How Doctors Can Buy, Scale, and Sell a Multi-Location Medical Practice Transcript

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Introduction and Show Welcome

If you look at doctors as a group in general, complete overgeneralization, they're not a people that people usually sympathize over when they are making less money.

I want to say the poor TSA agents who didn't get paid for 60 days or whatnot, and I think generally everybody was sympathetic towards them because of their sacrifice.

Nobody cares that I'm getting paid 3% less for Medicare now than I was two years ago. There's no sympathy for doctors. More patients, more authority, and more freedom.

I'm Brett Gregory, founder of Doctor Talks, where we're democratizing the creator economy for doctors. Welcome to the show. Welcome to the Doctor Talks podcast.

I'm your host, Brett Gregory, the founder, and we are democratizing the creator economy for doctors. We've got a great episode for you today. And I am really thrilled and honored to be here with Dr.

Daniels, Mikkel Daniel who started from an employee to a 10 location owner. So we're going to talk about his entrepreneurial journey and what you can learn from it today, so Dr Daniel, thank you so much for being here.

I appreciate it, Brent. Thank you so much for having me. Yeah. All right. Well, tell us a little bit about your journey and introduce yourselves for our audience.

So I'm Mike Daniels. I am the president and chief medical officer at We Treat Feed Podiatry. And we are a currently 10 location podiatric services corporation extending in Maryland, Pennsylvania and Washington, DC.

and we have just been slowly and steadily growing over the years.

From Employee to Practice Owner

From where I started as an employee in my very first office to eventually buying in and buying out and then starting to acquire practices over years to scale to different sizes as our sizes have gone up and have come down slightly during different times because we do find labor being the most difficult thing for us to manage in practice.

And how we have gotten here because you can't just throw a bunch of doctors in an office and expect it to be able to run smoothly. And, how do you go about managing personalities and those sort of things is kind of how my journey has gone over the last decade plus.

Amazing. So, yeah. Tell us, Larry, what was the exact moment that you realized that being an employee was not on the long-term path for you? It was probably, it was very early when I had my first job back in 2002, which by the way is still my current job.

and I saw how much, how many dollars I was generating versus how I much I getting as the associate. And I said, well, this doesn't really work. I'm doing all this work and, you know, I am giving money to everybody else.

So I probably need to figure out how to do that. That kind of started me on this path pretty early. It took me about two years from when I started to actually buy in as a partner and then another two or three years to buy my old partner out.

And then growth, growing from there. So tell us what was that process like? So I think, you know, for a lot of our listeners, who may also be employees, buying their practice, that's a, sounds like a you, know a a to bite off.

How, so talk a little bit about that. Process. how did you go about it? How did did approach it, how Did you finance it how? Did all that work? So it's interesting, because a lot of this is changing as we go through time.

But my path started initially with the doctor that I started working for realizing that, you know, I was generating a whole lot more money than he was, and that be leaving would be a very bad thing.

So, he began to discuss becoming a partner. And I often discuss, when I go over my story and I tell people that in 2004, that was I generating more, so I took a pay cut to become a part, cause that's what actually happened.

Yeah. And part of it was I was lucky in the fact that, you know, my partner at the time was willing to finance my portion. So I didn't have to go to a bank.

I don't Have to borrow money from friends and relatives, those sort of things. Back then was probably a little bit easier than it is to do now. You know medicine and reimbursement from services has never been the most solid of Things, but it's gotten so questionable and there's so much going on.

Buying In and Learning Practice Transactions

If you watch the news, for example, that it's lending standards are becoming harder and harder to come to. And I found that out along the way too, as I've had to borrow money to grow our practice.

But I was lucky to have both the finance in and the financing out done by original partner. I think that made it a lot easier, although it did feel a good amount of resentment when I still earning most of the money and he was still getting a whole lot more than I did because he's taking the buyout payments away.

