NCMIC

Mike Whitmer:

Good afternoon and welcome. Thank you for joining us today. My name is Mike Whitmer, I'm Vice President of Corporate Relations within NCMIC, and I'm going to be moderating today's discussion. Before we get started. I just have a few housekeeping notes for our listeners. First of all, all listeners are on mute. If you do have questions, please enter them into the questions feature on your GoToWebinar menu. We'll address questions as time allows. If we don't get to your question, please feel free to contact us, and we'll be happy to talk with you and connect you to resources to help. Today's webinar is live and being recorded. The recording will be emailed to registered attendees a couple hours after the program. We'll also post the recording in the resources section of ncmic.com. It does take a little bit of time to process the recording and get it posted.

Mike Whitmer:

So please be patient with us. One other note, our next webinar is July 21st, next week at 2:00 PM Central Time. We're going to be talking about chronic pain and opioids and how chiropractic care fits into all of that. If you can't join us live, we will be recording the program as well. So you can get that recording too and watch it after the fact. So now I'd like to start our discussion and introduce our guest. I'm very pleased to have Crystal Misenheimer with us. She's done a webinar with us before, so I'm very glad to have Crystal back. Crystal is with progressive practice sales and she is lead broker. Prior to her current position, Crystal worked managing and marketing three chiropractic clinics, she co-owned with her husband, and she's a leading expert in chiropractic practice sales, and is featured regularly in industry podcast, blogs and publications. Crystal, thank you so much for joining us today. Appreciate it.

Crystal Misenheimer:

Thank you for having me.

Mike Whitmer:

So let's dive in, of course. So let's dive in. Today we're covering two really big topics. Okay, both buying and selling a practice. Each of those have their own challenges and opportunities. So listeners, remember if you do have questions, please enter them into the questions box on your GoToWebinar menu, and we have built in time to address listener questions. So Crystal, let's go ahead and get started. Let's start with buying a practice, that side of things. So if I'm a doctor looking to buy a practice, how long does it typically take to do this?

Crystal Misenheimer:

So most buyers that are going to be purchasing a practice are probably going to need financing. And that process on its own can take, a minimum of 90 days. So when you add in the timeframe of looking for a practice, having some visits, speaking with some doctors and then building financing into the end, once you've made an offer, most people are in this process for at least five to six months. And depending on the financing options that you work with and the people who are helping you through this process, the financing part alone can take six to nine months. So I think it's really important for people to keep that in mind, because I think most people don't think of it as such a long-term process.

Mike Whitmer:

Yeah. So it's something that definitely they're going, doctors are going to want to plan for, not something where I'm going to buy a practice and a month later they're up and running and doing it.

They need to plan for that time to work through the process. So if I'm buying a practice, do I need an attorney? Do I need a broker? Can I use one or the other, or do I need both?

Crystal Misenheimer:

So you definitely need an attorney from a legal standpoint, because buying a practice involves a binding legal contract, and everybody should have an attorney look at any binding legal contracts that they sign. So the attorney is going to be instrumental from a legal perspective to make sure that contract protects you and that it adequately addresses what you're trying to do. But in all other aspects of the sale, most attorneys are not really strong in the characteristics that you would want as far as structuring the sale, as far as helping make sure that the goodwill stays high between the buyer and the seller, understanding the specifics of a chiropractic practice transfer and how to make that go as smoothly as possible. Those are the things that a broker can really help step in and make everything really streamlined. Especially if you work with a broker who specializes in the chiropractic space, we just have a wealth of knowledge from doing so many of these transactions, even doctors who have bought or sold multiple practices, they're still usually surprised by the unique aspects that show up because every transaction's so different.

Crystal Misenheimer:

And so having someone who has done this over and over in so many different settings and structures, it's really invaluable support. So in my opinion, you really need both.

Mike Whitmer:

Okay. So what about working capital? Will I need working capital?

Crystal Misenheimer:

So, yes, I think that it's very wise for most buyers to plan on having access to working capital above and beyond the net profit that the practice is going to generate. Ideally, everything will go very smoothly from the day that you close and the cash flow will just start coming in very consistently from day one, but it's not unusual to have unexpected expenses come up when you first take ownership of a practice, especially if you've just moved into the area. And then on top of that, some cashflow is less transferable than others. If you think about a practice that's really heavy in PI, for example, that can have a very long payout time and same with if the practice has a lot of prepaid services, the buyer may not immediately be able to have that same sign up rate as the seller.

Crystal Misenheimer:

They might just need to get a little bit more comfortable in the practice over the first few weeks. So if you have access to working capital, you have a little bit of a financial cushion. That's just going to take a lot of the pressure off of you and give you a little bit wiggle room in case anything unusual comes up. And if you go through, an SBA loan, that's going to be a component of any of those loans, is getting them working capital because they also don't want you to be financially strained as you step into ownership.

Mike Whitmer:

Sure. So a doctor needs to, if they're looking at buying a practice, they need to, not just plan for that timeframe we were talking about earlier, they also need to plan for what is the financial outlay going to be, and have those resources available.

Crystal Misenheimer:

Agreed.

Mike Whitmer:

Let's see if I can get this back online.

Crystal Misenheimer:

I can hear you, Mike. I just, you're frozen.

Mike Whitmer:

I'm frozen.

Crystal Misenheimer:

Am I frozen too?

Mike Whitmer:

There, I think we're both back on. So sorry about that, must have been kind of a glitch. You were frozen and I couldn't hear you, but I think that we are back now. So I was just talking about, if they are planning to buy a practice, they need to plan for that financial commitment that they're going to need as part of that process, correct?

Crystal Misenheimer:

Definitely. And I think that it's really important to understand the practice that you're buying and what those revenue streams are to really properly project out what that's going to look like because it's going to be different for every practice.

Mike Whitmer:

Okay. Let's go on then. And I think that I'm experiencing, I think we've got it now. So practice ownership is not for everybody. What are the characteristics of people who successfully buy practices?

Crystal Misenheimer:

Yeah, it's a good question. And it's something that people definitely need to think of before they embark on this journey, because obviously, you take on a lot of risk when you buy a business, less than when you start from scratch, but you still want to make sure that, you're have a predisposition to do something like this. So I would say people who, the buyers that we see do really well in these acquisitions, a year, a couple years later down the process, they do have a few characteristics that I would say they're all similar. One of those would definitely be that they're comfortable with risk, nothing is without risk. And so there's a lot of decisions that have to be made both in buying a practice and then also in business ownership.

Crystal Misenheimer:

And so you do have to have a comfort level with having some general risk in your life. I would also say that, you've got to have an interest in business, not just chiropractic. I think most doctors of course get into this because they love the patient care component. And that is important. You've got to have a passion for that, but when you own a business, you're not just working in the business, you're working on it. So you have to have that interest in marketing and management and the finances in order to properly develop that investment that you're taking on.

Mike Whitmer:

Sure.

Crystal Misenheimer:

And something else that I would say that I see consistently in the people who are really successful, not just in the buyers we work with, but with the selling doctors too, is the willingness to work with consultants and practice management groups, and new marketing ideas and vendors. They're always exploring ways to stay on that trend of, where is this profession going and how can I optimize my practice? Because most things don't tend to stay static, everything changes and ebbs and flows, and you need to be able to grab onto those waves and be able to move with the profession in order to optimize your return.

