

Ep #271: Vin Cardillo - Opportunities in Crisis



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David Phelps: Good day everyone. This is Dr. David Phelps of the Dentist Freedom Blueprint podcast and the Freedom Founders Mastermind community. Today I've got a really great interview with good friend of mine, Mr Vin Cardillo of the Maeva Dental Advisors Group. Vin has a lot of experience and background in the dental industry, private equity, the DSO arena, and he's really a very forward thinking and visionary person. I think you'll enjoy the interview we had today in terms of how we come out of the coronavirus pandemic and be stronger and better leaders and businesses. Enjoy the conversation.

David Phelps: I'm going to just ask you questions today regarding what you see the lay of the land looking like at different stages coming out of this. I mean, when the economy starts to go back to work and then specifically in the dental industry and what you see as the lay of land. What you see as some of the fallout. A lot of businesses won't come back. What's that look like? What's that look like for dentists today based on what their current practice model is? Where they are in their career. I'm just going to kind of throw stuff at you like that. You with me there? I mean-

Vin Cardillo: Yeah. Look, I think that we are going to be changing again as a populace. It's happened with 9/11 right? You

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go to the airport and there's TSA. And people born today, younger kids think that that was always there, but it never was. So what's the future going to bring? I mean, I think everyone is planning that these lockdowns that are happening, I foresee they may happen again in the future to be prepared. I feel that companies that are forced to work remotely, some of these entrepreneurs might say, "Wow, I never thought I could do this remotely, but I did. Why should I be paying all that rent?" Now, if my team heard this, they'd be like laughing because I'm like one of the old school that always wants to be in the office.

David Phelps: Sure.

Vin Cardillo: I'm in the office alone right now. I was home the other day. I was like, "I got to get out of here."

David Phelps: Right.

Vin Cardillo: I mean that could be real interesting, especially from your part. I'd like they hear you on the real estate side. Are people going to just be working from home now?

David Phelps: Well I think you're right. I think going through this and people being forced to work from home that never thought they could work from home or the business owners didn't think they could work from home. Now they're adapting. The innovation, inventiveness that we have to go through as a society, as individuals, as business owners, as dental owners, we're having to iterate on the fly right now. I think there's opportunity. And I think you think the same way. Nobody really likes change particularly. I think most people would like to kind of get in a runway, a path and just work that path and maybe make it a little bit more efficient and work a little harder. And that's kind of how we're built. But having this kind of disruption, Vin, it throws

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everybody off. But then I think the creative people who can turn around and quickly say, "Okay, what can I learn from this? How can I become stronger as a person, as a leader, as a company, as a business coming out of this?" Not knowing exactly what it will look like. But yes, there's opportunities here that we can learn from by kind of throwing things to the wind.

David Phelps: We got to test right now. We've got to test things. If you don't test something and try something different, then you may not pick up the pieces. So you've got to try things. And I think there's going to be a lot of grace given for any leader, any business owner who says, "Let's try this." Well, who's going to get mad, patient or staff, if you say, "Look, we got to try some stuff because we want to stay whole. We want to be functional. We want to serve our patients. Let's try this. Let's see if it works." Well, if it doesn't work 100% what can we do to make it better? So yeah, the whole idea in this case of in dentistry, I think tele-health, tele dentistry, there's going to be definitely a big place for that.

David Phelps: Whereas before, oh no, HIPAA and oh no, we can't do that. Well, the regulators are going to have to also open things up in certain ways that in the past was like, "No, we're in a box. You can't do that." No, no, no. I think this is again, an opportunity where the administration with all the compliance that some of it needs to be there, but there's always over-regulation. Well, what can we start peeling back? I mean, there's going to be opportunities there. We just don't know. So I think an open mind is critical here.

Vin Cardillo: Yeah. I mean, the tele dentistry thing is big, right? You know, Massachusetts Medicaid just passed in the midst of

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all this tele dentistry for ortho. So we're like scrambling right now and we think by Friday our doctors in a pretty good ortho group are going to be able to see some visits that are actually charged procedure visits.

Vin Cardillo: So, what's going to happen with that situation, so now if this works and works well, what's going to happen is the number of doctor days in a facility is going to get decreased. The numbers assistants are going to be decreased and there's going to be doctor in front of a computer doing certain checks.

David Phelps: Yeah, yeah.

