

Ep #269: Mike Abernathy - Facing the New Reality



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David Phelps: Good day everyone. This is Dr. David Phelps of the Freedom Founders mastermind community and Dentist Freedom Blueprint podcast. Today I've got an outstanding interview with a good friend of mine, colleague and thought leader in the industry, Dr. Michael Abernathy. Mike is someone that the industry looks up to. He's got a ton of experience in his own practice and practices that he's owned, management company. And you're going to get to really listen in to a conversation we had very recently about dealing with the coronavirus pandemic.

David Phelps: What we as dental practice owners need to do now and what we need to prepare for in the future to have an opportunity to go forward. Enjoy the conversation. So what are you and your coaches in this crisis management, the last several days, from the weekend, Monday, Tuesday, here we are Wednesday. And you're getting calls and your coaches are getting called from some at management. What's the verbiage out and obviously what's top of mind?

Mike Abernathy: Yeah. I mean most of them are like deer in the headlights of an oncoming car. They don't know what to ask. I mean, and you and I have had things where bad things happen to us at different times. And literally when this happens, you don't know what to ask. Even if you had seven experts, you just wouldn't

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be... I mean, you couldn't come up with the right question. And so I think one of the things we need to bracket here is what to expect. And I'm interested from your perspective too, because you've got the financial end of it, but I mean, we know there's mandatory closures in Dallas. I mean, the cinemas are closed, all of the arenas are closed, all the restaurants are closed, except for pickup or delivery. There are people out of work in a ripple effect, so they're not getting income. I'm expecting, and I hope this isn't the case, I'm expecting by July that it may be 20% unemployment.

David Phelps: Well that's what I've read. It's going to be massive. And of course the government is going to pull out all the stops they can. But again, it's slow. It's cumbersome. The bureaucracy of unleashing capital back in the markets and getting it down to the people and getting the money to them. Yeah, they're going to spend it on food and utilities, the basics. But they're not in on the debt, mortgage payments. Although I've seen lenders and landlords, people are offering some abatements. Because you have to. I mean are you just going to stick it to people that can't pay and lose a long term relationship? So you've got to find a place in there and can everybody do that? Not everybody's fortified a position.

David Phelps: In fact, I would say we know this, just thinking about the broad based marketplace, is most Americans that are... Live good lives. Good average Americans and they live in a nice home and drive cars and their kids go to school and wearing good clothes, their margin is tight. I mean, four or \$500 bucks. And that throws them off kilter. Well, this isn't four or 500 bucks. This is thousands of dollars. And then when you say you put the money in their hands by tax abatements or the government. They're talking about universal basic income. So they're going to start sending checks. You know, okay. But there's no economy. I mean other than the basics, there's no economy to

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put it back into. And so businesses, as you already said are shut down. And so this big engine, this big economic engine of the US is just coming to a big screeching halt. In just a few days.

David Phelps: And coming back out of it is going to be slow. Because again, it's like you have to prime the pump, right? I mean you dig wells, right? You got to prime the pump, so you don't just put it down there and just do a couple of pumps and go, "Oh, there's the water." No, you got to pump. You got to pump, you got to pump, you got to pump. To get things going and it's going to be a little trickle at first and then it'll eventually, but your point is right on. This thing is going to take quite a bit of time to come back out. And people's panic right now with... Talking to our colleagues with our offices is, is it's personal. It's financial personally. They've got the office and then they got to think about their staff. The people that give a darn about their staff and I hopefully most do, right?

David Phelps: I mean they care. They're not going to just tell them to get lost. So they're struggling right now. And I know that the legislation is... I think, I haven't read that anything's gone through the Senate yet. I think the bill, the coronavirus relief bill that they've talking about, it's trying to go through to offer some relief there. I haven't looked at it specifically. I think it's full of, a lot of full of junk. But I mean the idea is to offer some opportunities for staff, a place to go so that the employer, it doesn't feel like they're stuck footing the entire bill. I'm going to have Paul Edwards jump on tomorrow and go into that. So again, with the information available today, Mike. And that's all we got. What we kind of know today. What kind of questions or what kind of answers I guess to the questions or the better questions are you giving?