Mike Whitmer:

Okay, thank you. So if I'm looking at buying a practice, and there's a price tag on it, how are practices valued? How do we come up with that price?

Crystal Misenheimer:

Yeah, definitely. So this is a hard question to answer without, a whiteboard. So I think it's easy to get lost in this, but I'll try and answer it as simply as I can. So essentially a practice value or any business value is always going to be based off of two things. So on your one hand, you've got a financial metric, and on your other hand you've got a multiple of that metric. So there's a lot of confusion. I know from talking to buyers and sellers, what that financial metric should be. Some people say, well, it should be gross collections. Other people say that it should be net profit. And the truth is it's not really either of those because those things won't necessarily be the same for the new owner. What it really is something called discretionary earning and discretionary earnings is the profit of the practice that will transfer to a new owner.

Crystal Misenheimer:

And so that takes a little bit of calculation to get to, which I think is why a lot of people really wish that the gross collections could be the number, that's a lot easier, but you can imagine if you have two practices and they both gross a million dollars and one had $ 100, 000 profit, and one had a $500,000 profit, those are not the same value in the marketplace. So, we've got our discretionary earnings as our metric. And the way that we would calculate that is we would take the selling doctor's financial statements. So ideally tax returns, but in the interim year, we would get profit and law statements and we start with that net profit. And then we look and we say, well, what income doesn't transfer to a new owner? So like IME income, that's a common one.

Crystal Misenheimer:

Not every buyer is going to be able to take on those assignments and be able to generate that income. Also rental income, if you're not selling the business, or I'm sorry, the building, and you have other tenants, that income's not transferable. And then we look at the expenses, and we say, well, what expenses are not transferable? So, your travel and entertainment, or, if you had an associate and they're no longer there, those types of things, we would take all that out. That's all really profit for the next owner. And then we look at what expenses should be there that aren't. So does your wife work and not get paid? And someone else will need to do that, or do you own the building and not pay yourself rent, but someone else is going to have to pay rent.

Crystal Misenheimer:

So all of that has to be factored in to get to that SDE. Once we have that SDE, then we can start looking at the multiple that would be applied to it. And the market conditions are always changing. And so there's a little bit of variability to it, but really there's about five factors that really drive the multiple that a seller can charge and that a buyer will be willing to pay. And the big one is location, are people trying to get into your area? Because the more people that want to, more chiropractors that want to be in your area, the more likely you are to be able to get top value, because there'll be people bidding against each other in an ideal situation. Then you've got how much of that discretionary earnings is there, especially in relation to the cost of living in the area?

Crystal Misenheimer:

We've had clinics that make several hundred thousand dollars of discretionary earnings, but they're in a cost of living area that's so high that doesn't really buy very much. So it's very important to look at it in that context. And then buyers and lenders are both looking at, is the clinic growing or is it stable or is it declining? And that will definitely impact the multiple that you can get. And then how transferable is the practice? If it's something where the revenue's not necessarily very transferable, like a PI practice again, those can be sold, but if you think about it, the cash flow that you've been taking in that's because you have years and years of those receivables built up. If that can't go with the practice, then that buyer will take over and they won't have any profit coming out of it from day one, or, a practice that's very heavily built on the selling doctor's personality or a very niche technique, those are harder to sell because they're less transferable. There's fewer buyers that feel equipped to successfully take that over from day one. So that can impact the multiple.

Crystal Misenheimer:

And then in today's world, the type of buyer that would be a good fit for your practice will definitely impact the multiple. And so there are certain practices that are really a good fit for investors, and there's a lot of investor activity. And so for some practices, the investor model of pricing might be more beneficial, than the owner operator model of pricing. So there's a lot of things that go into determining what that multiple should be. And there's a pretty wide range of multiples that could be applicable, but that is how a practice is valued, is by determining that SDE and then figuring out where in the marketplace, the multiple would fall based on those conditions. And just to give an example of what that math looks like, let's say that you had a clinic $200,000 of discretionary earnings. It's got a 1.5 multiple, which is a common multiple for an owner operator practice. It doesn't apply to everybody certainly, but it is a common, multiple for certain clinics in certain areas. And so that clinic would have a value of about $300,000 based on the normal formula.

Mike Whitmer:

Okay. All right. Thank you. A lot goes into that. I can see, yeah. So let's shift gears a little bit and talk a little bit about selling and we do have questions coming in, so we'll get to those after we talk about selling a little bit. So we talked about when you're buying a practice, how long does it take to sell a practice?

Crystal Misenheimer:

Yeah, so industry-wide, I think sort of informally, most of the brokers that specialize in this space would say about 12 to 18 months. And at Progressive Practice Sales, we average just under eight months. So it's faster than that, but it's still a relatively long-term process. And that average also doesn't mean anything for a lot of people. I mean, because again, if you're thinking about those factors, if your clinic is in a very desirable location, if it is a model where investors will be able to buy it, that can really change the timeframe of the listing as well.

Mike Whitmer:

Okay. So if I'm looking to sell my practice, how do I optimize my chances to be successful in that effort? How do I successfully sell my practice? How do I prepare for that?

Crystal Misenheimer:

Yeah. It's a really good question. And it's really important because I think that the world is so busy, especially now. And when you're a business owner, especially, it's really easy to just get caught up in the day-to-day and then get to the point where you're ready to sell, you're ready to be done, and you haven't been able to be intentional about it. And that really can impact a lot of people. It certainly impacts people that come to us when they haven't been able to be strategic about how they're preparing for the sale. So the first thing to know is that for the most optimal results, you really will want to plan about three years in advance. It doesn't mean that you can't have a strong sale if you don't plan three years in advance, but that's going to give you the maximum ability to impact the way that you've got your business structured and your financial structured, because, then you're able to set up your tax returns properly for three years, and that's going to be one of the most important basises of determining that discretionary earnings.

Crystal Misenheimer:

And that's going to determine the ceiling that a bank is going to be able to lend on your practice. And so I highly recommend that all doctors should really do some form of exit strategy planning for their practice. And that's very different from the exit strategy planning that you do with your financial advisor, where you figure out, what do I need to retire? The open marketplace doesn't go off of what people need. It goes off of what the market conditions are. And so it's important to look at your practice and say, okay, what does my practice need to be in order to meet my financial goals? How do I need to grow it? How do I need to change the operations? How do I need to adjust the way that I'm tracking my expenses? How do I need to diversify my revenue streams? So that when it's time to sell, not only can I get top value for it, but in some cases, that it's actually sellable, because there certainly are some practices that don't sell.

Crystal Misenheimer:

And that's a very sad and unfortunate thing for a doctor who has worked their tail off for a lot of years, to get to the end and not be able to sell. But Forbes magazine did a study on this a few years back and they determined that 70 to 80% of businesses listed for sale never actually sell. And one of the reasons that they cited was the lack of preparation, another reason, and we see this too, is that the price point is not right for the marketplace. It's been arbitrarily decided. And when you're not priced properly, buyers tend to just move on past it. We don't often get an opportunity to try and justify a price that's not accurate for the marketplaces. I would also say that when you're thinking about that exit strategy, there's different models that you can sell your practice in.