So it was kind of, it's a difficult thing for us to really, you know, because I felt like at the time I was working very hard. I Was doing all this generation and you would drink in pina coladas in Boca Raton.

So, It was a little bit hard for me to understand and I think looking back on that I, was pretty immature in the way I approached it. Because I didn't understand how all of this worked.

It's been one of the things that's helped me through as, you know, when I closed on my practice, When I originally bought my partner out and he was going to stay for a few years, right exactly the same time I bought another practice.

So I then immediately had to hire another doctor and it kind of started this snowball that just kind keeps going. You know once people know that you're doing this, then they all want to call you when it's time to pack up and leave, which you are finding earlier and earlier in medicine these days.

You know, when I was a resident, some of my attendings, you thought they were going to roll their cold dead bodies out of the operating room someday because they never going give up.

And now you routinely see doctors in their early sixties starting to retire, at least I do, in the market. Sure. So now talk about then buying that practice.

You were becoming a partner, but then you bought a practice, so those were two separate transactions, right? They were, yes. So talk about the transaction where you bought a practice, if you don't mind.

So when we first originally sat down with my original partner, when I was buying in, I had started using the same accounting firm that the practice was using, figuring that would be a good thing, until I sat at that meeting with the other doctor and the accountant and me.

And the account looked at me and goes, "I represent him in this transaction." And I'm sitting here going, I don't know anything. I didn't have anybody here with me.

This is not a good situation to be in. So I proceeded to then. Unfortunately, there was a family friend who was business lawyer who helped me out in the initial transaction.

And I subsequently ended up with a financial expert in practice evaluations to start working on that. When I started with that, I was looking around because at the same time I wasn't sure that that was going to happen and I thinking in back of my mind I might need to leave and go somewhere else.

So when I found another practice to purchase, I had the accountant and the lawyer already there because they were working on the other parts of the transaction.

So it was really, really easy for me to do that. And that was actually the first experience I have with how a medical practice is evaluated. I met with the valuation attorney, lawyer rather, excuse me, accountant, and he gave me a 25 page book with 75 questions in it, asking all kinds of things and I didn't know what most of them meant.

So I knew how many patients we saw, but when we were starting to talk about payer mix, I was a little confused and trending numbers and EBITDA and things along those lines, those were foreign concepts to me back then.

So it was kind of a lot of on-the-job training. I had these experts who were helping me along the way. That being said, is I have no idea how to negotiate and I really didn't understand how do you use the information they were giving me to do that.

And I think that's a huge disadvantage for somebody like me. Like I went through college and I often tease that college was really just trade school for me because technically I'm a biologist and, I don't like plants or trees or bugs or cells or anything.

That's just not in there. So, but one thing I did do in college is I was an economics minor. I thought, you know, understanding how a market works, that would be beneficial.

It was not. So if you want to talk about quant curves, I'm your guy, but it didn't help me at all. And as I went through the process and continued to get bigger, it actually prompted me to go to business school at night.

So I could really kind of figure this whole thing out because doctors are used to being the smartest person in the room.

How Medical Practices Are Valued

And when you're in a room where everybody's talking about something and you don't have a clue, it gets very uncomfortable very, very quickly. And I found myself in that situation, so it prompted me.

But as I said, I was fortunate that I had hired and found advisors through friends and family who were able to kind of guide me through the transaction.

Yeah. Well, that could certainly happen. So you mentioned something that I want to pull a thread on a little bit about how medical practice is evaluated.

I'm sure it's complicated. We don't need to learn how to build the watch, but how in broad strokes are medical practices evaluated? So today, medical practices are basically almost exclusively valued based on adjusted EBITDA numbers.

For people who don't know what EBITA is. So that's earnings before interest, taxes, depreciation, and amortization. These are all things that you find in your balance sheet or your tax returns or P&Ls, depending on what you're looking for.

And I found that in working on even on sell side advice, because I've been a sell-side advisor for a few of these deals, you don't even negotiate the price anymore.

