# Ep #206: Zack Eller - The Entrepreneurial Exit Plan


## Full Episode Transcript

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**Dr. David Phelps**

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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 you're going to have a really interesting topic that I know is going to be of real interest to our listeners in regards to mergers and acquisitions and exit strategies and liquidity of your business or your practice. Today with me I've got an expert that I had a chance to actually meet in person. Got to hear him speak recently at a meeting in Chicago, Mr. Zack Eller. Zack, how are you doing, sir?

Zack Eller: I'm doing great. Thank you for having me on today.

David Phelps: Yeah, wonderful to have you here. And I know this is going to be a great topic today because it was high interest to me when I heard you present a few weeks back. A little bit of background on Zack. Zack is a financial analyst for the Oxford Center, the Oxford Center for entrepreneurs, which is now part of the Advantage Forbes family. Zack oversees the M and A, or the mergers and acquisition advisory process for members, that would be members of the Oxford Center, who are looking to strategically exit. These are business or business owners who are looking for the exit plan. Zack, your duties include financial statement analysis, company valuation, buyer sourcing, due diligence assistance, and definitive agreement execution. Zack also contributes to the seven S, and we'll talk about these seven S assessments, where companies are examined to determine which areas are stunting scalability. Scalability is a big part of the growth to an exit, so we'll get into a little bit of that today.

These assessments are critical to providing the stay or sell recommendation that the Oxford Center has used for over a decade. I think that's a good place to start right there, Zack. We're talking about entrepreneurs, people who have gone out. We'll dial it into dentists in a minute, but let's just talk big picture. We're talking about business owners how have gone out into the world and created businesses, and maybe have been in them for some time, but as we know entrepreneurs, you really put your heart and soul into your business because it's your baby. It's like you start it, you go through all the periods, levels of growth. And then you get to some point in life, and for most, they stay with one business the whole time. Maybe they get into their 50s, or 60s, or somewhere there. Maybe there's health issues, or maybe there's financial needs, or whatever, it's time to look at selling.

And sometimes that's not the best time to look at it. In other words, one could've started maybe looking to sell earlier in life. But that's what happens oftentimes. And so part of your analysis with you and the Oxford Center, Zack, is that you help entrepreneurs determine whether they should stay in the business or sell, because sometimes there's opportunities of selling even earlier in life because there may be other things you can do with the capital. I kind of laid a big scenario out there for you. Take some of that and put it into context. And maybe give us also, an idea of what the size or scope of business revenues that you deal with. What does that look like?

Zack Eller: Yeah, of course. But starting with the stay or sell recommendation, that's something that is very near and dear to the Oxford Center's hearts because the Oxford Center was founded by entrepreneurs. It's a very entrepreneurial organization. And we know important owning a business is in living your dream like that, so that is something that factors into our recommendation. And we will never push entrepreneurs to sell. We always look at it from a very blatant standpoint of yes, you should sell, and no, you shouldn't.

We're going to look at financial statements, what the market is doing, what other firms like yours have sold like, so there are a lot of things that go into our recommendation. And it's always under the umbrella of elevate the entrepreneur, so we're always looking to find the best play for the entrepreneur at any given time. And then for the revenue sizes, most of the members at the Oxford Center are between $1 million and $100 million in revenue. That goes back to our seven S assessments. Those are the areas where we provide the best scalability consulting for scaling your business from one to 10, and then 10 to 50, and 50 to 100. That's kind of where we find our sweet spot with recommendations at the Oxford Center.

David Phelps: Okay. Good. Pretty big difference between a company that's doing $1 million and one that's doing $100,000 million. Right? There's a wide, wide variation there. And I guess to become a member of the Oxford Center, what advantages? Obviously, you do a lot of assessments and you help with scalability. But a wide range of businesses there, so how are you able to help businesses at these different levels from between $1 million and $100 million, for instance?