Crystal Misenheimer:

And the easiest and most successful model in my opinion, is selling to a buyer in the open marketplace. A lot of people are surprised by that. They think it would probably be bringing a doctor in and doing a buyout over time. And we can talk about some of the reasons that's challenging, but by far the model that's the most successful is selling to a buyer that has come to you intentionally for this short-term transaction. But for some people that's a really hard model to be able to put together just because of the way that the practice is built or where they're located. And so that requires time too, to think through how, to optimize your chances. So I think time is the most important thing. And then I would definitely say pricing the practice properly. And then I would say that data preparation is really important and that's probably the most boring thing that anyone could possibly talk about, but the truth is, and this will probably resonate with a lot of the doctors that are on this right now, is that, you've been running a practice.

Crystal Misenheimer:

And so anything that has to do with, documentation around the finances or the operations. For most people, that's pretty secondary to taking care of the patients and making sure that the business is operating properly. And so when you don't have great documentation about what your practice is, what it does, why the numbers are the way that they are, it's really hard for a buyer to come in and understand what it is that you're selling. And a lot of people are really surprised when they come to us, how much cleanup we have to do to get all of that into very transparent and cohesive package. But without that, there's so many questions that come up that the buyer just gets stuck and the momentum is not allowed to carry the sale forward.

Mike Whitmer:

Okay. I think that we have a question from a listener. I think that you addressed it in that last one, says my practice has been listed for sale for five years and has generated no interest. How can you help me where my existing broker has not? And I think, what's going wrong there, what, what would you look at in that situation where we've got this very long-term listing five years, and no action.

Crystal Misenheimer:

Yeah, that's terrible, my heart breaks for that doctor, that's really rough. I don't know obviously what the broker who's representing this doctor has done, but we do run into these types of situations sometimes. And the corporates that we often see is first off, the broker's not really doing any marketing. And that is actually really common, which is, mind blowing when you think about-

Mike Whitmer:

That's very surprising,

Crystal Misenheimer:

The brokers role in the whole thing. But a lot of brokers, their theory is, if you remember that movie, if you build it, they will come. And so they'll put it on their website and they're like, okay, let the buyers come. But the world just doesn't work like that anymore. There's just so many things, buying for people's attention. And nobody wants to have to go search, and dig through all these websites to get to stuff. They want to be able to search on Google or their preferred search engine and just be able to find what they're looking for, and easily access it. And if all you're doing is putting up, a little bit of words on a classified page, on a website, you're not going to have a lot of performance there.

Crystal Misenheimer:

And so it is really important to understand what the broker's doing on your behalf. Also, some of them will post ads on the schools, but they only do it one time. And so the ads will get buried. They'll stop performing well in web searches because they're really old. And all of the Googlebots will say, oh, this isn't fresh content. So we're going to put other things on top of it. They're going to focus on things like my company does because we're posting the ads every time that they, as often as the site will allow us, we're reposting ads. And we have an individual page for all of our practices, so we can optimize it for search engine optimization. So that page that's devoted to your practice. We'll be able to show up typically at the top of page one of Google.

Crystal Misenheimer:

And then we also do something that no other broker does. And that's that we invest really heavily in paper click ads. So we spend thousands of dollars a month to make sure that on the off chance that we're not showing up at the top of the Google search that our paid at is, and that's just not something that other people do. And so if you're not getting that kind of market exposure, it's easy to understand how you would be, getting buried under the people who are being more aggressive aside from that, a real unfortunate thing that we do see is brokers pricing practices in ways that ease the selling doctor, but aren't really applicable for the marketplace. And that's always really tough because, I don't know what this doctor's story is, but I would imagine that's been a discouraging five years and it's hard to be, doing your best and keeping your practice, in tip top condition and best numbers when you're feeling discouraged and possibly burnt out and tired and ready to retire, once you've made that decision to sell, it's tough to hang in there for several years.

Crystal Misenheimer:

So the practice may have even declined in that time, so that makes it even harder to sell at the, possibly inflated number. And then we also see a lot of practices where the numbers are never updated. And so that is really unfortunate because a buyer will see it and they'll say, Ooh, I'm not sure that I want to dig into this, especially since what we just went through with COVID, they're looking at something that might have data from 2019, and they're saying, gosh, I don't even know if they're not putting new information in there. It must be doing really bad. And, and of course, I don't know, it could be none of those things, but those are the common corporate we see. And then on top of that, I would say that, there are some practices that are just harder to sell, a really niche practice.

Crystal Misenheimer:

Again, there's just not a ton of buyers that have familiarity with that technique. And so that can be harder, a practice in a location that people are not really trying to get into. There can be fewer buyers for that, but even in those situations, I would say five years is pretty long. I would say that's more, those tend to be more, maybe it's a three year process to find someone, but usually if your broker is being proactive with reaching out to people who are in the area, if the area is tough, so maybe going out a 200 mile radius, or if it's a technique, focusing on getting the information in front of all the doctors that are certified in this technique, there's different ways that you might be able to move the needle a little bit more.

Mike Whitmer:

Okay. Thank you. One thing I want to go back to here, because you mentioned it a couple times is COVID and the impact that has on all of this, we have a couple questions related to that have come in. One is, if you use the P&L statements for the last three years, how does COVID impact the big financial picture?

Crystal Misenheimer:

Yeah, that's a great question. And so basically if the clinic has fully bounced back from COVID, then the banks are giving a pretty good grace period to that. I mean, you've got the world's best reason for a decline, and if it's completely come back, then it's not really a concern, but for clinics who have kind of not rebounded, then the clinics hit a new normal. And in that situation, by now that new value is pretty well established. And what I will say is that when your clinic goes down, again, not necessarily for COVID, but if it goes down just due to, switching to part-time hours or burnout, it's really tough to recapture that value. As soon as you have a tax return, that's locked in at those lower numbers, it takes you about three years to really fully get over that. So that's probably the biggest danger sign for people is when they start to get burned out, and they're really thinking about going part-time, if you're really wanting to capture maximum value for your practice, you're probably in a much more urgent situation than you realize.

Mike Whitmer:

Okay. All right. And then along with it. How has COVID and the economy impacted the saleability of practices? And there's another one that I have on here that takes that step further with the uncertainty and the economy right now with inflation, possibility of a recession. What does the market look like going forward?

Crystal Misenheimer:

Yeah, actually, I have a market report that's going to go out, I think next week. And so anyone who's really interested in learning about the specifics of how all the different things are impacting practice sales, I would recommend going to progressivepracticesales.com and signing up for our email list. And so then just note that you're interested in selling and you'll get added onto that report that I think goes out twice a year, but long story short, on the current market conditions is the chiropractic marketplace and the SBA lending, which SBA funds about 70% of the sales that we do, at least, they tend to move a little bit slower than some of the other marketplaces. So certainly like we're hearing a lot about investor money starting to dry up. And, that impacts a certain portion of our sales. We work with different private equity groups and some of them have decided to put projects off or consolidate what they're working on, just because of some of that market activity.