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Mike Abernathy: Well I'm telling our clients to expect 60% unemployment in dentistry.

David Phelps: 6% unemployment in dentistry.

Mike Abernathy: 60, 6-0.

David Phelps: Yeah, 60. 6-0, 6-0. So by unemployment you're talking about-

Mike Abernathy: They're not going to get hired back. I don't think it'll recover quick enough that, I mean... We try to create a legacy and a trust and a culture that we're always going to be there to help them. But it was always based on their ability to produce a certain amount. And if the psychology of this is as bad as I think it's going to be, people will be short on money. So they're not going to... Dentistry is way down the list. They're going to postpone any kind of treatment. It's just not that important to them. And they're more pressing things like getting my kids back into school, getting my kids clothed. Feeding myself and stuff like that.

Mike Abernathy: I don't think you're going to see much of recovery for six months. I mean, it may be this time next year before it even looks, resembles how it was before this hit. And guess what? October is the new flu season. And if we have a financial hit too, so again, I'm trying to help the doctors sit with their staffs, not just... They need to think this through. But to make some difficult decisions, but share the reality of their situation. Okay. Now if it was me, I wouldn't take a paycheck. Okay. So that they could. I could do that. But I don't think that's an average dentist position. So you sit down with your staff, you're going to have to tell them, "I cannot pay you what you were making." So we're going to diminish the number of days we're there.

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Mike Abernathy: So maybe we could take our two weeks paid vacation and give them that. And then, because we were only there maybe two or three days a week and not everybody was there, we could stretch that for four weeks. So that for the number of days they worked, they got full pay. But you know, it was... Then they've got a couple of sick days. Now let's say that's gone and this thing stretches out eight weeks, 12 weeks. But whenever it finishes up, now we're in a diminished position with our patients. I've told the doctors to drip on their patients through emails about every four days. To go on Facebook, if they do that in their office with their patients. And give them updates, what's going on and, and how you're planning on coming back and how this is going to look and wishing them well and they have an emergency just to call.

Mike Abernathy: Here's my cell number, call me. I'll make sure that we open the practice. That we do away with our reception rooms. And it's basically the patients come in from their car. We check them in when they get there. So we will only schedule one patient an hour and we'll check in out there. I'll give you a Tyvek doctor smock to put on before you come in and we'll take you right to the operatory. We'll check you out on the operatory. We'll take you back to the car. You know, I mean if someone is an emergency patient and they're there, I'm still going to try to upsell them or do more work if they're there. We're already there.

David Phelps: Exactly.

Mike Abernathy: And I'm just going to go, if you're thinking about dentures, immediate dentures, I can go ahead and take the impressions today, and it would take us a week or two to even make them, so that's—and if you had any more teeth hurting it, we can take them out. Or if someone broke a tooth and need a root canal, I am certainly... I was talking to a doctor and I said, "Well, you're

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going to prep it for a crown, right?" He goes, "Well, I thought it would only be emergency stuff." Well you've got to temporize it. Why wouldn't you go ahead and prep it? You know. We need to think, I mean almost put on that tee shirt that you and I had when we... The first day we opened our practice. We need a startup mentality. When we come out of this. And this is a game that a majority of the doctors, maybe 90% of them haven't played a long time. And so it takes a whole different focus on what's important. Now again, if the patients don't come back, you're trying to cancel them now. Right? For cleanings and stuff.

Mike Abernathy: Now most of our clients, I mean they had \$10,000, \$18,000 day yesterday. I mean they really have... But they're seeing some cancellations on cleanings. So at some point you're going to have to cancel these people. Now in the minds of the patient, when we talk to them, we have to envision all the blockages that would keep them from making an appointment in the future and address those up front before we ask them to do that. I mean, in normal times it was always, well, I don't have any idea what I'm going to be doing six months. So you always said, "Ms. Jones or David, I know you don't have any idea of what you're doing in six months, but it seems like you'd like to come in on Wednesdays during the middle of the day. Why don't we go ahead and put your name down? I'll send you a card two weeks out, we'll call you. You can change the appointment." We get them on there.