You just negotiate them multiple, which I find to be very, very interesting. Because again, the final number will change depending on when you decide the stop date is for the transaction.

So, you know, yeah, a good year or a bad year, it can affect you. Back when I started this, everybody was using dollar cost averaging, and everybody just wanted a percentage or multiple of a year's gross or year net, depending on how you were working the transactions.

That has changed completely. The issue is, and I run into this now, is older doctors, the ones who are leading the market right now still think that way, but banks don't think the way and equity doesn't.

So it's hard to say when somebody says, well, my buddy who grosses half of what I grossed just got 100,000 more than me. Why? And well, your buddy ran a better practice that was more efficient than you did.

And the, the payer mix was better or just the general nervous or better to create a Better evaluation. and it all boils down to that. It's one of the reasons why when you go to sell a practice these days, you really need to start working on it about a year before, because you know, a lot of doctors, there's a of things that go through their own personal through their business that really need to be pulled out.

You know, a lot of transactions you can adjust those, you know that is what adjusted EBITDA comes into. But sometimes they're hard to find. And if you cant find something to pull out, well it harms you because your dollars are less in the long run.

That's really kind of the problem. And so for adjusted EBITDA, so basically is profit. So let's say if somebody has a million dollar practice, but at the end of the year, they've got about $250,000 profit, what are the kind of standard multiples that people can see, that you see kind across the board?

So I think general standard, I've seen them run as low as two, and I see them as high as 10. There are practices that get advertised higher than 10, but I haven't seen a 10-1 done in a couple of years.

So from the podiatry market, you're usually seeing in the five to eight range is what standard is. There are several large groups that are forming that have started to purchase.

Multiples, Growth, and Exit Factors

And there's probably about half a dozen groups have acquired more than 10 or 15 practices as they've been building their Empire up and you know one of the issues with that is is all of them are looking to flip so they're coming in They're looking for three to five years to grow to stitch together You know 20 or 30 or 40 practices get to 5 million and EBITDA and then sell to the next guy and I always I Always wonder you who ends up with a chair when the music stops in this deal because I If you're somebody, you know, your single practice, literally swimming in the kiddie pool of business transactions and you don't get people like BlackRock or any of the private equity groups that are buying large medical groups to do it.

I mean, they don' want to touch into your 50 to 100 million of EBITDA. But if you're under a million in EBITDA, you are finding some people who are basically starting out, and they can't afford to be higher in that pool, they want to start out small.

So they wanna stitch together five practices that each have $250,000 or $500,00 for the EBIDDA. And now you have 2.5 million of EBDDA and now banks wanna talk to you and other people start to get interested.

That's how the market has been moving, I would say in the last five years or so. And yeah, so that makes a big difference. So again, like in the scenario I was sharing earlier, if you have a million dollar practice, but at the end of the year, it's $250,000 of profit.

And if your only getting a five times multiple, that's 250 times five, thats 1.25 million. But if are able to get an eight times a multiple that is 2 million, That's a big difference.

So, and what are the main factors that would make that big different between that five or eight or ten times multiples? So I think it's important to understand that when we talk about profit, you were talking about the profit that was available after the doctor took a reasonable salary.

So when you look at that number, the equity group acquiring you is going to say, okay, well you made 100 or 200 or $300,000 and they're going subtract that out of EBITDA number.

And that's where your EBITDA number for negotiation purposes is really going to start. What you need to look at is the factor that it depends a lot on two main things that are important.

Number one is growth and sustainability to practice. Is the practice growing? Is this practice dying? And number two is how long is doctor willing to stay after the transaction?

Because if the doctor plans to leave within four to six months, well, they know there's going to be a big drop off because they have to bring in somebody new.

Certain amount of percentage of patients will actually leave because I only came to that office for that particular doctor. And you know, you're almost playing Russian roulette because nobody sits in a job interview and says, You know what?

