CLIENT CASE STUDY

Selling a Spa: When Employee Retention Threatens the Deal

INTRODUCTION

The founders and owners of AL MedSpa built a thriving business just outside of a major Texas city, offering a range of popular services that attracted a loyal customer base. Their success caught the eye of a potential buyer. Like many in their industry, the founders and owners had yet to consider selling a spa - they were too busy growing it.

However, their curiosity was piqued when the potential buyer introduced some exit options. The buyer explained how crucial it was to start planning well in advance for any transition, highlighting the benefits of a smooth and profitable exit. This new perspective opened their eyes to possibilities they hadn't previously considered.

CHALLENGE

After hearing about options for MedSpa owners, the founders and owners of AL MedSpa declined the first offer and opted to sell independently. But just a few months in, they found it challenging to negotiate a deal or find a new buyer and paused the search.

After diving back into growing the business, and with a deep appreciation for their employees, they decided to look for an advisor to lead their sale.

Practice Transitions Group (PTG) met with the founders and owners of AL MedSpa over lunch after an industry referral connected them. During lunch, the founders and owners realized PTG was more than familiar with the process of selling a spa. The owners also recognized that PTG shared their values. The founders and owners saw PTG as a different path and realized the importance of representation in their situation, wondering why they hadn't sought it earlier. PTG's approach resonated with them as it offered a way to protect what they built, preserve their culture, and solidify their legacy.

OUR APPROACH

PTG process always begins with an in-depth analysis. Though AL Medspa was well-established and enjoyed significant revenue, its complex financial structures made that hard to showcase.

In addition, AL MedSpa comprised multiple locations in addition to a school and training center and the owners wanted to sell to one buyer. PTG began underwriting the locations and reaching out to their already-established buyer connections.

ROADBLOCK

Because of PTG’s established relationships and savvy marketing, buyers responded quickly to the opportunity. However, most perceived a key risk during the due diligence phase: getting the high-performing injectors to stay.

More specifically, securing the commitment of the highest producer was critical to the deal. The employee's initial refusal to sign threatened the deal, prompting the buyer to demand a potential seven-figure earnout.

SOLUTION

Understanding the financial impact of the key employee's contribution was important. PTG wondered - is this as big of a deal as the buyer says? They went back to the drawing board to make sure her contribution was being accurately communicated. PTG’s team conducted a thorough analysis of her revenue generation, gross margins, compensation, and additional support staff costs.

As they dug deeper, they discovered that the key employee was compensated at a higher rate than other providers and required additional support staff for her procedures. PTG then analyzed the gross margin of her procedures and found that, although she generated significant revenue, her contribution to profit was smaller. This led PTG to question her status as a key producer.

Acknowledging the risk of her not signing, PTG put the issue into context and negotiated the earnout down significantly.

PTG applied their analysis to minimize risk for their client and maintain a great relationship with the buyer. They proved that the overhead costs associated with the high-performing injector resulted in less margin loss than expected. Additionally, the two owners were able to recruit another injector immediately, showcasing their 20-year history of overcoming obstacles and commitment to success.

RESULTS

The final sale price surpassed initial expectations, reflecting PTG’s value in distilling complex MedSpa financials. Plus, PTG's negotiation resulted in minimized earnout terms.

The sale ultimately showcased PTG's dedication, analytical rigor, and negotiation skills.

The founders and owners can now see a pathway for not only their current employees but also for the MedSpa they've built over the last 20 years.

PTG advisors know selling a spa is hard work and guidance from an advisor is almost always necessary. Navigating the negotiation process involved handling multiple locations and legal considerations, including the sale of a school. Despite regulatory hurdles and employee challenges, PTG secured a deal in alignment with AL Medspa founders’ and owners' goals.

Beyond obtaining the best financial outcome, we are committed to ensuring the long-term success and legacy of each practice we work with. We approach every transaction with a genuine desire to understand our client’s goals, crafting deals that align with their vision for the future. Then, we lead all aspects of the sale or partnership. With a team that combines expertise in financial analysis, marketing strategies, and sell-side negotiations, we execute successful, profitable transactions for our clients.

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