Mike Abernathy: So we're calling people during this pandemic and is eight weeks too soon to book them. I mean, think of the consumer. They might go, "Yeah, that's too soon." You might have to go out three or four. Now that might mean with your staff, this in this tough decision making deal. Look guys, let's say this, we do get back to work in eight weeks or so. I still need to make... For me to pay you what I paid you. I need to make this year finish

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like last year finished. At least close. So are you willing to work extra days? Okay.

Mike Abernathy: Because I kept you here and we didn't earn anything. Are you willing to put in some Saturdays or Fridays or whatever it takes. Because it's going to be whatever it takes, startup kind of mentality. And see if they'll buy into that. If they do not, or you have a marginal staff person, be honest with them and tell them they're not...

David Phelps: Time to go.

Mike Abernathy: They're gone. Okay? I'm sorry. I mean, I don't want that to happen and hopefully you don't have staff like that. When you described it, it was you had this great staff, you've already been through that process. But for most doctors they haven't. Okay.

David Phelps: Yeah. You're exactly right. It's new reality. And most of the stuff that I see, these docs that have been out the last five, six, seven, eight, nine, 10 years, you know, well nobody saw this coming but they've never seen anything like this. And you and I, we've both gone through certainly personal situations and some economic, both that have put us in that mentality. And we've never lived that. And you haven't had to even think about it or go home and... When you talked about talking to your— and you're right, I think, I mean right now you've got to talk and get real. But what about your family home? What about your spouse who maybe has never really been involved in the finances and everything was always good? I mean now you've got to go have, you got to have that discussion too.

David Phelps: Because it's both sides. It's the business side and it's at home. I'm with you 100%. This is so hard to do when you've never felt this. Or if you never grew up in a depression time or grew up in a family that maybe you had to really... Mom and dad went out and worked three jobs to put the food. If you saw

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that and you had that mentality, but you haven't even lived it yourself, really. You've been out of school. We've been this bull run economy, and if you could do anything, if you could... You got any coordination at all. You could make it, right?

David Phelps: And so now it's a turn around and now the conversation has got to get real. And I think you're right. I think a lot of people... It's human nature, to deny. To deny. Oh, you've seen it. A lot of people push back. Well, this is just a lot of mass hysteria. Sure. There's a lot of hysteria out there. I get it. But the reality is the engine's shutting down, whether you think it's hysteria or not. The reality is-

Mike Abernathy: Well it's real. It's real to the people that it's real to.

David Phelps: It is.

Mike Abernathy: So if you mentioned attrition, we've all had attrition in our practice, right? I mean 17% is the national average attrition. People just don't come back. 17%.

David Phelps: Right.

Mike Abernathy: In the state of Texas, it's 20. If you're in a, like Atlanta, or you're in Dallas, you're in San Antonio, you're in LA, it's 20% attrition. I think the attrition will move up to about 40% after this. I mean even if you do everything right, you're going to have 40% less patients. And then how do we get those new patients to call us? Because they're putting it off too.

David Phelps: Sure.

Mike Abernathy: I mean it's just not a big deal. I mean everybody sees, I mean I've seen people that were overweight with no teeth. So I'm assuming you don't actually need teeth to eat sometimes. Right? And so I think when we went through those three recessions, there were years where people just put things off

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and then it caught up with us about 2010 and they were coming in and had big problems. They'd actually gotten maybe a little more equilibrium on their money and they could afford to fix it. And we saw it ramp up.

Mike Abernathy: But the facts were from 2009 to today, our production has increased. But our collection has decreased because of third party insurance, stuff like that. So this is a big serious thing. I don't want to scare, I don't want to be a Debbie Downer... It's just they need to understand that the future in dentistry will go to the people act quickly. Now, another ripple effect, and I'm thinking of these as we're talking, so I'm sorry.

David Phelps: No, this is good.