Zack Eller: Well, we have our platform that's focused on know, grow, and exit. The know strategy is for those members who are typically in that lower 50% of revenues, or even lower at 25% from $1 million, to $10 million, to $25 million. The know is for them to teach them how to scale to 50 and 100, and that's when they use their growing. And then the exit is when we talk to our members who have either come on some financial difficulty, like you said, or are ready to get out and retire, or they think that's all they can handle, and they're ready to exit the business. But the main really difference that we see in the lower revenues to the higher revenues is that in the lower revenues, specifically one to three, revenue is solving all the problems.

And then right after that is when entrepreneurs start to run into trouble because entrepreneurs typically don't know when to say no to a certain brand. And that's part of our growth platform, teaching entrepreneurs how to really fit into one segment of an underserved customer. That's kind of one of our main tactics is finding one group that you can say yes to, that's underserved, that you can win every single time. That's very important to scaling your business.

David Phelps: Yeah, you are absolutely right. I think that too many times, and I certainly can put myself in the shoes of at one point being that type of entrepreneur, and saying, "I want to grow my revenues. I want more profitability, and therefore I need to widen my approach to the marketplace, and try to be more things to more people." And what you're saying is an entrepreneur who's more focused and goes deeper with a specific avatar, specific client customer, and knows that customer very well, and appeal directly to that customer, with the customer feeling like: Well, is this company for me or not? That's what you're saying, in essence. Is it?

Zack Eller: Yes, yes. Kind of one of our main taglines is: A confused customer is not a buying customer. If they don't know where you fit in, then they are not likely to buy from your business. And our famous example for learning where you fit in is in the hospitality industry, specifically to hotels. Motel 6 says, "Well leave the light on for you," and that's really all you can expect. Motel 6 is leaving the light on. They're open 24 hours. You come in. You get a room. You're probably only there to sleep, and then you get up the next morning, you take a shower, and you leave. But then when you go somewhere like the Ritz, you get the nice robes, the nice restaurants, the lounges, the amenities. But those people have found out who to say no to, and that's what's led to both of their successes, primarily is that they learned how to turn ... Who their target customer was and how to say no.

David Phelps: That's really good. I'm going to take what you just said, and I'm going to convert that into the language of the audience that we're probably primarily talking to today, although we talk to a wide range of entrepreneurs, probably a lot in the professional practice, and probably even a higher degree in the dental arena. And before I do that, Zack, give us an idea within the Oxford umbrella. What percentage of members of people that you consult with are in the health care, and even more specifically in dental? Just give us some idea.

Zack Eller: I believe 30% of our members are in the healthcare space. And probably 5% to 10% of that is in the dental space. We have more in the private practice from a medicine standpoint, but we do have some dentists in the organization.

David Phelps: In dentistry, for example, the conundrum today is what you just said, is I think because a lot of business owners are carrying a fair amount of debt, it takes a lot of capital to start up a dental practice. It's very capital intensive. It's labor intensive, as well. And to a great degree, a lot of the businesses, the practices, are dependent or have made themselves dependent, I should say, on insurance, so an insurance driven model where reimbursements are now dictated to a great extent, makes it difficult. We've got practice owners who say, "Well, I hate the insurance companies, but I feel like I've got to take them. At the same time, I'd rather have some more kind of fee for service cash paying patients." And at the same time, you know what, that Medicaid area, even though I don't like to see all those kids, it does provide a reliable source of revenue. And so you see practice owners who are trying to serve this wide range of clients. And it's very difficult to, again, be all things to all people, Motel 6 versus Ritz Carlton. Right?

Zack Eller: Exactly. And what you're describing a little bit is sort of where a lot of our entrepreneurs get, and we try to kind of help them out in this area, but we call it no man's land because if revenue has solved their problems for so long, so they kind of stick with what works and keep trying to use revenue to solve problems. But in reality, it's only really making things worse until they can really shave down and find their target audience that they're going after.