Vin Cardillo: It's happening. I don't know how it happens on the GP side of things but ortho for sure it's happening.

David Phelps: Yeah. Well, the whole problem we have in this country is access to care and diagnosis is the first part. Now can you make a 100% accurate diagnosis just off of the screen? No, but again, the innovation is going to allow for a lot more of a triage. Triage is a better word. Triage situations through virtual connections I think is something that will come into play. And yes, they're going to have to have codes for it and providers are going to have to be able to be paid for new services that will add efficiency, provide better access in some cases to what patients need out there.

Vin Cardillo: I was talking to a doctor that was part of a mastermind group that they meet mostly out of Oregon and they were talking about coming out of this where there might be some regulation as to the number of people that can be in the waiting room when we come out of this in the first couple of months.

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David Phelps: Yeah. The virus is not just going to go away. It may attenuate to some degree, but until they have a vaccine, we develop more immunity, it's going to be around for some period of time. Right?

Vin Cardillo: Right. So, in orthodontists or pedodontist that has a large practice that's normally seeing a hundred patients a day where the waiting room might have ten or fifteen people that they may not be able to do that. And even when we go live for three months or for four months or six months.

David Phelps: So an opportunity might be, just saying might be that if that's the case and we're basically entering people through the door by text in a concierge that just brings them in as they're needed, maybe we get to like redesign and do away with the waiting rooms, the reception rooms and turn those into operational parts of the practice. I mean, who knows. I mean, we don't need the big waiting rooms anymore.

Vin Cardillo: Yeah. I mean when you think about it, this literally came up in a brainstorming session yesterday where we spent a few hours here just having this discussion on what can we do maybe to change ourselves, the go to the industry and help right now. Because right now is a time of help. Right? There's no sales right now. It's how are we adding value, how are we helping people? We're just going off a tangent and it literally, Paul on our team came up with the idea of just what you said there is the waiting room issues. You know how when you go to a restaurant now they have those apps that you can go take a walk and then they'll text you that hey you ready? So that may happen where you just go to the Dell office and you just wait in the car and you say, "Hey, I'm here." And they text you. Then you come in.

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David Phelps: Yeah. I'm personally not opposed to that. Maybe if it's freezing and snowing outside I'd like to be somewhere where it's warm. But we'll figure something else out on that. But yeah, that's the thing that's going to happen. Yeah. You talked about the whole remote and the whole virtual and working from home and people getting more used to that. And for our team at Freedom Founders, we are a fully virtual team. We do not have a brick and mortar office that we go to. We get together on regular times during the year for actual live meetings. And our team gets together at certain places. They actually do sit together live. But we've learned to be very efficient, very functional on a remote basis. So, that doesn't really affect how we run. But I think we developed it over time.

David Phelps: We developed a policy. Starting it that way was a little bit clumsy, but once we got going, we got it dialed in. We have a run rate and we have different types of breakouts. The virtual platforms that we have today really give a lot of functionality. In fact, we converted then had a live workshop here in Dallas scheduled for this weekend for kind of a general populace just to help them with the basics of practice development and then basics of financial acumen and real estate. And it was a live meeting where we flipped the whole thing to virtual. So we'll be running an entire virtual workshop.

Vin Cardillo: Wow.

David Phelps: And we didn't have anybody that pushed back and go, "No, because you're not doing live I'm not coming." No. They actually said, "Well, we're kind of stuck here at home and we were going to come anyway. Well now we don't have to get on a plane. We don't have to leave our family. We don't have to sleep in a hotel room." The only

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thing you miss is the conversations that maybe happen at launch and it breaks and after that is a component that is missing. But still with virtual you can do a lot, you can have breakout rooms and you can move people around. You can help engage them. And so we're going to kind of have fun with kind of innovating with that this weekend to see, well, what can we do virtually? What can we do where in the past we thought we had to get together live.

David Phelps: I think the travel industry, the event industry, it's going to change. We're not going to do away with a lot of events because there's a purpose. But I think you're going to see a dimension and a necessity to always have to go meet somewhere.

Vin Cardillo: Exactly. So, if you have like four events a year for your group, maybe it's now two. Right? And maybe you might have more adapters because they don't have to travel and be away from the office. Yeah. It's definitely going to impact the way pushing people into these areas where they're not comfort level makes things become the norm. Like you said, they may be consultants teaching people how to build a virtual company. Right?