Mike Abernathy: I didn't use to look at Facebook, but I have been. For the last year or so, and there's lots of great advice. There's lots of honest advice. It's misplaced and there's lots of just total, are you kidding me? I can't believe you said that. Okay. But I am seeing this. I saw maybe 10 posts on one deal where they're going, "Oh, I'm so glad that I worked for NBT too. They say they're right with me." And I'm sure NBT is a great company. I'm not criticizing that, but these are employees who are glad they're employees.

Mike Abernathy: Now you go back 15 years, 97% of graduating classes, all own practices. Now it's less than 50%. But I've seen this is reinforcing the new graduates and people in school that ownership it's not something I want because it is exposed to these things. Right? But I'm also seeing older doctors and I am betting that we see about 20% of the existing doctors either get out of dentistry or sell their practices and become an employee. I mean people my age, people in their 50s and what that's going to do, it's going to be like me in 2009 buying dental practices that went bankrupt.

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Mike Abernathy: DSO's and corporations will pick these up, but it might be at a 20, 30, 40% discount. Okay? There. I mean, you know they're not silly.

David Phelps: No.

Mike Abernathy: They're to pay what the practice is worth, knowing that they have deep enough pockets that they can ride this out and they have the tools to make it work. That's going to be a huge mistake in dentistry. It will accelerate all of the bad things everybody says is negative about dentistry. You know, the trends that are happening. It will take a two year, three year leap. That scares me a little bit.

David Phelps: That's what happens in a crisis mode. I mean we're going to see going from a bigger scale to... I don't want to be political here, but more of the socialism push. Because when everybody depends on the government or somebody else here it comes, here it comes. So we have this populous movement of I can't fin for myself, I just got to look to the government and here comes the government one more time, bail out, bail out, bail out. It's just setting more people up for failure.

Mike Abernathy: Right. I mean, fiat credit and hyperinflation could this country.

David Phelps: Yeah.

Mike Abernathy: I mean like scary fast. Okay. I mean, David, in 1985 I built a building in McKinney and the interest rate was 22.1%.

David Phelps: I remember.

Mike Abernathy: I was going awesome. It only doubles every four years. You know, it's like...I got it made. But tax free municipal bonds were paying 16% and they were in callable. Okay. So I mean everything goes up and down. But what you decide to do right

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now, not when this goes away. Right now, today, this next week, may mean the difference between surviving this and coming out, doing great and going, "Yeah, it was just a little blip on the horizon and not recovering." Okay. I'm not a scaremonger, I'm the kind of person that's always like, I can pretty much crawl over things under, around them. But this scares me for the other doctors. Because they're not going to do this. Too many things have lulled them to sleep and they've not had to face a deal where they have to make decisions right now.

David Phelps: Yeah. I think your message is spot on. And again, the few small percentage that take the advice or get the advice from whoever they're getting it to, to really cut deep. And again, you got to do what you got to do, but staff members, you got to be leading me. Like we said is right, start up mentality. You're going back from square one. You got to pare it down. Pare it down big time. If you can do that and have the conversations with your staff, the ones that you want to keep. That will play ball with you and understand also, it's in their best interest to stay with you because they believe in you as a leader. If you've been a leader, you've talked to them as a leader, they're going to stay with you because what's their other best option?

David Phelps: Now, if they don't believe in you, they're going to flake out or they'll nod their head right now and then later on they're going to say, "Adios amigos. I'm done with you." So you better have that culture now or surround yourself with the people that do believe you. Do that now. And at home, I think, again, a tough call. But to survive this and come back out and still be a dentist, whether you're employed or you're going to own your own practice. You have your own practice. You've got to cut it deep. Now, the good news is, I guess the good news is, good news and bad news. As you said, I hate to see anybody that's hardworking, has intention, just didn't know what they didn't

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know. Because there's a lot of people that don't know what they don't know.