David Phelps: Got it. Got it. In the M and A world, mergers and acquisitions, there's a term or an acronym, actually. It's

EBITDA. It's something that's tossed around a lot. It's like your second language. But for most people out in the world, we hear it, we see the letters in passing. And we kind of glaze over and go, "Okay." Zack, could you give a definition or a layman's explanation as to what that is and where it's important?

Zack Eller: Yeah. EBITDA is a financial term that kind of adds back things to set the playing field straight, because different practices are going to have different financing needs, different asset needs, things of that nature. And so that's where the EBITDA comes into play because Earnings Before Interest, Taxes, Depreciation, and Amortization, kind of takes into account the high level, we hate to say this, but one size fits all, or as close as we can get to a one size fits all. And it's important because a lot of firms value companies using a multiple of EBITDA. For instance, if you're EBITDA is $1 million, and firms in the industry are trading at a five times multiple, you could theoretically fetch around $5 million for your business.

David Phelps: Right, right. Now one thing that I've learned over the years is that when an entrepreneur is growing his or her company, or investing heavily in the company, that tends to hurt EBITDA.

Zack Eller: That's correct. That's correct. A lot of things that would contribute to a higher EBITDA are actually coming back into the business. And that's one way that at the Oxford Center we sort of differentiate ourselves as well, is that we don't use an EBITDA multiple method. We use an enterprise valuation method. That allows us to take into account the fact that there's a lot of investments going back into fixed assets. Financing is required to grow a firm in a lot of cases, so we're taking that into account, and using that to the entrepreneur's advantage because we know entrepreneurs as well as anyone.

David Phelps: When you're changing the definition, in this case to be more favorable to the entrepreneur, to the business owner, because it does make more sense. But you're changing the playing field a little bit, or the way the rest of the marketplace looks like. Are you actually limiting the potential buyers? How does that work out?

Zack Eller: I don't know if we're changing it as much as we are leveling it. I guess those are one and the same. But we're leveling it because the deck has been so stacked against entrepreneurs for so long that it's very unfair almost, because the EBITDA method is typically something that is used by private equity firms to suppress valuations, while the enterprise valuation shows this is what we truly think is going to happen, instead of a multiple that's sometimes rather arbitrary. And while that does limit is to kind of stay away from private equity in different types of buyers, we're comfortable with that and we're fine with that because we know that the right strategic buyers out there, and strategic buyers not only understand the enterprise valuation method and understand that things can go in that direction in the future, but it's also a better fit for the entrepreneur.

One of our favorite stats is that 82% of entrepreneurs are actually unhappy one year after a sale of their business. And that's because they sell to someone they probably don't like because the private equity firm comes in, gives them a certain EBITDA, or a certain EBITDA multiple, pardon me. And comes in, and six months later, a year later, fires them and puts in a new manager and tries to run it their way. And when you go to a strategic buyer, the strategic buyer typically asks for the entrepreneur to stay on for at least a year, most likely two, because they understand how important the entrepreneur is to building that business and to producing that value down the road.

David Phelps: That makes sense to me when an entrepreneur is heavily invested all in, in the business versus having it more manager driven. And so when you have a strategic buyer that's looking at buying, then they do want to keep that entrepreneur on. But is that kind of like what you'd call an earn out?

Zack Eller: Yes. But we make sure that our earn outs are, again, in a position to help the entrepreneur and not hurt them. A couple of weeks ago I heard a story of an entrepreneur who was offered 70% upfront, and then 5% of the value over six years, as long as he stayed in the business. But after two years, the private equity firm fired him and said, "Well, since you're not working here, you don't get the earn out." If we negotiate an earn out, it's going to be so that the entrepreneur either receives the earn out as an added bonus, or they receive the earn out as something that's guaranteed regardless if they get in a fight in day one, or if they're best friends after 10 years. We want to make sure that the earn out is there for the entrepreneur so that the playing field is level.