I'm going leave early. I am going come late. all my holidays off, my kid gets sick all the time, so I'm going to have to cancel patients. Nobody says that, but this is what happens when you actually hire doctors and bring them in and people's lives get in the way of work.

So when have somebody and you know what they've done and can contract them to do the same thing or at least within a reasonable level of the thing, that practice is going be worth a lot more than somebody who wants out the door 90 days later and wants to retire.

And I think that has a The other thing that they need to look at is, is what type of modernization or upgrades are going to have to be done to that practice to get it to the level where it needs to, for them to run their business model through it.

And again, you know, if you're a very modern practice and have everything that their looking for, they're willing to pay more for that. If you are still using paper charts and, uh, your instruments are all 25 years old, They're going have put a lot of money into that process.

So they are gonna be paying a lower multiple. Sure. So most doctors never make the leap. What separates the employees to the ones who end up building multi-location practices?

So I think it's a comfort level. And when I started, and I start hiring doctors, so we're going back 20 years at this point already, I would routinely get asked in the interview, will there be an opportunity for partnership or equity in practice?

I never get that asked anymore. The way residency training is working is when I was a resident, most of my attending physicians were private practice doctors.

Now, mostly these residents are being trained in programs where they're employed physicians. And if you're an employed physician, I don't know how you teach any sort of entrepreneurial or private-practice skills, especially in a system where your billing is being done for you and your collections are been done you.

You're limited in your scope of what you can do, and by that I mean there are lots of places where only the doctors get credit for their procedures and their E&M's, their evaluation management visits.

And you know, with a model like ours, we have all types of ancillary services that account for it. When we talk to doctors about hiring them, you'll go into a health system and they'll guarantee you a much higher starting salary.

Why Doctors Struggle to Scale

But bonus structures are sometimes impossible to get to. You'll come in and say, okay, well we'll give you $100,000, but you need to hit 7,500 RVUs and then we will give Oh sure, that sounds great, but they don't know what an RVU is.

A Relative Value Unit by Medicare standards. So, it kind of skews their attention. And there are some people and doctors today who just are afraid to ask.

I mean, to do what I did and to go find people to help you is pretty rare. Well, I get calls every once in a while from people, and they're like, well, you know I'm a resident and I want to, go into practice by myself.

They say, okay. What tools do you have to do this? And they say, what do mean? I'm like, have you ever were on a business before? No. Have you ever had patients of your own who came just to see you?

Well, some of my clinic patients come to me. I'm like, would they come if you weren't there anyway? They go, yeah, sure. Well that's a hard thing. So where are your patients going to come from?

And then how much do you know about reading x-rays, making orthotics, dispensing diabetic shoes? How much you about the things that generate revenue that are not just Procedures and evaluation and management and you know You can even most things on the phone you can kind of hear the head spin on The other side because they're like they have no idea what I'm talking about They just write scripts and the patients go get it somewhere else and those are the sort of things that you hear So a lot of them are not interested in doing that and they are interested In what it takes to pay for an office that just your fixed costs on a regular basis and What do you do when you're a small office and you've got three employees and somebody quits?

Or somebody has to leave suddenly because of a health condition. When you have 50 employees, you shuffle and deal. But you got 3 employees. You just lost 33% of your workforce.

That's a problem. And having to deal with that is an issue too because what if it's your assistant and The front desk, a person doesn't know how to do anything in the back office.

And then the manager level person or the administrator level, now is doing the Back Office stuff. So none of your administrative stuff is getting done.

Then they say, what's administrative staff? I go, well, how do you schedule your patients? How do submit your claims? All the information. How you make sure that you're being HIPAA compliant?

And again, you know, at this point, I think it kind of spins off. So, because it sounds very onerous, but if you have a support structure for it, it's fine.

My big thing when I tell people is if your going to buy a practice, You need the person who owns that practice to be there for a year and staging down.

They spend the first quarter working four days a week because everybody sells a practices wants to cut back. And then the second quarter, working two days a week and then the third quarter working one day a weak and they kind of fade away.

