
**MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 9 Transcript**

**Speaker 1:** 0:04

[inaudible]

**Announcer :** 0:05

Welcome to the maximize business value podcast. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize the business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over a hundred business transactions, desire to share our experience and wisdom so you can succeed. Now here is your host, CEO of Mastery Partners, Tom Bronson.

**Tom Bronson:** 0:39

hi, this is Tom Bronson and welcome to maximize business value. A podcast for business owners who are passionate about building long-term, sustainable value in their business. In this episode, we're going to talk about the case for exit planning and why now is a great time to start planning for a successful transition in your business. This podcast is accompanied by a PowerPoint presentation. So if you'd like to see that while you listen, just go to the mastery partners are I'm sorry, the maximize business value channel on YouTube, and you can see the PowerPoint that accompanies it let's get started. So let's start by acknowledging that we are in the midst of an epidemic. Now I'm not talking about the epidemic of COVID-19 talking about another epidemic that should be very concerning to every business owner. What is that epidemic? Well, let's back up a little bit.

**Tom Bronson:** 1:36

Let's talk a little bit about the market in the United States. There are 6.0 5 million roughly businesses that employ people in the United States of those, uh, about 94% of them, or 5.7 million businesses are what we would call micro businesses, which do 5 million or less in revenue. There's about 350,000 businesses or 6% that do between five and a hundred million in revenue. And there's only 21,000 businesses in the United States that are kind of the upper middle market. And above that do more than a hundred million in revenue. So of that 6.0 5 million businesses in the United States, the vast majority of them, those are businesses that employ people. The vast majority of them, 99.7% are small businesses, less than a hundred million in revenue. Now it's acknowledged as well that there are another 22 million businesses that are solo entrepreneurs that don't employ people there that could be online retailers or our one person consulting shops, things like that.

**Tom Bronson:** 2:55

There's 21 million of those, but for the purpose of discussion, we're going to talk about that 99.7% of businesses that employ people. So there's 6.029 6,029,000 businesses that are less than a hundred million in revenue that employ people of those about 4% each year, attempt to transition their business, whether it's by sale or transition to internally or externally, they attempt to go and sell their business. So 250,000 businesses attempt to sell each year, but here's where the challenge comes only about 40 2042 and a half thousand of them, or 17% successfully transition their business when they would like to 17%, that leaves an 83% failure rate for businesses that come on the market each year, 83%, and the stats don't stop there. Uh, so of those 42,000, roughly that sell their businesses, 60% of those business owners are dissatisfied with the result a year later. So out of the 42,500 businesses, that transition only 17% of those businesses are satisfied with the result.

**Tom Bronson:** 4:32

A year later, let's let that sink in for a second. First of all, only 17% of businesses that want to sell, actually sell. And of those 40% of them are satisfied. That leaves out a whopping 60% of those business owners that are dissatisfied after that sale. So what is this epidemic that I am talking about and how did we get here? The epidemic is businesses that want to transition that just are not prepared to do so, and therefore fall into that 83% unsuccessful a result. And so that in my opinion is a terrible disease. How did we get here? Well, let's think about the typical, uh, business, uh, that, that decides that it's time a business owner decides that it's time to exit the business. It could be anything that causes that, uh, that triggers that moment to decide that it's time. It could be a death in the family.

**Tom Bronson:** 5:42

It could be the death of the owner. It could be an illness, could be burnout, just tired of working in this business, perhaps it's age related. Uh, and so they call an agent, a business broker or an investment banker. They say, Hey, let's get this thing listed at the right price. So that three months later I'm sitting on the beach, sipping margaritas, uh, and, uh, or in my hammock in Barbados, basking in the sun. Well, look, that's sort of the model in the real estate business. You know, you decide that it's time to sell. You call it an agent three months later, you're probably moving to the next house. It's just not that easy when it comes to selling a business. So you call your agent, let's say, you've got somebody that, uh, that you want to work with and you decide to list it at the right price.

**Tom Bronson:** 6:36

Well, the right price for who the right price for you, the right price for the buyer, the right price to actually successfully transition this business. Uh, and when it comes to being selling in three months, the vast majority of businesses that come on the market take more than a year to actually transition. So of 250,000 businesses that come on the market each year and only 42,000 transition. If it's transitions at all, then it's probably going to take much longer than three months. You know, the reality is, is that business owners are typically really good at what they do. They're very good at that, but they don't always have a realistic opinion of what their business is worth. And it's not really their fault. It's partially their fault, but not really their fault that they don't have a realistic opinion. So why is it that it's only partially their fault?

**Tom Bronson:** 7:40

The reality is is that there is precious little data to mine when it comes to business transitions, not every transition is actually publicized. Not every transition issues, a press release, they're not recorded somewhere. So you can go and look at all of the, uh, the business transactions that happen. There's no MLS for selling a business. You know, an MLS is what you have in the real estate, which says, Hey, I've got a four bedroom, three bathroom, two car garage house and houses like mine and the neighborhood are selling at this price. It gives you a good idea of what it is. There's no real MLS for selling a business. So it becomes more challenging and difficult to understand the value of the business. Another thing that causes that is that the publicized deals, the things that you read about in Forbes magazine or the wall street journal, those publicized deals are typically a typical, there's some big transaction or where some small company, uh, develop some disruptive technology and they were bought by Google or Microsoft or, or one of the big companies.