David Phelps: A lot of the times in dentistry, as I understand it, and I did not exit this way, but my colleagues what are doing it that way, and have an earn out based over X number of years, part of that earn out is also based on that doctor's ability to maintain certain revenue numbers. And that, again, seems like it's a little bit difficult because the new owner, where you think they would want to do the best by growing the company, they may change systems. They may change culture and make it difficult not only from a production standpoint for that former owner, entrepreneur, to make those numbers, but even within that cultural change it's just not a great fit. If the former owner, who sold out, decides voluntarily they want to exit, that might be a means to eliminate the earn out from them. How do you kind of work within that frame?

Zack Eller: Unfortunately, that is just part of playing the exit game. Entrepreneurs are just going to have to go through that, and there are going to be bumps in the road after a sale. No sale is a match made in Heaven that's 100% perfect all the time. But it's important for entrepreneurs to know that going in, and just be able to keep trying to produce the way they produced. And we also do try to stay away from any earn outs unless they're an added bonus like we said.

Going back to our examples, if we sold the business for $5 million. And the buyer really wanted the entrepreneur to stay on, then we would do maybe an earn out to compensate them for their time and also encourage the entrepreneur to keep firing on all cylinders like they have been for so long. But we would try to get as much of it up front as possible.

David Phelps: Yeah, that way it becomes more of a win-win. Both sides want to work together to make it work, but it's not imperative that the seller, the former owner, has to stay on to get the number that they felt like they were due on the sale of their business.

Zack Eller: Of course, yes. And we always play for a win-win. We never want to feel like we got one by someone, or we did something the wrong way in order to get a sale. We want to make sure that it's a win for everybody because we know about the lasting impacts of the sale. And just because the papers were signed and the door shut on the attorney's office, that doesn't mean things are over. That's really just the beginning in a lot of the cases. So we want to make sure that it's a win for the entrepreneur, a win for the buyer, and also a win for us just to encourage everyone to keep working hard and doing the right thing.

David Phelps: Something that just came to mind is what you do, Zack, and what Oxford Company does is, you're not business brokers. Right?

Zack Eller: No. No. We are exit advisors, so what we do, we have a little more duties than your typical business broker would. We are going to go out there and take a look at your financial statements, kind of ask the questions that we think buyers would ask, taking a look at them. We'll also get an idea of roughly where we can sell your company and what we think your company's worth. And then we'll go out and we'll start to target strategic buyers. We will go out and start looking for people where we think the entrepreneurs would bolt on very well. That's a term we use to say that they could buy your company and things would be run smoothly on both sides from day one.

And then the next thing that we do is a strategic letter. It's one page that really tells the story about our business, and that we sent out to the targeted buyers list. And that has really helped us really have an attention grabber when we send it, instead of your typical pitch book that the investment bank would send, giving out all of the financial information. This is a lot more interesting, takes a lot less time to read. And it's also just there to protect the entrepreneur. We fit in more of the mold of the investment banker. We've started branding ourselves as the anti investment banker, that's more entrepreneurial friendly because investment banking has become such a dirty word in the last decade or so, that we offer the same services, but we like to think that we do it more efficiently and in a better fashion for the entrepreneur.

David Phelps: Yeah, because I think, again, as I look at the world in this regard as a business owner, is: Who's for me and who's against me? I don't like to use a negative example, but I'll just say that in litigation of partnerships, and that could be a marital partnership, or it could be a business partnership, but typically when the litigation ensues, there's really nobody on your side. There's just, I call it kind of vultures that are looking to pick over the pieces. Help me out here. Again, I don't want to overplay this. But where can the conflicts of interest be with the investment banking side? How are they looking at this? Because obviously, they're making money. And where may be the conflicts that could arise in that kind of an engagement.

