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A DEEP DIVE INTO MEDICAL PRACTICE M&A WITH CLINT BUNDY & MATT EBBEL (PART 1)

David Mandell:

Hello, this is David Mandel, host of the podcast. I've got an exciting episode today. We've got two guests talking about subjects that I know many of you are interested in, which is essentially the big world of M&A regarding medicine, dental practices, veterinary practices, et cetera. And they each have their own perspectives and expertise, and I think you'll get a lot out of it. So let me tell you about Clint Bundy and Matt Ebbel, and we'll start with Clint.

Clint actually is a, for you long time dedicated listeners, Clint is a returning guest. He was in early in season one. So Clint Bundy is managing director with the Bundy Group, Charlotte office, and co-leads coverage and healthcare and physician practice management for the firm. He has over 20 years of investment banking experience and has advised business owners and physicians on numerous transactions across multiple sub-sectors of healthcare. He's a frequent contributor to key industry publications as the regular speaker at conferences. He and I have spoken together in the past. His past experience includes time with Wachovia's mergers and acquisitions group where he advised on numerous public and private company transactions as well as at Accenture. He attended Wake Forest University, their MBA program, and he has his undergraduate degree from University of Virginia.

Matt Ebbel established SkyKnight Capital in 2015. He leads the firm and the investment team. He's a member of the board of directors at AmWINS Core Specialty and Docs Dermatology. He also serves as a board observer for MedVet, and for Pearl Street Dental Partners, he serves as chairman. Prior to founding SkyKnight, he was managing director of New Mountain Capital where he helped grow the firm from a first time \$770 million private equity fund to a \$15 billion alternative asset manager. He began his career at McKinsey and Company. He graduated Magna cum Laude,



won a level higher than me from Harvard College, so I should be jealous with a BA in economics, and as a CFA or charter holder.

Also, what's interesting on the firm bio, which we will link to in the show notes, I can tell you his favorite book, which is *The Count of Monte Cristo*, which is an excellent book and of course movie as well. And his favorite quote is from Star Wars. Do not do, do or do not. There is no try. That's Yoda. That's my, I'm not going to try to do the voice. So with that, Clint and Matt, welcome to the program.

Clint Bundy:

Hey David, thanks for having me on again.

David Mandell:

Excellent, excellent. Great to have you guys both. So I want this to go to each of you. We'll start I guess with Clint, because C is before M, but what do you do as an investment banker? I think a lot of docs have heard that term. They don't know exactly what that means. So what do you do on a daily basis? What's your workdays like? And a little bit about your typical clients, and then eventually I'll ask Matt's.

Clint Bundy:

Yeah, investment banking an incredibly misleading term for what we do because as my grandmother used to ask me, how much is investment and how much is banking? And I'm like, well, it's actually neither.

What we are at a very high level, David, is we are most of the time in our role as an advisor and representative to a business or practice owner who's either exploring or in market on selling their company or raising capital. So we are there to really do two main objectives for them and a sale or capital raise, and one that is to help them maximize value, and the second is to help them find the best fit in terms of a buyer or a partner. A lot of times that's through some form of a process that we run and manage, and that usually has some kind of competitive element to it. And it could be a broad process or in terms of a lot of parties we're talking to, or it could be a very



select group, which certainly there's a lot more to unpack there if and when you want to, but at a very high level, that's kind of who we are and what we do.

David Mandell:

That's great. That's helpful. I think private equity is a better nomenclature, but Matt will tell us. So as a private equity firm founder and principal, tell us what does that mean and what do you do and sort of give us the parallel there.

Matt Ebbel:

I think it is probably a little bit closer name, although it's a pretty broad name. So private equity is investing in the equity of private businesses, and it starts with series A venture capital goes to late stage buyout where our firm SkyKnight tends to focus is on businesses whose enterprise value it's generally in between a 100 million and a billion dollars, which generally means their revenue is as small as 20 million, as large as two, three, 400 million. And there are hundreds of private equity firms to cover all that waterfront. And our job is to spend time sourcing, looking for new opportunities, then underwriting, looking at those businesses and seeing if we're a good fit. And then finally a lot of our time is spent working with those businesses after we've made an investment.

David Mandell:

And Clint, how did you gravitate? I know both of you do transactions and handle businesses, and I'll ask this question to both of you both start with Clint, outside of medicine, outside of dental, outside of veterinarian, but you do have businesses in those spaces. So how, first Clint, how did you get gravitated to that area as one of the industries that you focus on?

Clint Bundy:

Yeah, our firm's been in business for over 30 years. My father actually started the company back in 1989, so we were doing healthcare transactions even fairly early in



our tenure as a company. And I kind of grew up in the business I guess you could say. So I had a little bit of familiarity with healthcare even back in the teen years.