**Tom Bronson:** 8:53

Uh, and so those are what typical transitions look like, but that's really the only data that business owners have to understand the value of their business. So when we engage with our clients, one of the first things that we deliver to them is an opinion of enterprise value. Now it's important to, to note that I think opinions are worthless. We issue an opinion, and we give a range of value of that business. And we peg where we think it would probably trade based on the data that is available. But you may also have a business that, uh, that has some disruptive technology that'll change all of the standard metrics. You may have one that, that hasn't grown for a number of years and the only transactions or businesses that have had growth. So that will impact the value. But what an opinion does is it helps a business owner get a level set on what the market is doing for that type of a business.

**Tom Bronson:** 9:57

Now, when we deliver those to our business owner clients, many times, we hear that they were hoping that that was worth three to five times more than what, uh, than what we presented, uh, and that they might give an example of a buddy that they have that recently sold a business and got X multiple, uh, for that business, uh, or they may have invested millions of dollars in technology. And so we've invested these millions of dollars and we need a return on that. Unfortunately, those things are not necessarily drivers when it comes to the value of a business. You know, the fact of the matter is, is that 74% of business owners have no transition strategy, but it's important to note that, and we believe that. And I think the data will support that a hundred percent of every business will eventually transition. We happen to believe that it's better to plan for that so that you can impact the outcome rather than sitting back and waiting to see what happens for many business owners, exiting a business is a once in a lifetime event.

**Tom Bronson:** 11:16

Look, I have participated in a hundred business transactions as either the buyer or the seller I am in the tiniest minority of folks that have sold or bought multiples of businesses. Uh, many times the business owner, this is the once in a lifetime that they're actually going to transition that. So it's important to get it right the first time their life sometimes is completely intertwined with the business many times. And I've experienced this myself. Their life is so intertwined that they think that their business is their life. And another thing is that a lot of business owners just really don't like the word exit strategy. They don't want to talk about exit strategy. They don't want anybody to know that they're thinking about exit strategy in their business. And so they just don't want to talk about that word. So how do we cure this disease and, and get businesses to start planning and improving the outcome?

**Tom Bronson:** 12:23

Pablo Picasso said it best. Our goals can only be reached through the vehicle of a plan. There is no other route to success and he is so right. So let's talk about the case for exit planning. What does exit planning do for a typical business owner? Well, first it identifies and removes risks. Some of which may be in the owner's blind spot. It also increases the value of the enterprise. It forces a business analysis to understand what you're doing, how you're doing it, why you're doing it. It aligns people on to function on the same page, so that everybody's driving for the same result. It provides contingency plans for unforeseen issues that may arise while the businesses is still successful. It helps business owners identify and tie together. Their three biggest priorities, their business priorities, their personal priorities and their financial goals. So a great exit strategy also gives the owner options for a future transition, a great business strategy or a big great exit strategy.

**Tom Bronson:** 13:47

Also identifies those five DS, the things that we don't like to talk about, but the things that may become a reality for any business owner, death, disability, divorce, distress, or disagreement, a great exit strategy, addresses all of these things and puts contingency plans in place in case they happen. So what does your exit strategy look like? Sometimes a business owner says, Hey, I'm not going to retire. I'm just going to keep on working. Or they may say, well, maybe three to five years, I'll think about it. You know, informally I've, I've pulled numbers of business owners. And when I say, Hey, what is your timeline for a transition nine out of 10 of them will say, I'm going to sell in three to five years. I can tell you from my own experience that the average business owner might say that for 15 to 17 years before they actually take action.

**Tom Bronson:** 14:47

Uh, and so, uh, so it's, it becomes a challenge in, or they think, you know what, I'll just call you when it's time to transition, but then it might be too late. The things that you can be doing today to improve long term sustainable value in your business, you need to take those actions today. When it's time to sell, it may be too late to take some actions that could really extract better value for the business. So how do we stop this epidemic? So here's the conversation that I like to have with business owners. You know, first start early, you have to be flexible, start early. When, when you think it's before time to start, then it's probably time to start. Even if your exit is 10 years or 15 years down the road, it's never too early to start thinking about it and be flexible.

**Tom Bronson:** 15:47

You know, in every one of my businesses, I always established an exit strategy even before I got started. And I will tell you a great example. We had a business that our exit strategy was to roll up some businesses and, uh, get some arbitrage on the purchases that we made, because we knew that our larger entity would sell at a higher multiple. And unfortunately, during the time that we were rolling that up, that multiple dropped. And so we had to be flexible and pivot to a new exit strategy. Fortunately, we had an exit strategy in place and we were able to pivot and do just that. Uh, you also, it gives you an opportunity to step back and plan for your future, articulate your expectations. You know, a lot of people have expectations in the back of their mind, but until they start articulating them, writing them down, seeing them in writing, sometimes it just doesn't really take hold until you see that you also need to understand your options.