Crystal Misenheimer:

But overall, the number of buyers that we have visiting our pages, the number of prospectus is, which is, sort of an informational pamphlet that we send out on our practices, the number of clinic visits and calls with our sellers, none of that has gone down at all in 2022. And it really spiked in mid 2020. And it's stayed really, really strong since then. So it's actually a great time to sell your practice right now. I would call it a seller's market right now. There's been fewer listings on the marketplace for gosh, at least nine months, I would say. And that has led buyers to be a little bit more open to locations and practice models and whatnot. We see people getting more, pricing at the higher end of the scale that they would really be able to fall into it.

Crystal Misenheimer:

It's not crazy like the residential real estate market, a way that I like to talk to people who think it should be, is... Imagine if you listed your home for sale, but only chiropractors could buy it, so you wouldn't have that same crazy experience of people rushing in and making offers without inspections and whatnot. It would just be more contained. And so it is an active marketplace, but it's not quite to that level, but certainly the economy's changing and certainly the interest rate increases are not helping things. And that certainly makes certain clinics more challenging for buyers to purchase. The SBA lenders that we work with, we've cultivated a network of national lenders that we work with that are able to take on the widest range of clinics and be able to move really quickly in the financing process.

Crystal Misenheimer:

They always have, minimum loan amounts that they'll work with. And, we've been able to get them to help on clinics as low as 150, over the past couple of years, it went up during COVID to 200 and we got them back down to 150 and I'm anticipating that's probably going to go up soon because the cost of the debt service for the buyer, versus some of the cash flow of some of these clinics that are in that 150 to $200,000 price range, it makes it so tight when you've got buyers who have student loan debt and they have a professional lifestyle that just includes other things as well, cars and houses and stuff. So, there are certain clinics that are more impacted already from that than others. But, overall, I would say that the marketplace is strong and that I believe that it's going to be resilient through the end of the year. But I think if I was selling a practice, I would be nervous to be starting that process in mid 2023 based on what we're seeing right now.

Mike Whitmer:

Okay. Well, that leads me to the next question. How do you know when it's a good time to sell?

Crystal Misenheimer:

Yeah.

Mike Whitmer:

Yeah, I would imagine that's very personal, your stage in your life and that's going to be a big factor, but these other larger macro issues are definitely going to come into play.

Crystal Misenheimer:

Oh, absolutely. And so, I mean, if you're looking at this as, how do I optimize my value? You optimize value by selling when your clinic is in an upwards trajectory and the economy is strong, and that's the time when no one wants to sell. So that's why we've had less sellers in the marketplace, because everyone's clinics have been popping, so they're holding onto them and that makes sense, because you're keeping that extra profit. But when you think about the fact that when you sell, you sell it a multiple of the profit, you really do better, if you can sell then. It's not possible for everybody, but that's the ideal timeline, but you do have to factor in, if you're able to sell and that's something that, you really do need to figure out everybody who's considering a practice sale in the next few years.

Crystal Misenheimer:

They really need to figure out, okay, what is this going to look like? What do I need financially? What will I do afterwards? A lot of people come to us and their ideal scenario would be, I'd like to do a long-term buyout so I can get a buyer in here. I can keep some of the money for a little bit longer. Maybe then work in the practice a little bit, just keep my cash flow up as well as, pull out the majority of my equity. And that's just a really hard sale to accomplish. People are not patient as far as a lot of buyers, they don't want a long-term buyout. It's hard to meet expectations over a multiple year transaction. And most people, in their excitement of finding someone that they think is a good fit, don't necessarily want to get into all the details that you have to get set up really from the beginning to do this well.

Crystal Misenheimer:

So those aren't necessarily established and there's just a lot of people, a lot of those deals fall apart. So I would say that, as people are planning this, try and think outside of that box of staying in your practice. In some ways it can also be very painful to become an employee for someone when you are the one who's used to being in charge. So, I think that while there's some, that's really absolutely the best model for, I think that for the vast majority of people, they're really more comfortable in a clean break model. And so, maybe some welcome work after the sale could be a better fit than trying to stay in your own practice.

Mike Whitmer:

Yeah, sure. Okay. One more on selling and then we'll get more into the lots of questions that have come in online, so that's great. Should I offer seller financing if I'm selling?

Crystal Misenheimer:

Yeah, I would advise against it in the vast majority of cases, there are some potential tax benefits under certain scenarios, but the risk that you bring on in that tends, in my opinion, to really outweigh any benefits, the scenarios where we see owner financing, we don't do much owner financing, first off. We maybe do one sale a year that has owner financing. But the ones where we see people really wanting to do it is that they do have an associate that they want to sell the practice to, or maybe a child.

Crystal Misenheimer:

And, I mean that there's probably less risk involved with those transactions, but you're also taking a relationship and adding a financial component to it, which adds strain, especially if that associate or that child wants to come in and make changes that are different from, the original owner's philosophy or isn't doing well. The first person who will get the, I'm sorry, I'm not going to get you paid this month is going to be the seller with the seller financing because you just have such little ability to do anything with that, as opposed to, the car payment, or the rent payment, or the mortgage, so...

Mike Whitmer:

Yeah, great information.We've got a lot of questions that have come in. So I want to kind of shift gears and go there. We've had a lot on associates buying in and what does that process look like? Where an associate is in the practice and now they're going to buy in into the practice. And eventually in a lot of cases, buy the practice out, end up being the owner of the practice. What advice around that situation, which I would expect has its own unique set of circumstances and caveats and also and but opportunities as well.

Crystal Misenheimer:

Yeah, absolutely. It's, not the kind of thing that tends to have, one cookie cutter way of doing it. So the best advice that I can give on that is get everything structured very early on, ideally before the associate ever steps foot into the practice. Because as soon as they come in, you both have assumptions and expectations that typically are not going to be spoken. They just are common sense to both parties. And the longer that associate doctor is in the practice and helping to build a practice, the more the expectation they're going to have, that they are going to be given some kind of sweat equity for that. And typically their opinion of sweat equity would be a pretty steeply discounted price point. And I have a sale that we actually just wrapped up where the clinic was listed for, I think 450,000 and the associate initially wanted to pay 175.

Crystal Misenheimer:

And that was because of the contributions made to helping to grow the practice. And when you haven't been a business owner, it's really easy to not understand the weight that the selling doctor carries on their shoulders to take care of everything, to make sure that, all of the bills are taken care of and the staff is paid, during downturns, that if any, I mean, COVID's a great example. That was an incredible weight for the small business owners of this country. And, it's just not something you can recognize until you've been in that position. So it's kind of understandable that the associate doctor would have those thoughts, but it feels very unfair to the seller who has had the burden of those responsibilities and is just looking for what they consider to be fair compensation for the blood, sweat, and tears that have gone into decades sometimes of building these practices.