But to more directly answer your question, David, I would say for us, really probably right around after the great recession in 2010, 11 timeframe, we really accelerated our work in healthcare and physician practice, the physician practice field. And a part of that was just we saw what was fundamentally a shift in terms of M&A transactions, a pickup in M&A transactions, a pickup in groups like Matt's who were interested in these sectors, which maybe that interest wasn't quite there before the 2010 timeframe. So as an investment maker, we thought, well, there's some good foundation here for us to be able to help out some groups to get to that next step in their growth cycle or in a succession or exit planning cycle. And we can look beyond just selling to a traditional healthcare system. So for us, those were some underlying fundamentals made us think we want to spend even more time in healthcare.

David Mandell:

Got it. And what about you, Matt? What got your interest and your firm's interest in that area of business?

Matt Ebbel:

Sure. I mean, I think healthcare is one of the largest, if not the largest sector in the economy as multiple sub-sectors thinking just about called physician practice management, whether you're talking about veterinary or dermatology or cardiology or any of the subspecialties out there, the broad thesis for putting practices together is that there are human beings who have become very specialized in their work and they should do that work. And then there are people who need to run the business. And as you expand from one doctor practice to five doctors or try and get a 100 doctors, there are people who should focus on HR, people who should focus on negotiating with payers. And that together puts everyone in a position to do what they do best. And you've seen private equity get involved in various industries. Certainly the dental industry, the private equity is very involved, other subspecialties



just becoming involved today, but that's the fundamental premise. And we started in the veterinary industry and we now have two veterinary plays and one dermatology and one dentistry place.

David Mandell:

So one of the things, Matt, you just said is the idea of people are trained and they're experts and they're specialists and their highest best use is doing that. And there's a lot of things that go on in a business that aren't that. And I've mentioned this book before on this podcast, but there is a book out there called the E-Myth that I read many years ago. That is a good one. And I think a lot of physicians, I think there's even one for physicians. And the concept is similar to what Matt's saying, which is that you may be very good at doing the work of whatever that business is, whether that's creating widgets or treating skin or treating one of my three dogs, but that doesn't necessarily mean you're good at all the other things that go on. In fact, you're probably not because we can only be good at so many things. And if you spend your life training even in a subspecialty where it's like it's really demanding, then your capacity and maybe even interest in those things may be not so great.

So the way you describe that thesis, it makes sense that medicine would be a area that people might be interested in. Of course there's a lot of regulation around it and that's in hurdles and things that make it difficult. So it's not to be taken lightly, but the way you've described it makes sense. And for those of you who haven't gotten the E-Myth or haven't seen something like that, physicians out there, I think it's a valuable read and it's not a long or complicated book. So I think we get a sense of what your roles are in medical or dental or veterinary practice transactions. You had said, Clint, that we're basically advising clients who either want a capital partner or going to sell. But tell us, Clint, a little bit about if you're sitting down with a dermatologist for the first time or I introduce you by phone or a vet or a dentist, what are those conversations like? How are you able to see if there might be a fit there?



Clint Bundy:

Yeah, no, that's a good question. At the outset, a big element for us is, one, build trust with the practice owner. Because at the end of the day, if we're going to represent them at some point in some kind of sale or capital raise, there has to be a high degree of trust they have in us. I would say immediately, at that same time, we're also trying to ensure we understand what their objectives are. Is now the right time for them to consider a sale? What are the overlying goals? And then what are maybe the goals that we have to pick apart to better understand and motivations. Motivation, by the way, is a big fundamental of any M&A transaction that occurs is my father who founded our business said every transaction is founded on a motivated buyer and a motivated seller. And if you don't have both those components, it's very difficult to get a deal done.

But for us, I mean certainly we like to make sure we talk openly with them about their business and learn more about it, understand how the business is trending, what the financial profile is. Many practice owners want to know from us potential valuation ranges for their business. That's always an important topic, which we're more than happy to get into with them and give them reads and thoughts on where we think the market may trade for their business and the types of buyer options or investor options there may be. So these are a lot of topics we get into, not necessarily all of them in the first call, but certainly in the first series of calls and then ultimately getting them to a point where they can make a decision, okay, do I want to go this way and march up this mountain towards a sale or do I want to go this way or do I just want to stand pat for the minute?

David Mandell:

Yeah, that makes sense. And you've said motivation is crucial. I've heard you also speak, and I think maybe some other guests on our podcast have talked about the why. Why are you doing this? Often from the physician perspective, why would you want to do this as a doc? After the day after the transaction, you're going to be



happy. Everybody likes to check, but why are you doing this? And will that sustain over the long term so that everybody's happy longer term? That makes sense.