David Phelps: Yeah.

Vin Cardillo: I mean maybe even the We Works of the world might continue to grow because now for the folks that the companies have to say, "Look, you can stay home." There will be people that might not want to stay home but they'll go to a We Work place or a place where they can get out of the house a couple of days a week.

David Phelps: Or Starbucks when they can go back to Starbucks.

Vin Cardillo: Exactly.

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David Phelps: Whatever it is. Right?

Vin Cardillo: Exactly.

David Phelps: All right. So I'm going to change courses a little bit here. You have a lot of experience in the private equity markets, capital raises and debt structures and a general large view with what's happened in the global economic financial marketplace with just uncertainty right now. Again, what do you see there? Does it depend on how long it takes us to kind of get things back to some kind of new norm where we're kind of back to business and it's not going to be a quick ramp up? We don't really know if the ramp will be quick or it's going to be a little slower. How do the private equity markets generally respond to uncertain times like this? What do you know from history?

Vin Cardillo: Yeah, so private equity is very smart, right? And private equity is very smart because they are very, very judicious about looking at the downside. We have a situation with a group that we're working with that's a institutional investor with a couple of groups that are coming together and it's frozen. And the bottom line is they won't even consider a new deal in an industry they haven't really been in, in dental that's closed until the dust settles. And then they see what happens when it comes back.

Vin Cardillo: I had a call with a bank yesterday about a client if they would refinance and this particular bank, because it would be a new client, they were like, "Well, we're not doing anything but close offices yet." So I said, "You're basically not doing anything because everyone's closed."

David Phelps: Yeah.

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Vin Cardillo: Right? So, the financial markets, when they do come back, right now, all of the private equity dollars, they're scrambling because the way they operate is they operate with a lot of leverage, right? So right now they're not able to make payments. So they're going to the bank and say, "Okay, can you give me a couple of months?" And the bank is saying, "Okay."

David Phelps: Right.

Vin Cardillo: That's probably not enough. So they have to make a capital call and go get some more equity to bring it in. So they're dealing with that right now. So they're dealing with their existing portfolio companies before they jump into new ones. From what I've seen and I've heard with the few that I've spoken with.

David Phelps: So when you need to make a capital call in this environment, how viable is that? Where does that capital come from?

Vin Cardillo: I mean, look, these private equity guys have a fund and their funds usually are limited partners, right? And those limited partners are high net worth individuals, they're pension funds, endowments. So a lot of them are multibillion-dollar entities that have committed capital and the funds will come.

David Phelps: You don't see a trickle down where even a large pension funds or someone who is ultra high net worth has taken some kind of relative hit, relative hit, because of the financial markets? I mean, doesn't everybody to some extent have to pull back? Maybe there's a few people that are just so loaded up. I'm just saying is there a trickle down where everybody to some extent get effected and slow the velocity of the money down right now?

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Vin Cardillo: Yeah, I mean I think what keeps the economy, not the economy, but these private markets going is you're totally right. On high net worth individuals, if they're LPs in these funds, they probably will hold back. But if it is a pension fund and they've committed that capital to this asset, it's already on their books. It's already on their balance sheet committed to those particular investments. Because now if every LP stopped, then we'd have a major event and that's why the laws are put in place that hey, if you're committing these dollars, you got to put it on your balance sheet as if it's committed.

David Phelps: Right. Got it.

Vin Cardillo: So they totally don't go out of balance.

David Phelps: Yeah. So without naming any names here just in general, you talked about private equity uses a lot of leverage to get the returns. Leverage now is something that's a problem for anybody that's trying to manage leverage because if you don't have the payments coming in on the cash flows you depend upon, then how do you pay those debts? DSOs, dental service organizations, again, there's every type, every size with every different kind of balance sheet out there across the board. Do you predict that some of them will ballpark dismantle and be taken over by the strong ones that come out of this with a better balance sheet?

Vin Cardillo: For sure, definitely. And now again, it comes down to what's the definition of a DSO? Let's just say small groups. So small groups that are not funded by private equity, which are, I don't know, two to like 3000 of them in the country from two to 20 locations. I think that's the number somewhere around there. If they were already kind of a bit in trouble, which many of them were because

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they got ahead of themselves, they don't have the right management around them, they're going to have a tough ride here. And they may have to sell off some of their good offices to keep some cash to keep some of their offices.