Crystal Misenheimer:

So the sooner you can get the expectations around how the value's going to be determined for the practice, the timeframe of how this transaction's going to come together. What we like to do is we like to do a letter of intent that goes with the associate employment agreement. So it talks about how the practice will be valued. The timeframe of when the employee will have the option to start having participate in an ownership and the timeframe where both parties are going to make a decision of, yes, this is working or no, it's not.

Crystal Misenheimer:

And if it's not working and they want to say as an employee, great, if you're really not looking for an employee, you're looking for someone who wants ownership, then you'll know it's time to move on. The flip side, so you've got this side where the buyer is thinking, that they've earned more value than the seller is seeing, on the flip side, you've got a seller, who potentially is saying, oh, this is kind of nice. I've got someone who's working in the practice. I can step back a little bit. I can be out of the office a little bit more. I may not want to sell now. I'm kind of enjoying this.

Crystal Misenheimer:

And then you've got a buyer who's frustrated because they're ready to get their life started. They see this practice ownership and the prestige that comes with that and being in charge of their own destiny. And now that opportunity is not coming the way that they thought it would. And so that's very frustrating on their part. And then on top of that, if you're going into a situation where the associate is only going to be a partial owner, you've got so many decisions to make, about how that's going to be structured, because most people, they appreciate having some of the profit, but they also want to have some agency.

Crystal Misenheimer:

They want to be able to take control of something. They might have ideas that they want to implement marketing or new services or whatnot. And the selling doctor might, not really want to have anything to do with any of that. So how are you going to allocate the responsibility and the decisions and how are you going to decide when it's time to completely let go? So, when we help doctors with a situation like that, we have like a seven page checklist that we go through as an interview to try and understand how they're going to handle all of these things. And then that goes into not only, a letter of intent, but also an operating agreement. And of course, eventually a purchase agreement. So it's just a much more complicated transaction, many more variables and a lot longer timeframe. And all of those things add risk to the transaction, not necessarily closing.

Mike Whitmer:

Yeah. I tell you, I've talked to so many doctors through the years that, it's a buy-in, buy-out situation, but those expectations are not set. And there's, I've heard absolute horror stories about the disconnect between the selling doctor's expectations and the buying doctor's expectations. And when there's a mismatch there, it's a huge conflict. So my question for you, and some that we've gotten in online is how is, so the lesson is, have those expectations, the earlier the better, have those all lined out. How does all this change if the purchasing doctor is the child of the selling doctor. It's a family member, no contracts are needed or anything in that case, right? And I'm joking listeners.

Crystal Misenheimer:

Those are the toughest ones because there's so much at stake. I mean, the worst thing that can happen is that you and your child stop communicating, but you can't have a, cordial thanksgiving dinner and you're trying to avoid each other. It's the worst possible outcome. No amount of money is worth that, but it's really hard because the selling doctor probably takes a lot of pride in the practice that they've built. They definitely want to continue that legacy and the ideas that the child will come in and that they will just, fall into place with supporting that, but the child often has their own ideas. And in some ways they might express those and then there's conflict, it might even be worse for them not to express them because then they never get a chance to come to their own full potential.

Crystal Misenheimer:

And then as far as the contracts, any time that you involve finances in a relationship, you are really putting the relationship at risk. And so the contract should not be looked at as something contentious that damages the relationship, it should be looked at as something that protects the relationship, because you're getting everything itemized out so that there's no confusion on how it's going to be handled. And with the right people helping in that situation. It shouldn't ever feel contentious, but it can, the attorneys that you bring into these transactions, really their job is to protect you. And, they will take different perspectives on that. Some attorneys will bubble wrap you to the utmost point, where there's just no way that you will ever be able to close a transaction and others will take a more nuanced approach.

Crystal Misenheimer:

And so you would want to make sure that your attorney understood, your priorities in this and that you weren't looking to protect against every, minute possible thing that you wanted to make sure that the big picture things are addressed. But I think that's also the benefit of bringing a broker in, because when you bring a broker in to do consulting on this and help you to set it up, just a casual conversation, a conversation that comes with a lot of expertise and experience, to be able to say, guys, it's wonderful that you guys feel so comfortable, but have you thought about this because this is something that we've seen in the past. And while that seems like that would work well, here's some of the outcomes from that you may not be thinking through. So nobody wants to pay for services that they don't need, but I think bringing someone in who has experience in something you've never done before and having them help you to structure something, I think it has a measurable return.

Mike Whitmer:

Okay. So one question that we've got moving on, how do brokers get paid? Does the seller pay the broker? Does the buyer pay the... Do both? How does that work?

Crystal Misenheimer:

So generally it would not be both. It kind of depends. So brokerage of businesses is really interesting, and some states it's considered to be a real estate transaction, even when there's no real estate changing hands. Yes, and so in some there's real estate laws that will dictate how your broker can operate with you. And it's important to know that not every broker operates within the bounds of the real estate laws, and that actually puts you at risk. It gives the buyer, let's say that you have a buyer and they end up being unhappy and they want to resend the contract, which would mean, essentially reset everyone back to zero, having a broker that wasn't legally representing you properly is actually a loophole for a buyer to go back and be able to say, hey, this wasn't conducted properly. I wasn't educated properly, I was misled. So you do want to make sure that when you hire a broker that they are experienced in this area in chiropractic practice sales, they're incredibly complex transactions.

Crystal Misenheimer:

And you also want to make sure that legally they are able to support you in your sale. So in many states, being paid by the buyer and the seller would not be considered, okay, because it would infer that you were representing both. And that can be a problem with some real estate laws. So the most common structure definitely would be the seller paying the real estate fees, sorry, excuse me, the brokerage fees for the transaction. And it's generally done on a percentage basis. A lot of brokerages will also have minimum fees just because of the fact that the transactions are a lot of work. I would say that if you work with a broker that doesn't really have a minimum fee, or they have a very low minimum fee, like $5,000, I would be very cautious because that means that the amount of work that they're planning on putting into your sale is very small because out of that $5,000, they have to expect to make a profit.

Crystal Misenheimer:

And so that means that they're only planning on putting a couple thousand dollars effort into retail, that is not how these sales go. And I will say that the smaller the sale, sometimes the harder they are, because the bank loan's harder to get, it's much easier for a buyer to get a loan for a half a million dollar practice than an $80,000 practice because the bank has a bigger commission. And so it's worth it to them to take more risk and put more work into it. So, that's my caveat on that. But so most brokers are paid by a commission basis. We generally see this anywhere from, I want to say maybe 6% up to like 15%, depending on where you're at and the types of services that the broker's going to include. You need to be really careful when you're talking to brokers because they're not necessarily offering you the same thing.

Crystal Misenheimer:

So if you reach out to us, we have a little guidebook that is all about selling your practice. It's a PDF. We happy to share that with everyone involved, but we share it with all of our perspective sellers, it's free. And it has some information in there on how to pick the best broker. And so what we like to tell you is, hey, look at this list of services that you're going to need for a practice sale and ask really specific and targeted questions on how the broker helps you, because it's very easy to assume that they're going to be full service in all areas. And truly a lot of them just see themselves as a matchmaker. And if they're just going to identify perspective buyers through responses to marketing and farm those to you and your attorney, you're not really getting the benefit of the expertise because the real work starts once the offers come in, because there's so much strategy and so much complexity.