Matt, I think I understand that your role in transactions is to be the investor, and you can correct me if I'm wrong, but if that is true, my question for you wouldn't be so much about what role you play if that's really the role you guys play, but more how do you find deals in that is it folks like Clint coming to you and saying, "Hey, is this a kind of a transaction you might be interested," and/or are you guys saying, okay, hey, we've done a couple deals, I think you've said in the veterinarian space, now we know that business really well. If you're very comfortable, let's go out and proactively see if there's other practices we can roll up or some combination thereof. You're getting some from outside and you guys are going after some of them with your own research.

Matt Ebbel:

Yeah, I think it's an important distinction, the role everyone plays. If you're a small practice, one, two million of revenue in some of these areas, you're most likely not speaking directly with the private equity firm, whether it's SkyKnight, whether it's any of our hundreds of competitors, you're most likely talking to a larger firm that is already backed by a private equity firm. So for example, in the veterinary industry, there's probably 40 companies that have management teams that have private equity sponsors that are out looking to acquire practices, and there's roughly 26,000 veterinary practices in the United States. So a lot of what we do is work with those businesses to make sure that they're out trying to find the practices that fit with their platform, whether that's from a specialty perspective, a geography perspective, et cetera. And we have those dialogues both directly and then intermediated.

And what I'd say particularly to those out listening, engaging with someone like Clint is good for everybody. If you're selling your practice one-ish times in your life, you can use the advice of someone who does this all year long and has done it for 20 years. So whether it's valuation, whether it's fit, having someone that's your river guide, helping you navigate is a good thing. So when we have sometimes direct



dialogues, sure we can get things done and we know it's a mutual fit. Those are often scenarios where the physicians have known each other going back to medical school or wherever and want to join a platform, that's one way of doing it. But if you're out and you're thinking through here's five, 10 different choices, hiring someone like Clint can help you significantly.

David Mandell:

Yeah. Matt, I really liked your one-ish statement. That was a good one. Meaning this is a once in a lifetime for most docs, there is an ish factor, so they might do it again at some point. But an NFI, you have a lot of risk if you try to do it yourself and you haven't done it before. And I think any physician doing any procedure, if the first one they did, they had someone right next to them making sure they were kind of following directions, and this transaction, I don't think there's any doubt that it's significant enough in anyone's life to warrant that. Right. So yes, I agree. I mean, I'm an advisor, I've been an attorney for 25 years. I tell people all the time, you can do it yourself, whatever, X is a lease, a will, et cetera, but it's probably worth the expertise of someone who does this all day long, and I appreciate you saying that.

Clint, let's get back to you. Tell us just a little bit about the medical or dental practice transactions you've been with just in terms of demographics. We don't have to go too deep into it, but just docs may be listening say, oh my... I don't think people are saying this anymore because it's becoming so ubiquitous, but in the past, if we were doing this five years ago, "Oh, that's not for me. Those are just huge practices that get merged or I'm part of a group that's too big, and I could have done this before when I was in a small group." But tell me, give me a sense of some of the demographic size, type of practice, what the earnings were in the kind of the practices that you've either done deals with or consulted with and they've walked away. I mean, just because you don't do a deal doesn't mean it wasn't a possible option, it just didn't work out in one that circumstance. So give us a little bit of perspective on that.



Clint Bundy:

Yeah, no, I think I could, as I'm sure Matt could too, we consider new case studies for the next two hours, and I promise I won't do that. By the way, first before I answer that, Matt mentioned earlier that they're in the, I think Matt said in the vet space, there are over 40 buyer platforms. Well, just to give you an isolated dermatology space, there are probably 40 to 50 private equity backed dermatology platforms, and that's before you then start getting into more of the aesthetic or med spa heavy groups, which is almost a different family, but yet in the same universe. But to answer your question, David, I'll give you two examples. One is a practice that we sold in Mobile Alabama, a practice called Dermatology Associates in Montgomery, and Dr. Steve Maddox was the owner of the physician, owner and physician. He had some mid-levels who worked there. He had a great practice. One of the preferred providers of the region had a very strong patient base, decent sized practice, but it fits more in the smaller end relative to-

David Mandell:

A solo practice it sounds like. Is that right?

Clint Bundy:

Yeah, solo in terms of solo physician-

David Mandell:

In terms of the physician owner.

Clint Bundy:

And we ended up selling that to what we call a strategic buyer, which is an industry buyer, but one that was backed by a private equity group, again, much as Matt was mentioning earlier as an example. But we dealt most of the time in that situation with the corporate development team at advanced dermatology and cosmetic surgery. We had a little bit of interaction with the private equity group, but not a lot, and that's



very standard for a transaction of that size. The demographics were, again, kind of not a top, as I like to call it an NFL metro market, it certainly wasn't that, but nor was it a small town or completely off the map. It was kind of a mid-size town and a nice attractive acquisition. So certainly a nice tuck in for the buyer to have and to expand their geography within a region that they were already somewhat concentrated in.