That way they're around, the patients are slowly transferred to you. All of the properties that have been in that practice are successful and you have at least a fighting chance because you've now spent a year learning all of this stuff that you don't even know you didn't know.

And that's where it becomes. It's hard to It is hard to make a living in medicine these days in the way that people traditionally think about it. Reimbursement is falling.

Medicare CMS had a cut last year of 2.8% and they This year gave us a 2.5% increase, which was not a two point five percent increase because of how they calculate it.

It's more like 2 point one. So you are getting paid less to do that bunion today than you did two years ago. Not in inflation adjusted dollars, in actual dollars.

Every year rent goes up three percent, most rent riders, and every year electricity goes and now practice goes, up and staff salaries go up. But you're getting pay less.

And how do you square that circle? It's not an easy thing because you can't, unless you're introducing alternative service lines to a business where that income is being replaced by something that wasn't there before.

Because you keep doing what you do and being successful. And it's very difficult for a lot of doctors to understand. You go on doctor boards where they read and they about all these doctors complaining.

The problem is if you look at doctors as a group in general, complete overgeneralization, They're not a group of people that people usually sympathize over when they're making less money.

I want to say the poor TSA agents who didn't get paid for what, 60 days or whatnot. And I think generally everybody was sympathetic towards them because of their sacrifice.

Nobody cares that I'm getting paid 3% less for Medicare now than I was two years ago. There's no sympathy for doctors.

Reimbursement Cuts and Audit Risk

So, you know, it's hard to do that because your congressman doesn't care. I write letters to my congressmen all the time. Probably on some government watch list somewhere because, I'm constantly complaining about everything in medicine thinking maybe someday they'll actually listen and not just send me back the form letter that says that they really care about my needs and they're here to help me and serve me.

And I am one of their constituents and all of the stuff that comes with that. And if you're starting to want to break that down even further, it's not even getting paid.

It's getting and then survive the audit that comes. Dr. Oz, who is now the administrator of CMS, recently announced a 50 state audit. They're going to audit doctors in every single state.

And I look at that and I shake my head because doctors get 8 to 12 cents of every dollar Medicare spends. So, you know, they might as well set your house on fire and try to stop it with a Dixie Cup because they're trying to find the money in the wrong place.

It's not the big source of money. But going through an audit is exceedingly time consuming and expensive. For us, you know, because more than likely you have to, You know you can do a first round where all they're asking for is medical records.

But you, know I would recommend they be reviewed before they go out the door. And then if they find have findings and you want to fight with them you really need to start hiring a lawyer because it starts to get very, very complicated very very quickly and they play this game all day long.

If you've never played this It's something that keeps you awake at night. And what you're finding is the new service lines that are being added and subsequently being taken away are things that generate a lot of money.

It might be costly to do, but the big thing that's just found them under all this microscope is cellular tissue products. And you were talking about having grafts where it was two or $3,000 a square centimeter.

And we routinely have 100, 200, 300 square-centimeter wounds. So, I mean, again, you are talking a $300, 000 graft that you're putting on people. You've got to wait for Medicare to pay you.

And then if Medicare comes back and looks at that chart and you're missing something in the chart, they're going to want all of it back, despite the fact that you probably paid 280 or $290,000 for that graft.

I mean, there's supposed to be 6%. Cost plus 6% is what it's suppose to. So you can do the math yourself. It's kind of in that general area. But it is nerve wracking.

We had an audit for grafts and I didn't sleep for three weeks until we got the results back. But what I had done prior to us starting to do this product is pull the local carry determinant, the LCD from Dovatos, who was our provider, and literally go line by line creating a template that had every single word in that LCD in the template.

So I knew everything was going to be there and I still didn't sleep. But we passed and we had no payback. We're like the only ones I know that had no payback, that got 100%. But again, it took a whole afternoon, one day, for our VP of Operations and I to go through that template and create that temple for all the doctors to use.