Crystal Misenheimer:

So now there are also some programs and we offer some of these programs at our brokerages that are flat fee or limited service. We also have a for sale by owner program to help doctors who, really want to sell on their own, typically that's to maintain their profit from the sale. It tends to be clinics that are on the smaller side. Those usually aren't going to be eligible for SBA lending anyways. And so what we do is we put together a marketing campaign for that doctor, it's equivalent to what we do for our full representation sellers. And then we coach the doctor mostly through email, but also through a few strategic phone calls on how to manage that sale themselves. So that as the buyers are coming in, we're directing the buyers to them, and they're able to take on those conversations and move the sale forward. So there can be other options aside from that commission.

Mike Whitmer:

Okay. While we're on the topic of using a broker, can a broker be from a different state than where your practice is.

Crystal Misenheimer:

So that falls back on that real estate information. And we do have that information. If you wanted to reach out again, progressivepracticesales.com, not to keep plugging us, but we do have list of all of the different states and what their real estate requirements are. So we have a set up, I'm a licensed real estate broker in Tennessee. And then I have a network of co-brokers that I work with. So I can work in every state that allows a co-broker, which is every state in the US, except for New Jersey and Iowa. And maybe there's one more, Nebraska. So those are the states that are just really particular about it. They only want a local business broker, but outside of that, it's possible to have a broker who's not inside your state. And, in most states, I would say maybe 30 of them, there's no requirement whatsoever for real estate.

Mike Whitmer:

Okay. While we're kind of on that topic of real estate and the role that plays in it, what if you do have real estate as part of this sale, that's going to impact it. And I would imagine that, if the property you own that's selling is a commercial business property, that's going to be probably easier than if it's a residential home office situation. We've had a few questions come in about that. And I know that this is probably a pretty complicated question, but-

Crystal Misenheimer:

Yes, definitely. There's a lot of components that come into play when you've got real estate. And so it's important, even though we, I am a licensed real estate agent and I work with a co-broker who has a license in that state when we have someone who brings real estate to the table as well, I always get a local real estate agent who is really familiar with that marketplace and that type of property to join the team. And that's really important because there's so many factors where you have the ability to lose value or potentially lose a sale altogether because it wasn't structured properly because of some variance or an extra lot that wasn't accounted for, or an easement. I mean, there's just so many things about real estate, but regardless of even all of that, I think it's really important to bring a real estate agent in from the beginning, because it's so easy for a seller to miscalculate the value of the building and the proper commercial rent amount.

Crystal Misenheimer:

And especially in today's market, values are just kind of all crazy. Some places have seen astronomical growth, but sometimes it's hard to get comps for commercial properties and the value of the real estate. If you don't properly know what that is, it's really hard to set the proper rent, which needs to support the value of the real estate, should you decide that you want to sell that commercial property later. So I've seen so many doctors trying to skip that set because they don't want the hassle of it, or they don't want the expense of it, but when you don't set that up properly, what happens is you can really set yourself up to lose value later in a couple of important ways. So the first one is, let's say that you get an offer for practice, plus real estate.

Crystal Misenheimer:

And the bank determines, let's say that it's split a million dollars for the real estate, 500,000 for the practice. So the bank will do an appraisal on the real estate. And if they come back and they say, this is not a million dollar piece of real estate, this is a $900,000 piece of real estate. You have lost that hundred thousand dollars. You will not be able to move it over to the practice. It's lost forever, with that bank. And you may be able to package this up and move to a different bank, but now you've doubled the sale timeline. The buyer might be saying, well, gosh, I don't want to pay that. The bank has said, this is what it's worth. I want to pay what it's worth and there are some buyers that really don't have a lot of

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options for lending as well, just because, you've got all the student loan debt and chiropractors as a whole are a little bit tough to find one being poor.

Crystal Misenheimer:

So that's one important way you can revalue. On the flip side, let's say that, we talked about how the practices are valued based on the discretionary earnings and that's the profit that transfers. So we've said, based on the sellers, providing us this information, seller says the rent for my property is $1,500 a month. And so we put that into the financial statements and that's how we calculate the SDE and the discretionary earnings.

Crystal Misenheimer:

So let's say at a $1,500 a month rent, we have a net profit of $150,000, discretionary earnings of $150,000. So then the seller gets an offer, takes it to his attorney. The attorney says, well, wait a minute, you can't charge $1,500 a month rent for this. You need to charge, another thousand dollars a month. It needs to be $2,500 a month and you need to charge $500, of triple net fees. So now we're up to $3,000 in rent. So now our discretionary earnings has just dropped by six times, $18,000. And then you add multiple on top of that, so maybe you just lost $25,000 of value on your practice that possibly, we could have captured in another way if we had had the rent correct in the beginning. So it's one of those things you really want to get right from the beginning.

Mike Whitmer:

Yeah. I can see that. Rural offices, are they selling, is there a demand for rural offices?

Crystal Misenheimer:

There can be. It's not like, if you were in a hotspot, one of the real popular places that people are moving to Orlando or Nashville, you're going to have a lot more demand there, but we do sell some rural offices. There's a marketplace and other doctors in the area who are looking to expand. Often doctors in rural areas do really well. And so they have the money and the interest in expanding. So if you can be in a rural location and have an associate in there, then you might have something that's pretty transferable.

Crystal Misenheimer:

Another thing to keep in mind with rural offices is just, it's something that you would want to have a longer term plan for, because not everyone's going to be looking at that location, just maybe not even knowing that it's like a location that is, not knowing where it is necessarily even, but there's a little bit of luck in this too. If there's someone who's been looking, wanting to move out in the country, get a different piece of life and they see your practice come online, if they've already been looking, they might jump on it. So you can never predict it. But when we get rural clinics, we tend to expect a little bit of a longer sale timeline.

Mike Whitmer:

Sure, okay. What about specialty practices? One question that we got, said that they're 100% activator doc, and that's why the patients come to that practice, but does that make it harder to sell?

Crystal Misenheimer:

Unfortunately it does shrink the audience because I mean, well, and activator too is tricky because you can do so many different things with activator. You can be proficient and activator and use it in more of a basic way, or you can be one of the experts and activator and, be doing really high level stuff with it. And so, how many chiropractors are there that can use an activator the way that you do. That's a big component of the marketplace that's going to be interested, but it's also true that just by nature of saying, this is an activator practice, you're going to bring down the number of people who are going to look at it from the beginning, just because, the most common thing that people are looking for is the thing that they're most comfortable with.

Crystal Misenheimer:

And that tends to be a diversified practice with many different revenue streams. Now we like to talk to buyers and we tell them, hey, the riches are in the niches. That's what sets you apart competitively, then you're, if a joint comes into your neighborhood, you don't necessarily have so much price competition because what you do is different. So we do try and educate the buyers that we work with on some of those competitive advantages, but overall, most of them are looking to mitigate risk and they do that by picking something that, they've experienced in the past.

Mike Whitmer:

Yeah. You just mentioned franchises, franchise organizations. So franchise organizations and corporate-owned chain practices are growing within the profession. What impact does that have on prospects for buying and selling an independent practice?