Zack Eller: That's a very good question. And the main area where we see it, and it's a conflict but it's never one explicitly said, is that typically the way that investment banking transaction works is that they sell to a private equity firm. And the odds are, unless it's a brand new investment bank, and even in that case, they've probably worked with private equity groups before. And they work with the private equity groups to do transactions. And there's a lot of drinks after work. There's a lot of dinner with friends who work at the private equity shop. And a lot of the times, it's the investment bank and the private equity shop against the entrepreneur, and that's just not very fair. That's not fair at all. And that's not for the entrepreneur.

What we try to do is, one, stay away from private equity. Like I said, it's just better for the entrepreneur based on management strategies and things like that. And then we always, always act in the best interest of our client and the entrepreneur in order to ensure a win-win-win for everyone.

David Phelps: As we've discussed it already, and I just want to confirm that basically what you're saying is that in the investment banking world, primarily they are dealing with private equity. And private equity is looking at a business valuation based on multiple EBITDA.

Zack Eller: Most of the time, yes.

David Phelps: And so you made a differentiation between a private equity buyer, who looks at EBITDA primarily, which can be a negative for the selling entrepreneur, versus looking for and working with strategic buyers. Could you give us a little bit more definition of what a strategic buyer is? Compare and contrast against what we know as private equity today.

Zack Eller: Yeah. A strategic buyer is someone who has the strategy that our entrepreneur would fit into. For instance, if we want to sell a member who is a clothing company, we would look for larger tier clothing companies that are similar and that can take this on. And typically, based on the revenue sizes and things like that of our entrepreneurs, a lot of the times, the entrepreneurs are the organizations that we sell to, the entrepreneurs are still in place, or it's family members of the entrepreneurs. And that's not only better because the seller and the buyer get along after the transaction, but it's also better because they align on vision during the sell side of the process.

If we were to sell to a larger clothing company, they would say, "Oh, wow. We were in those shoes. We were walking down that same path six, 10 years ago. And this is where we are. We can do it with this same exact company, and take it down the road and have two companies that are virtually the same size. Or as we move up, they'll be able to fit in right into our marketplace."

David Phelps: In a dental world, Zack, are you familiar with the term DSO or Dental Service Organization?

Zack Eller: No.

David Phelps: All right. That's what I was trying to get some framework for our listeners here today to see, because trying to give those definitions to help them see who a strategic buyer would be in the dental arena, so they could compare and contrast who I'm talking to. Maybe that's something we could do on a followup. Maybe together offline, we could dig in a little bit and come up with who these strategic buyers could potentially be for our dental audience, because that might be something that would be very relevant to them. I'll put that on a notation for the side until we can kind of get down to that level. Let's talk about terms, terms of sale. How important are terms of sale in putting together an actual sale, liquidation?

Zack Eller: Oh, they are incredibly important. And what I've learned going through them is that you cannot be specific enough because as you go through, things are going to be looked at as one way, when you look at them a different way a long time ago. We recently ran into a couple road bumps where we all thought it meant something at the time, and then six weeks later, it looked like something totally different. The terms of sale cannot be understated enough, and the more specific you are, the better off the transaction will go. And as you move down the road of due diligence, and through the process, it will just make things so much easier to get through the process.

David Phelps: And my experience has been that when a small business owner could be a professional practice seller that's ready to sell, and many times they do use business brokers. But whoever they get their advice from to put it together, then everything goes to a lawyer, an attorney, who writes things up. Well, at that point, you haven't had a chance to probably get the best advice on what those terms should be. You get more of a boilerplate, or somebody who's making decisions for you that could be good, could be bad. Right?

Zack Eller: Yes. One of the traps that people fall into is letting the attorneys run the deals. And that's something that we don't let the attorneys do. We're very proactive on making sure that we run the deals, and that the entrepreneur is so involved with us that it's almost a team, that we're almost joined at the hip in this process, so that the entrepreneur stays in and has a very good idea of what's going on. And the lawyers and the legal teams are there to put it in a framework to keep everyone safe and make sure that there's no claims messed up on the transaction. But the lawyers are primarily there to make sure that the legalese is there, and not to run the deals.