**Tom Bronson:** 16:53

You know, there are all kinds of options to a transition and in a future podcast, we're going to walk through all of these there's internal transitions, external transitions, role transitions, liquidations, there's all kinds of options for exiting a business and we'll address that in a future podcast, but it is so important to work collaboratively, collaboratively, and build a great team. You need to have someone who is focused on building longterm value in the business, but you also need a great CPA. Someone who really acts like a pseudo CFO, uh, who is involved in the business and understands can give great advice in that business. You probably need to have a great business attorney who understands business transactions, depending on the size. You should have an estate planner, but in fact, everybody should have an estate planner so that you can plan what to do. Uh, once, um, uh, in the event of a death, eventually that's going to happen as well.

**Tom Bronson:** 17:53

You need to be able to plan what to do long in advance and a wealth manager. You know, a lot of our clients say, well, I, my businesses, uh, are a hundred percent of my net worth is tied up in this business. So I don't really need a wealth manager. If you understand what a wealth manager does, they can calculate how much you need to live your lifestyle for your life expectancy. So they know what you need in today's dollars to be able to do that. So it's important, even if you don't have liquid wealth for a wealth manager to hire a wealth manager so that you can understand what your needs are and what the value needs to be. So once you have a great exit strategy, it's so important to execute relentless execution, to execute that strategy because having a vision for what you want is just not enough vision without execution is hallucination.

**Tom Bronson:** 18:48

What a great quote from, uh, from Thomas Edison. So why do I say that it takes time to transition a business and you should start planning early? Well, let's take this fictitious example. We've got a baseline year. So let's say that this business has been flat. Uh, they have been producing $300,000 a quarter and, uh, earnings, and they've been flat for a number of years. So in their baseline year, which is their trailing 12 months, the 12 months leading up to that, that's four quarters. They have had the same revenue revenue. They've had the same, uh, earnings 300,000. And so the trailing 12 months would be, uh, basically one point $2 million in, uh, in earnings, on an annual basis. And let's say for the purpose of this example, that businesses in that sector trade at three times earnings. So in your baseline year, if your earnings are 1.2 million and the business trades at three times, that business is now worth 3.6 million.

**Tom Bronson:** 19:57

So let's say that we can do some things that have a dramatic impact. And in the first quarter of the next year or the first quarter that we implement those changes, we can improve the profitability by a hundred percent instead of delivering 300,000 in, uh, in net profit. Now we're delivering 600,000 in that first quarter. So you would think 600,000 times 12 is worth, uh, is worth two times what the original 300,000 was worth. Our

600,000 times, uh, times, uh, uh, four quarters, which is, uh, basically 2.4 million. Uh, but it doesn't work like that because any, uh, uh, event you do that drives higher value. Nobody believes it until you have a trailing 12 months. That's why it takes time. So in that first quarter, you're trailing 12 months now increases by 300,000 and you've got 1.5 million at the same multiple, the business just went from 3.6 million to 4.5 in the next quarter, if we are able to sustain that additional, uh, even now, and the multiple holds at three times now, the business is worth 5.4 million in the third quarter, the trailing 12 months adds up to one point or I'm sorry, two point $1 million at three times, multiple that 6.3 million.

**Tom Bronson:** 21:31

And in the fourth quarter now you've got sustained earnings at $600,000 a quarter. We can prove it. You can believe it. And now the business has a trailing 12 months of 2.4 million in earnings. If the same multiple holds, then that business has doubled in value in one year, even though the earnings improvement came in the first quarter, we don't really see the value in the opinion of the value of the business until we see it for a full 12 months. So let's say that we're able to do that and, and we can drive that additional value in the business and it's time to sell, well, what are we going to do next? What does act three look like Truman Capote. He says that life is a moderately good play with a badly written third act, but it doesn't have to look like that. It can be the beginning of a glorious act three. If you start early and you plan properly and you execute on your exit strategy, so it doesn't have to be a badly written act three. It can be a wonderful act three and an ending to

**Tom Bronson:** 22:59

The business that you have poured your life into. If you have any questions about what we're talking about, feel free to reach out to me. I'm Tom Bronson, and this is the maximize business value podcast where we talk each week about how to drive longterm sustainable value in your business. So until next time, I'm Tom Bronson reminding you to maximize business value.

**Announcer :** 23:31

Thank you for tuning in to the maximize business value podcast with Tom Bronson. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their own terms. Our mission was born from the lessons we've learned from over a hundred business transactions with fuels our desire to share our experiences and wisdom so you can succeed. Learn more on how to build long-term sustainable business value and get free value building tools by visiting our website, www dot mastery, partners.com that's master with a Y masterypartners.com

**Speaker 1:** 24:16

[inaudible].

**Tom Bronson:** 24:17

That was perfect. I wouldn't make any changes on that.

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