Crystal Misenheimer:

Yeah, it's interesting. It is putting some squeezes on the marketplace in unusual ways, though. At first there was a lot of interest in the franchises buying up locations. And so they would not necessarily have, the best multiples they tended to be coming in with lowball offers and whatnot. But as the marketplace evolved and buyers became much more active over the past couple years, most of those franchise owners have really adapted to the marketplace models. And so, the clinics that they've been buying.

Crystal Misenheimer:

They've been, having much more respectful offers and they've actually become really great buyers to work with. Unfortunately, because there's so many franchise models, and because there's so many investors that are out there, they're really putting a squeeze on the chiropractic labor force. So it's really hard to find associate doctors to staff these clinics. And so that's eventually led to a decline in the clinics that these doctor or that these franchises and the investor groups are really willing to take on to the point where now, if it's not already staffed with a associate doctor or has a seller that wants to stay on, then they're not really interested in looking at it in most cases, unless they already have a doctor they're trying to place in the area.

Mike Whitmer:

Okay, all right. We had one question come in, best advice on buying another practices book. So I think what this is getting at is, they're not buying the entire practice. They're just taking the patient list and transitioning patients from one doctor, and one practice to another, any advice on that type of transaction?

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Crystal Misenheimer:

Yeah. We've definitely helped some buyers and some sellers with that model. And it really can be a great way to capitalize on a doctor who's retiring and doesn't want to go through the whole practice sale process that, or someone who has to leave the area quickly due to, maybe a spouse being relocated or something like that. The pricing for that is usually, much more competitive than buying an entire practice. You have to think about the similarities between your practice and theirs and see how, as far as like the techniques and then the personality between the two different doctors, because those patients are going to be a little bit more transferable.

Crystal Misenheimer:

I would say that sort of the sweet spot in those transactions is to see if you can get the selling doctor to come in and work in your clinic for a couple of weeks, you'll have to pay extra for that, but that gets the patients coming in and it lets him do, oh, in-person personalized endorsement of the new doctor to the patient. And you can use a little bit of an emotional kind of heartstring, messaging on that, the doctor can send out emails and letters and stuff saying, please make sure to come in and see me before I leave town or before I retire. And so it can just really increase the conversion of the patient, that switch.

Mike Whitmer:

Okay. Reading through, a lot of questions come in. So that's great. So another question related to valuation. Does the value of a clinic only include intangibles, i.e equipment not included in practice price?

Crystal Misenheimer:

Oh, that's a great question. So, no. So the valuation covers the intangible or the goodwill, which is the value of things like the patient lists and the community reputation and the phone number and the website and the Google reviews and all of those things. And it also includes the equipment that is used to generate the cash flow for the practice. And in most cases with chiropractic practices that tends to work out okay, because the vast majority of the value is in that goodwill. And so the physical assets, they support the ability of the buyer to be able to get a loan because there's some physical collateral, but it's usually not a huge component of the purchase price. The place where you really get into trouble is a clinic that has a lot of really new, very upscale equipment and does not have a cash flow that really supports it.

Crystal Misenheimer:

It's really hard to recapture that, or, you could, I've had people who have been in a situation where, they list the practice and then the x-ray machine goes out. And so they buy this brand new top of the line x-ray machine hoping that's going to incentivize a buyer and the buyer does like that. But they typically, even if they're open to paying the extra dollars for the x-ray machine, the bank may not be open to lending on it. Yeah. So, and then it's much worse, if you get older equipment that was very expensive, the buyer doesn't necessarily see, a reason to pay a premium for that. And again, you're going to run into the lending ceiling.

Mike Whitmer:

Yeah, okay. All right. I've got kind of a long one and it's a specific situation. So if you'll bear with me Crystal, while I read through this. The doctor I'm interning with owns the building. It has three offices.

He practices out of one. The other two are a gym and yoga. He's known me for most of my life. So he wants to gift me the entire practice, pay for some of the equipment, and I would just pay the monthly rent and overhead. So I'm not buying the practice, but renting the space and literally gifted a well known well-established practice. I know that you're saying can apply to both scenarios, but anything to consider in my situation, I would say that's pretty unique situation.

Crystal Misenheimer:

It is definitely, it sounds like it could be amazing. And the lifelong relationship between the buyer and the seller, I'm sure it's going to be a positive situation. What I would say is that you would just want to get it in writing so that you see all of the details because sometimes the big picture conversation doesn't capture all of the details and then you would definitely want to understand what the rent was and any additional fees like triple-net or CAM fees, which can be associated with leases so that you can understand what the actual cost is. I have seen other doctors who I'm sure not like your doctor, but I have seen other doctors create other predatory agreements like this. That sound really great until you get them. And so what I would say you would want to do, is you would just want to ask that doctor to give you the lease agreement and to also give you the tax returns and the financials.

Crystal Misenheimer:

And then we actually do something called a clinic review. I don't know that would be a perfect match for something like this, but it does go through, and it determines that discretionary earning. So you can see what the cash flow of the practice is. And that's really important, even if you're not paying for it, because you need to understand, how much expense there is, and how much profit's coming in, how does that profit match up to your personal expenses? How does the rent factor into the rest of the overhead? Ultimately, if you're buying a practice that one, doesn't support or even being gifted, a practice that doesn't support you financially, and you're underwater where, you're going to have more expenses going out than profit coming in. That it's not a benefit, even though you're not paying for it.

Crystal Misenheimer:

And then on the flip side, a practice that has, a really low profit margin, I guess that's not really the flip side, but that's also something that we see in some of these scenarios is that the practice, maybe has gone down over the years, just because the sellers kind of set back, they don't have the rent expense. So for them, it seems like this is a great deal. But once you add in that rent expense, the profit margin might be so tight that it's putting you at a place of pretty high risk. And since you're not getting a bank loan, you don't have any working capital and that's a very risky place to be as a new entrepreneur. So I think you should be really appreciative and kind, I just think you need to understand what you're walking into to make sure that, the generosity that the doctor is expressing is still a good fit for your scenario.

Mike Whitmer:

Yeah, due diligence, like with everything else. Even though it seems like this is a great deal, still due diligence is needed and need to do your homework on it. Okay, a few more here. Multidisciplinary practice. So we have a practice that has a chiropractor, PTs, maybe some other types of providers. The question is, is it beneficial to divide that practice up for sale? So the chiropractic practice is being sold separately from the other ones that may or may not be getting sold. Any thoughts on that?

Crystal Misenheimer:

Yeah, I would definitely advise against that, in general-

Mike Whitmer:

Just splitting it up, right? Against splitting it up, okay.

Crystal Misenheimer:

In general, you're going to see a higher return for all of the profit combined into one, that tends to increase your multiples. And it's so much work to break a business apart. In some cases, it won't be eligible for lending if you do that, because there's just not enough stability in the way that the costs and the income have been allocated for a bank to feel comfortable about it. I've seen people break apart, clinics where they've got a satellite clinic attached to their main clinic and all the financials are intertwined and they just want to let go of the satellite location. And the only reason that usually is beneficial for them is to get out from under that liability for the other lease, because otherwise the work that has to go into it and the lower value, tend to work against them.

