don't have children with, we don't celebrate holidays how the hell can a partnership work when half the marriages fail?

**Jason Wood:** It is a great point. For me it is like a marriage you should not be jumping into a partnership. Unfortunately, the –

**Howard Farran:** What if she is really hot though?

**Jason Wood:** If she is really hot trust me other people think she is really hot too and they probably have more money than you. For me a partnership should be treated like a marriage. This is not something we jump into and fortunately a lot of people think that hey I have known this guy for 10 years or her and I we are cousins or we are brother and sister, father and son and they jump into it as a result of that relationship that they have. They have never taken into account patient philosophies. They have never taken into account personal relationships. For me, we tend to turn away 8 to 9 out of every 10 partnerships that come to us because they don't have the right mentality.

**Howard Farran:** You turn away 8 out of 9? 80 to 90%? Did I hear that right?

**Jason Wood:** And here is the reason why –

**Howard Farran:** Oh my god.

**Jason Wood:** Well they come to us and they go I want to maintain control. I want at least 51%. We are probably not the law firm for you and I walk them through it. I go here is why in the majority minority partnership that minority partner is eventually going to chafe. They are going to get frustrated that you always trump them when it comes to a vote. So for me when I approach partnerships I am trying to protect the value of the partnership from both of those doctors absolutely hating each other. And so what we are trying to do is we are trying to protect from miscommunication. We are trying to protect from the value of the partnership being harmed by well screw you, I'm leaving. We can't really do that. What I like to do is I want to make sure that their patient philosophies, their patient treatment are they don't need to be identical but they need to be pretty approximate. That they have the same goals. That their time frames in terms of where they see themselves in 5 to 10 years again not mirror images but similar. By the way, how is their marriage life? Are they on their first marriage or are they on their second or third marriage? That comes into play psychologically. If they are on their third marriage I would say you probably should not entering into a partnership with that person. How are their kids? Are they and this is weird again, you are marrying this person. Outside of your husband or wife this business partner is going to be the most important relationship in your life. Much more so than your kids because you are just renting them for 18 years. For me, you have to delve into all of these issues and it is things that people typically don't want to talk about. Then on top of all of that once we can get through all of those issues how much revenue is the

practice bringing in? That is where a lot of people come to us and they go oh I am doing \$800 to \$900,000 I want to bring on a partner. You can't. It is way too small.

**Howard Farran:** I wish I had you for another hour. Maybe I can get you to do this another time or write an article on it, but. I am hearing this a lot in dental school. Demographically, we know there is boys and girls. We know there are different races, but there is a lot of different thinking between seniors, baby boomers, generation Xers and Yers and a lot of these women dentists are saying my husband is a dentist. I just want to work part-time. So me and Amy from my class we are going to set up a practice together. She is going to do Monday/Tuesday and I am going to do Wednesday/Thursday so that we can have babies and be carpool moms and all that stuff like that. What advice would you tell Amy and Mary before they run down the yellow brick road and be partners in dentistry for life? What should they be thinking about? Because they are buddies. They were buddies all through dental school.

**Jason Wood:** And we deal with that. I want to make sure that both of them are committed to that. Because if one of them is not committed I really want to grow a practice it is not going to be the right fit. And so we do that. We don't – in my opinion it is not something that should be utilized as a model for everyone. But for female dentists especially who only want to work part-time so they can focus on having family first I think it is a good idea. Where people go wrong on this though is they say we are going to do this as a start. And they don't have cash flow from day one. So rather than it being a positive it is a negative for that year or two until they can grow the practice enough. So if two female doctors were saying that is what we want to do I would still want revenue north of \$800,000.

**Howard Farran:** So you tell Amy and Mary go buy a practice.

**Jason Wood:** I would say go buy a practice with sufficient cash flow so that those two days you are working you are full. And Amy, those two days you are working you are full. And if you want to go to a fifth day eventually when your kids get into grades you got the patient base needed to do that.

**Howard Farran:** Jason, what does a lender think instead of just Howard wants to buy the whole practice now two people show up and want to buy a practice?

**Jason Wood:** They love it.

**Howard Farran:** Really?

**Jason Wood:** They love it as long as the cash flow is there. Now they got two people on the loan. And so in terms of a risk diversification it is actually a lower risk to them in case something goes wrong. For them they are looking at it as actually a benefit. That is why these dental lenders will all day long do a partnership buy in because they got the other doctor on the hook for the loan if it doesn't work out.

**Howard Farran:** So Jason to the thousands of people that download and listen to these things how do they contact you? How do they call you? What is the best way to tell you the specifics?

**Jason Wood:** The best way to contact me is obviously through Dental Town, which if you are not using and you are not contributing I would really suggest you do it because the same questions you have, the same advice you have it is definitely a positive for the profession. The more we know the more we can protect. Dental Town is a great way to get in touch with me. You can also always call me at 800-499-1474 or shoot me an email at [Jason@dentalattorneys.com](mailto:Jason@dentalattorneys.com). Available whenever you guys need me.

**Howard Farran:**To all of the listeners out there I have known this guy for decades. He is the best. Once you listen to the best there is no need for the rest. You are amazing. Hey, if you ever want to come back and do another one of these or write another article whatever it would be an honor. Thank you for all that you do for dentistry and also all that you do for Dental Town.

**Jason Wood:** Howard thank you for always being an amazing and gracious host. Thank you, sir.

**Howard Farran:**Alright, buddy. I will see you at the next townie meeting. You going to the next one?

**Jason Wood:** Absolutely. Wouldn't miss it.

**Howard Farran:**Alright. See you in Vegas. Alright. Bye-bye.

**Jason Wood:** Bye.