David Phelps: Right.

Vin Cardillo: It's going to be a very interesting situation because right now I'm working on this piece right now that's going to be like the roadmap of the five phases of Covid-19 in dental where phase one is panic. Phase two is human capital and expense planning. So in the beginning, everyone freaked out. What do we have to say to our patients and what are their HR laws? Phase two is more of this human capital expense planning. Okay, are we laying people off? Are we not laying them off? What can we do? What are my fixed costs? Let's stop buying this stuff. Let's turn off this particular monthly fee.

Vin Cardillo: Phase three, which everyone should be kind of almost out of, is this cashflow analysis and this cashflow planning where everyone has a weekly cashflow statement so they can actually put every single week what dollars are going out for where. Once that's in place, it's also lining up your cash, getting line of credits from your bank that you have a relationship with. Once you have that in place and you're comfortable that you've got the cash to bring you through X amount more months, let's call it the two months that we're looking at now. Now our view is, so with our clients, we're just about finished with that phase three of getting everyone lined up with their weekly cashflow statements.

Vin Cardillo: Now we're getting into, okay guys, now you have all the time in the world, all these great projects that you always

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wanted to do. Let's get a list together. Let's prioritize, let's get ahead of the curve, right? So I think there's huge opportunities in that. Are there people that we need to train? Let's get them in here, let's get them trained up. Are there some we want evaluate? Are there technologies that we want to look at? Well let's do that now. Let's get ready to know that if we bring some technologies in, it'll allow us to be more efficient. Let's do that today.

David Phelps: Vin, do you think that the solo practitioner and really kind of under fire for the last half of the decade just because of more collaboration, more consolidation, it's just continued to happen. I see that as happening even faster after we come out of the pandemic. Outside of some really outlier practices that are fee per service and there are certain demographic where maybe we're rural, that kind of thing. I think there's always explore certain boutique type practices like that, but I just see more consolidation. I don't see the insurance companies going away. They've got billions and billions of dollars. They can play ball. They always get bailed out any way it seems to me. So your advice to doctors right now that maybe have that kind of a solo practice that are running themselves and they've been making it so far. It may be getting harder and harder but they're still making it and they still feel like they want to own their own practice and still be the boss, but it's going to be harder coming out of this. Do you think there's still a runway for that kind of practice or does that conductor really need to be really assessing his or her model in a different way?

Vin Cardillo: I mean I think any entrepreneur is going to continue to assess their model. There's always going to be room and there's always going to be space for the private dentist for sure. I totally agree with you that this is going to create

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another bolt of energy into the DSO space and the outsourcing space, kind of like what we do because doctors and dentists are going to be like, "I don't want to have to deal with this anymore. I want to know that I've got someone either that I've hired to help me do this or I want to just sell out and get my cash today and be a good dentist and be compensated for that and not have to have the headaches. But for a practice that wants to grow on their own, not all these DSOs are very successful either.

David Phelps: Do you believe that the multiples that were paid for certain practices based on certain EBITDA in the past year or last six months, do you think that that will come back again at some point if we get back to a certain run rate? Do you think there's going to be in general a longer period of time where some of the uncertainty and you even mentioned that, or lock downs in the future, because again, because of a health crisis, virus. But with that kind of uncertainty about cash flows, revenues from a business operation, do you think those multiples may change for the long term? And not be what they were being paid in the recent past?

Vin Cardillo: Yeah. I mean, I think coming out of this, private equity, like I said, they're astewed, they're smart and there's going to be this troche of opportunities where people are feeling the pain and they're going to swoop in and pay a lower multiple for those because they can, because people, they want an option. So, that's going to give them the opportunity to buy in lower. And I think that'll set the new tone and then it'll just go right back up again. But I think there's going to be a moment of settlement. There's going to be a moment of these private equity guys now, I read something the other day that the average private equity deal is levered at six times EBITDA. So I mean, if

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you know your math, that's just a lot of debt to be able to have to pay every single month. You might not make your debt payment because you're closed for one day with that type of debt. So, I think things are going to change. I think again, the banks are going to feel this, too. So the banks are going to say, "Okay guys, let's restart this," because four years ago the banks were at three, three and a half X, four X. So I think they're going to go and those numbers and then they can work their way back up. And because private equity is leverage, if they can't leverage as much debt, that impacts their price.