Wow. So last question before we wrap up. What advice would you give to a doctor who wants to be more entrepreneurial? So maybe they have One, maybe they have their own practice, but they want to scale it.

They maybe want have multiple locations. What's the, what's your best piece of advice for that doctor? So obviously I'm best suited to discuss podiatry.

And I think if you really want do that, you should have the drive and spirit. You need to check your ego at the door. Podiatrists have different thoughts about different things and some of them think that certain aspects of podiatry are beneath them.

And if you're going to run a business and you are going scale a businesses, you can't be turning people away just because your ego is going take a bruise if your treating them and the, the you know, elephant in the room is toenails.

No podiatric wants to take care of toenail. I hate toenales, but guess what? That's a huge driver of revenue. Diabetics and vast group of patients. And they're recurring patients.

They're not in for two or three or four visits and then gone. So, and they come back over and over. I've had patients that have been taking care of for 20 years, I see four times a year.

If you are going to have that where I'm only going be a surgeon or I am only gonna do sports medicine, you're are not going able to scale. You have to grow a practice in a way where you can take the things that the doctors want to do and the things they're really best at and shift the more complicated patients in those directions while still backfilling the schedule in with everything else.

If you don't like wounds, you should not be taking care of wounds other than maybe initial assessments and minor diabetic foot wounds. I mean, footwounds can be very complicated.

They can litigious, they can long-acting. We have patients that are here for years trying to get healed. I always say I hate sports medicine and if I have to see another whiny runner again who won't stop running, I'm going to shoot myself.

It's not what I want to do. I saw them for many years until we got to scale where I knew there were two or three other doctors that really wanted to take care of those issues.

Advice for Entrepreneurial Doctors

And now, you know, when I see them and I do their initial evaluation, I will say I'm going to have you see Dr. Smith

or Dr Jones because they are the ones who concentrate on this and get the best results.

People are usually really excited when you tell them that you're sending them to the And again, I'm not going to say anything that wasn't perfectly positive about any of my doctors ever, but some of it is a sales pitch too.

So once you've decided that you're willing to take care of everything, then you need to keep your eyes open and keep ears listening for where revenue generation is coming from.

What service lines can you add to your practice? We added a PCR lab several years ago to our, because we were sending all our fungal and bacterial cultures to Quest.

And in 24 years of practice, Quest has never once sent me a patient. So why am I sending on the stuff there? So now we did that. It was not cheap to set up.

But again, when you have 10 locations and they're all feeding into one lab, it can work. We were able to do that and capture some of that revenue. I honestly think it's more revenue neutral than profit making, but it also adds a bunch of stuff to the practice.

And instead of having to wait a week to get my results, I get them back in 24 hours. So it is good for my patients and it good as good to practice because I don't think we're losing any money on it, we are certainly not making a lot of money.

So those are the things I think you need to be willing to do to able to get successful. Yeah. This has been great. You've given us so many amazing nuggets of information.

How can our listeners be helpful to you? What are you looking for? If you are a podiatrist looking to start a career or a mid-career change, you can feel free to give us a call.

If your a doctor at the end of your career and you're looking get out and your in a geographically close area, I can't be talking to people from Oklahoma.

If you're in the mid-Atlantic or the Northeast, I would love to have a conversation with you to see either if there's synergies that we could do or if the stuff I can do to help you through this process.

And what's the best way for people to get ahold of you? They can send me an email. It's easy, it's my name, its just DR and my first initial M and last name Daniels, D-A-N-I-E-L-S, at wetreatfeet.com.

Great. Dr. Daniel's, thanks so much. We'll keep those, your email address and any links in the description. Thank you so, much this has been absolutely enlightening.

Really appreciate it. Love your entrepreneurial journey and spirit and you're just helping a lot of people out there. So thank you, so. Oh, thanks for having me, Brett.

I really appreciate it. If you found this episode valuable, please consider hitting the like, subscribe and leave a review. It really helps others find the show.

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We'll see you next time.