David Phelps: And for a strategic buyer, we talked about the story, the story of the business, the story of the entrepreneur. Could you elucidate a little bit more on why the story is actually important?

Zack Eller: Story is so important because we'll be able to send financial data from as many years as they can pretty much ask for in a due diligence request. But the story is so important because it paints the picture of where the business is going. And we really team up with the entrepreneur on that. And we send back what feels like 50 revisions. And we're always pinging thoughts and ideas back to the entrepreneur to make sure that our vision on the paper is the vision that's in their mind because no one knows it like the entrepreneur who's put in all the blood, sweat, and tears that we talked about, into making this. No one knows the vision like they do. And we do that in our storytelling to make sure that anyone who reads this understands exactly where the business is going and exactly what the vision is for that business.

David Phelps: And you mentioned one more word there that can kind of be a dirty word, but it's obviously part of any kind of financial transaction. It's due diligence. Talk about, again, the importance, but also in some cases how upsetting or tumultuous that can be for the seller, the owner of the business that's being evaluation.

Zack Eller: Due diligence is one of those things that, it has to happen, and again, part of playing the game. But what we do with our due diligence process is we try to make it as quick and as painless as possible. So if you were to do it with an investment bank or with a business broker and a lawyer team, your due diligence process is likely going to take anywhere from three to six months on the low end. We try to have it done in two months tops because we know that the time is not only going to kill the deals, but the entrepreneur has a business to run. And they can't run a business if they're sending out 3000 pages of due diligence requests every day. We know that companies do have to see whatever the entrepreneur has to paint the picture of the business. But we try to do it as quickly as possible. And we're there with the entrepreneur telling them that this is part of the journey.

And a lot of times, the entrepreneurs are very hesitant to give up this data because they never had to before. But we make sure that we have and NDA, and at least an LOI before we really start anything, just to show the entrepreneur that they're protected and that we're so close to that light at the end of the tunnel that it's okay to give this up now because they're protected and because we're so close.

David Phelps: Got it. Got it. All right. You've been really helpful in answering a lot of questions. I want to give you a chance to talk about the benefits of the Oxford Center. What does membership provide? What does that look like for companies or some of our listeners who might be interested in more information, Zack?

Zack Eller: Oh, yeah. Of course. The Oxford Center, if members were to come on board, they would immediately get access to our daily morning report, which is read by executives in 67 countries. It's a lot like The Deal Book or The Morning Brew, but with an entrepreneurial spin that's a little more fun and a little more ... Not too much pop culture, but a little bit of what's going on outside of the business world. And that's something that members would get instant access to.

All members would get invites to our quarterly entrepreneur briefings. Next year they will be held in Nashville, Atlanta, New York City, and Atlanta again. They would all be invited to that. It's a half day with just a jam packed three or four hours of content, of learning how different entrepreneurs have attacked problems and how they've gone through their war stories and things like that.

It's very beneficial to our entrepreneurs. And there's a lot of opportunity for entrepreneurs to paint ideas and meet people who they wouldn't regularly meet, and kind of build relationships with the other members of the organization. And then in our next year of membership, the entrepreneurs would receive a free seven S assessment with their membership. We'll go out for a half day, perform our seven S assessment, and help entrepreneurs get to where they can scale.

David Phelps: Okay. Great. And so best place to get more information, website would be?

Zack Eller: Www.oxfordcenter.com.

David Phelps: Oxfordcenter.com. Easy enough. Well, Zack Eller, it's been an absolute pleasure. Thanks for answering a lot of, for us, very technical questions, but questions that are important to know because there's a lot of different options today for the business owner who is looking at whether to sell or whether to stay, and different ways to make that exit. And so you provided, I think, a lot of insights that probably haven't been heard before. I appreciate your time. I know our listeners do too.

Zack Eller: Thank you again for having me. I appreciate it.

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