David Phelps: Exactly.

Vin Cardillo: Right?

David Phelps: Exactly. When you said you believe there'll be additional future potential lockdowns like we're having right now mandated by the virus, by the government, do you see that as being something similar that would cause that? Or do you see other outlier events that might trigger something like that?

Vin Cardillo: I mean, I think the world is becoming much more cognizant of these diseases. I mean they've probably been around all the time, right? We have technology to detect it a lot faster today. We can probably save lives, but in order to save these lives, the technology is going to tell us, "Hey, there's so many people in this market with this technology, we've learned from the last time that this happened out of this city. Well that city's going to shut down." So, it may, if you are the city where a virus begins, you know, just for the country to get shut down because we've got these technologies to detect that, it may not be a bad thing and it may become a new norm. It may be the technology is getting better and better and we're able to

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detect these at a pace of six a year and there's six large cities around the world that close down for two months, once a year. I don't know. Could be.

David Phelps: Yeah. Yeah. It's interesting. Like we said earlier, a lot of innovation, a lot of change, but not all of the changes are going to be bad. I mean, there's changes. We just have to be in a position today more and more where we have to expect things to change more quickly than they ever did in the past decades. I mean, that's just really the world we live in today. It's technology disruption, new models of doing this. It's here to stay. And those who can adapt and iterate with those changes, I think will do very well. Those who, for whatever reason, their mindset is more stuck with, I don't like change. I want to just kind of do what I always did, it's questionable how long that kind of a thought process will keep people going. So I think you just got to decide. Decide who you are and what you're willing to do.

Vin Cardillo: Right. Totally agreed.

David Phelps: Any last thoughts before we end this conversation, which I've really enjoyed by the way. Any last thoughts that we didn't touch on or just future brainstorming that you've had in the last few days or last week that you think would be significant to let everybody know?

Vin Cardillo: Yeah. I mean, I'm looking on my board here that's full of all sorts of goodies. Look, I think that any dentists that own practices today, really the focus is get that weekly cashflow statement in place, forecast it out. How much are you spending this week, the next week? Your payroll, what's coming this week? Take a look at your AR that is coming in. You got to remember that when you go live, you're not going to have AR anymore. So your first 30

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days you're not going to have cash coming in from insurance. So you need to take that into consideration also.

Vin Cardillo: So be positive. Make sure you know your cash dollars, where they stand. Your team that's at home, you have to stay in communication with them. You have to keep them engaged. You have to be positive. You have to be the leader that you are for them to come back and be strong with you. They're looking for that now. They're home alone. Have a weekly Zoom with them just to keep that going. Don't let that go 10 days. I think those are our hottest thing that we're working with all of our clients on right now. And it is having an impact.

David Phelps: Yeah, I 100% agree. I think proactive communication is always a mandate for any business, whether we're in crisis or not. And again, I think doing what you're talking about where people may have not had such a tight control or tight dashboard on their revenues in and their out go, how do you do it right now because it's an exercise that you carry on because that's really how you run a business. Having better communication, becoming a better leader, good time to practice that right now because that's what's going to take you on out of here. So again, some good things, some new behaviors, some new habits that we didn't maybe have in the past come into play now because we kind of have to right now and then we just carry them on forward. So I think there's again, a lot of good that comes out of having to dig in and get through a crisis.

Vin Cardillo: Yeah. Great.

David Phelps: Well, Vin, thank you so much for your time today. I'd like people to know where they can connect with great

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thought leaders like you. So what's the best website or place where people can like read what you put out or just stay connected? What would be the best one?

Vin Cardillo: Yeah, it's Maeva Advisory M-A-E-V-A advisory.com or just hit me up on LinkedIn. We're posting a lot on LinkedIn under Vin Cardillo. We're happy to help as much as we can. We're thinking of doing like a dental hotline right now for some dentists that are in trouble and that just want some help. And if anyone in your world needs that, we're here, we're happy to jump on the phone for as much as we can to help out as much as we can.

David Phelps: Well fantastic. You definitely serve first and that's one of the models and characteristics I've always known you for, Vin. So again, appreciate your time today, Vin Cardillo. Definitely a gentleman that you want to stay connected with because he's definitely thinking forward all the time. Thank you, Vin.

Vin Cardillo: Thanks David. Appreciate it.

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