And then to give you another case study as we're actually working today with a consortium of two practices in the, let's call it the Arizona Texas region that are multi-location multiple provider, we're actually packaging them together as a consortium sale, meaning that we're, even though they're not formally merged together, these are two practices that have a very strong relationship, and so we're presenting them to the market together as one acquisition, which we've done this before on other deals, and that's a fairly sizable call it nearly a 10 million and we use the term 10 million in an adjusted EBITDA, which is effectively the operating cashflow of a business. So that's, as you can imagine, that's going to drawing in a whole different type of buyer pools, both the strategic buyers as well as some groups that are private equity groups who are looking for a dermatology platform. So that gives you just two case studies as a reference point.

David Mandell:

Yeah, yeah, that's good. Kind of a bookends it a little bit less and large and small. Matt, how about in your experience in the deals you're doing, just give us an overview similar in terms of demographics where things either a platform or tuck in, however you want to take it.

Matt Ebbel:

Yeah, I mean I think we are looking to make investments in platforms. Those could be smaller platforms that you build or significant platforms to start. I think what we just talked about that each of these industries now has 20, 30, 40 private equity platforms, a lot of those companies have a business development function. A lot of those business development functions are cold calling probably a lot of the people



listening to this podcast. And I think the big question is for me is that private equity had this go-go period coming out of the great financial crisis through 2021, interest rates went close to zero and a lot of these platforms got started. The last two years have been tougher sledding, interest rates have gone north of 5% and there's been wage inflation which has hit the PPM industry particularly hard for sub-sectors that don't control their pricing. Veterinarians control their pricing, dermatologists have to go negotiate with UnitedHealthcare and Aetna and Cigna, and that has not been easy.

So in this period of tougher sledding, you're starting to see which management teams are going to really be operators and build sustainable important businesses. And I think there's going to be consolidation amongst those 40 or 50 operators because you have a lot of people who are over levered and there is not 50 proverbial A management teams in each of these sub-sectors. So you need to see that happen over the coming years. If you're a single practice, you really need to think about which platform you're joining and why. So we've had four platforms in physician practice management, MedVet as an example, and what attracted us to that, not just the specialty veterinary and emergency space, but the business was veterinary owned and veterinary led. So even though it's a relatively big business, over half a billion of revenue now, there's 200 veterinary shareholders which control the business.

We're a minority partner to that business and it's 5X in about the last six years in terms of its size. Something like Docs which we got involved with, which is a dermatology business in the Midwest, that's growing practice by practice right now. It's also doing deNovos for physicians who want to come and be sort of a sponsored entrepreneur, and that's another form of growth and another way of creating equity value for yourself as a young physician. A lot of physicians are out there working in practices where they don't own equity and are looking to participate in why they get it from the senior doctors or will get it from sponsorship and from firms like Docs or GoodVets, which is our general practice veterinary business.



David Mandell:

One of the things that you said, and this is really why I wanted Matt on this program, is the perspective that where sort of the industry is and key success factors kind of behind the scenes. And you mentioned interest rates as being really crucial because leverage plays a real role in these deals. And hey, summarize what you said, coming out of 2008, interest rates near zero for 10 years, a lot lower hurdle to get a deal done and make money when you're borrowing at zero, one or 2% versus today. So that's not something that maybe a doc might even think about, right? Like, "Oh, they want to... Coming to our practice," I mean the sophisticated ones, maybe the ones listening to this show who kind of tie that together, okay, interest rate, capital, leverage is coming into these deals, and I think it's also interesting that you mentioned maybe on the derm side on cosmetic, they can change their pricing, but it's not so easy to just raise your prices when you're on the medical side because you got to deal with the payers, whether it's Medicare or anyone else. You mentioned that.

So I could see a squeeze on both sides and I think your ultimate, one of the pieces of advice that came out of that is you want to choose wisely because it's a little more challenging now. It's not so easy to make money and if you're doing a deal, I say this to a doc, yeah, you're getting an upfront check, but a lot of what you're doing from just an economic point of view, you may just want to be an owner anymore and just don't want the headaches of compliance and all. And that's another why, it's another motivation that Clint was talking about. But from a pure financial perspective, you're going to roll up a fair amount of capital into the deal, so you want that to do well.

And we'll talk about, we'll come to that, what do you look for and all that, but I'm really glad you brought that up because of course I'm on all the podcasts and I'm the host. I haven't heard anyone else say that yet, right? I mean because I've been asking that question. I've been talking to lawyers about how to do the deal and I've been talking to docs about, hey, what did you like about, you went through a deal and now you're on the other side, but this is why you guys are on. So I really appreciate that.