David Phelps: And you can say it's their fault. But then again, I just... I'd rather not see this happen, but it's kind of Donovan's Law. There's people that are going to survive and there's a bunch of them that don't. So I would say the ones that take your advice, cut it deep right now and get a game plan and get through this gap period of time. There's going to be a lot less out there on the street. A lot less competition. So, even though it's going to be a slow ramp up, patients aren't going to be coming back out. "Oh yeah, I missed my six month cleaning. So I'm here at the door. I'm around the corner," like they aren't at Costco right now, or trying to get groceries. That ain't going to happen.

David Phelps: But I sense that there's going to be a big fallout. Now being employed, even the private equity firms and DSO's, how much do they have behind them? I mean what do you think their financial strength is also to come in after the storm, weather the storm, keep things going and then also to potentially gobble up those practices that have to sell out. What's there? You said it's going to fast forward the trends and I agree with you. So do you think they're going to come in and is that's what's going to happen? And a lot of dentists will be coming in on a level, it's not going to be what they're used to.

Mike Abernathy: Right.

David Phelps: Right?

Mike Abernathy: Yeah. It may be their new reality. I mean Bloomberg, back when KKR bought Heartland, 57% share of Heartland. Bloomberg came out with a report... And I'm not saying this, I'm quoting their deal. Okay, I don't want... I get enough calls from other people, so it's like... But they judge Heartland as being a junk company. With debt to incoming, debt was 7.1 or two times

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earnings. And when KKR had to get special financing for this money to buy this, it pushed that debt to income ratio way out of proportion. And a lot of these DSO's are propped up from money from people that think dentistry is a commodity and they invest for the return. The minute that return disappears, then they'll disappear. And a lot of these DSOs... I mean a lot of them have grown by mergers and acquisitions. Not by taking a practice and making it better or making it more profitable.

Mike Abernathy: And so on paper it looks like the company is growing, but when you look at the debt versus income that's not working. And when if we have following this some type of financial correction, because we've been propped up by the government so long, I mean, you know. I think you'll see a lot of the DSO's have a real hard time of making it. And a lot of the people that have joined these DSO's have been doctors that go in their mind, they were told, "Well, you'll be able to sell... We're going to put all these practices together and sell them for 10 times EBIDTA." Well, it's never happened before. Okay. But okay, well you're going to do it. Okay, EBIDTA. And then of course the guy who goes into that and then has a timeline in their mind.

Mike Abernathy: Great. In 12 months there'll be doing this or, and it could be 20 years or never.

David Phelps: Or never.

Mike Abernathy: Okay. And that's where things start to fall apart. And so I have nothing against DSOs. Again, I'm a capitalist, not a socialist. I think when we have a recession, it eliminates non-competitive companies. I mean, and that's as it should be because I think non-competitive companies are taking advantage of the consumer. Because it's not a product that's good or a service or whatever. So, but again, all the dentists I know are super nice people and there's too many cooks out

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there right now telling them what to do and it gets confusing. And I got nothing to sell anybody. I'm just telling you my opinion. But I'm worried that the pieces are going to be difficult to pick up if we don't do this right.

David Phelps: Yep. Great words of wisdom from a good friend, Dr. Mike Abernathy. Mike, appreciate your time today. I think your word should be taken well. If you're going to get through this, you've got to make some tough decisions. You're going to have some tough conversations to make it. Otherwise, if you wait it's going to be too late.

Mike Abernathy: Can I read you one thing, David?

David Phelps: Sure.

Mike Abernathy: This was in Fortune magazine. I cannot remember the author's name, but in 2009 wrote this. He said, "Marathoners and tour de France racers will tell you that a race's hardest parts, the uphill stages or where the lead changes hands." That's where we are now. When the recession ends, when the road level's off and the world's seems full of promise, once more, your position in the competitive pack will depend on how skillfully you manage it right now.

David Phelps: Yeah. I couldn't agree more. Yeah. Well said. Well said. Well, Hey, thank you for your time.

Mike Abernathy: Anytime.

David Phelps: I'll check back even with you again when we get some updates. All right?

Mike Abernathy: Okay. Yeah. Let me know what's going on. I'm reading everything, so thank you a lot, David, for inviting me for sure.

David Phelps: Thank you. Bye.

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Mike Abernathy: Bye-bye.

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