Mike Whitmer:

Okay. All right, a couple more. Are there drawbacks to selling to an investment group? We've talked about investors versus, owner operators. Are there pros and cons of that investor buying the practice?

Crystal Misenheimer:

Yeah, that's a great question, and it's a really timely question because there's so much investor activity over the past couple of years. So the benefit to selling to an investor is that they tend to pay a higher multiple. That is not a guarantee. There certainly are investors that are paying owner operator multiples, but the bigger your practice is, the more, a private equity group, for example, might be a good fit to be able to achieve a top multiple. But as you move into that structure, you've got to understand a couple of things. So the first one is that you will not be done with your practice. You will retain partial ownership of your practice. You will be a part of growing that practice. You will be helping the private equity group to build up a practice group for an eventual resale. And that group will be analyzing your excitement about all of this.

Crystal Misenheimer:

And so if you're not truly passionate about the idea of growing a group of chiropractic clinics for a private equity group, then it's really probably not a good fit, because they're not going to expect, 80 hour weeks or anything like that, but they are going to expect you to be really passionate and involved in trying to grow that because the idea is that all of the doctors that participate in this group will work to grow their own practices, possibly create new practices, either through identifying acquisitions in the community or starting new locations, all of this at the investor's dollar, of course, but your hard work. And the idea is that eventually the discretionary earnings of this group will be so large that they will be able to roll all of the clinics up and sell them to a larger investor at a much higher multiple.

Crystal Misenheimer:

And so then even though you've only retained maybe 20% of your original practice, that ownership stays with the group. And so any growth that happens in any of the other clinics that you're participating in, as

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well as your own, you get to capitalize on that at the much higher multiple. So they call the second sale, the second bite of the apple. And it's possible that your second bite of the apple might be as big as, or even bigger than your first exit payout. But there's obviously a lot of work in there that happens. So you've got to be excited about that. You've got to be willing to continue to be really dedicated to that, probably for a period of two to three years. And, sometimes they'll roll it up multiple times. And so you might have multiple opportunities to continue to sell it off and get a higher multiple.

Crystal Misenheimer:

So, so that's one thing to know about private equity groups. Investors as a whole, they are just a different piece to sell to because they are investors. So they are very focused on the business and they are a business. So what that looks like in reality is that the questions that they ask our clients, it's met with blank stares, it's very, very business-oriented as far as the information that they want to get. It feels very oppressive, the amount of information that they require for due diligence. And then on top of that, they are a corporation. And so they have a board that they have to go get everything approved by. So it's a very onerous time consuming process to sell to a lot of investors. And Mike, I apologize, my battery's about to die. I'm just going to turn off my camera for a minute and grab a cord and I'll be right back.

Mike Whitmer:

Okay, thank you. We'll go on pause for just a moment here, and Crystal will be right back. We just have a few minutes left. I will say at this point, we have about 15 minutes left of allotted time. If you do have additional questions, go ahead and submit those now. And we will get to those and looks like Crystal's back. Everything working?

Crystal Misenheimer:

Yes.

Mike Whitmer:

Perfect, all right. Thank you. Just a few more here, Crystal. One question, you mentioned the qualities of a buyer. How do I as a seller evaluate that the buyer has the right qualities? I would imagine there's quite a bit to unpack there.

Crystal Misenheimer:

Definitely, I think that the most important thing that a seller needs to identify when they're walking you into a practice sale is what's the primary sale. And so everybody wishes that, in an ideal world, you could get top dollar through your practice in a timeframe that is ideal for you and with a buyer who you feel like is a great fit and will really maintain the legacy of your practice. So that's the ideal. But in reality, most people, are lucky to get those things. And, when it does happen, where all three come together, those are like legends around our office. So you really do have to set your expectations appropriately that you should pick one thing to be your primary focus. And so the primary focus is for top dollar, then you're probably not going to have a lot of control over the buyer that you get.

Crystal Misenheimer:

You're going to be looking for someone who's really financially qualified. That's going to be the most important thing. And, that's the brokery stuff, is to make sure that the buyer understands the value of the practice and that the broker's negotiating on your behalf [inaudible 01:17:35]. If your goal is to sell as quickly as possible due to a health challenge or burnout, obviously at that point, you're just looking for a ready way of selling [inaudible 01:17:46]. And so, the first person that comes along, that's able to do it right away, you don't really have any qualifications outside of that. The one where you really have the most impact on picking your buyer would be the legacy, wanting to make sure that your practice is well taken care of and patients are cared for in a similar treatment manner, the practice will continue to be a shining light in the community and those sales, they can be some of the longest sales.

Crystal Misenheimer:

So it's important to know that, you're going into a little bit longer process unless you happen to be in an area where there's just a ton of interest, then you may be able to get some of that fully trail in a fast time frame. But I would say that the most important thing that you need to do is we need to understand, how the buyer thinks, so definitely adjust each other, on that first time visit, you want to understand what the buyer's looking for, both from a lifestyle perspective, from a practice perspective, why are they buying a practice, understand what it is that they're looking for personally, and seeing if that seems to align with the goals that you have with your practice. It does work out sometimes that way, and it's really sweet to see those buyers and sellers being all sort of bitty and hugging in the closing and whatnot. But I think that, when you're in a situation where you're selling a chiropractic practice, where you probably know better than mean, like, I think that two years ago there was estimated around 60,000 chiropractors in the US. Is that still-

Mike Whitmer:

Yeah. The number of practicing chiropractors, it's kind of a hard number to get to, because of licensing in multiple states and, but best estimates are between, 65 and 75,000 practicing active chiropractors in the US.

Crystal Misenheimer:

Okay. Yeah. So you've got that. And of those chiropractors, how many doctors are in the market to buy a practice of your size in your community and your technique? That's your marketplace right there. And so for some people that's one doctor every few months. For others, it's five a month. And so you just have to make a decision into the going, if what that probably is, and that will really tell you how many of those [inaudible 01:20:11].

Mike Whitmer:

Okay, all right. I think we'll go ahead and stop there. And I know that we're experiencing a little bit of audio problems, so I think that we'll go ahead and stop. Thank you, Crystal. Great information. I've really enjoyed talking with you today. Before we go, I'd like to remind our listeners of our resources page on ncmic.com. This webinar will be posted there as soon as the recording is processed, and you can also find our past webinars out there as well. Please be patient with us. The recordings do take a bit of time to process. So it does take a little bit of time to get those, but we will get those up as soon as we possibly can. While on our resources page, have a look around. Crystal has generously collaborated with us on several articles and posts that we have on our website about this topic.

Mike Whitmer:

So there's a lot of content out there to help you with buying and selling your practices. So you can also keep up to date on new resources from NCMIC by following us on Facebook, Twitter, LinkedIn, and Instagram. Another reminder, our next webinar is scheduled for next Thursday, July 21st at 2:00 PM. I hope that you'll be able to join us. So with that, once again, Crystal, thank you so much for joining us. I enjoyed it very much and have a great afternoon. Everybody online, thank you for listening, appreciate it.