

How To Master The Valuation Of Your Business: Business Blueprint Interview



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Kerry Boulton is Australia's most respected Exit Strategy Advisor and CEO of the Exit Strategy Group. Welcome to this week's segment.

DALE BEAUMONT: How do you value your business? I'm guessing, if you work with someone that's an exit audit person, they can give you a bit of an indication. You can talk to your accountant. They can maybe give you some can maybe give you some suggestions. But what data or metrics should you be using to set a price?

KERRY BOULTON: If you can benchmark your business against others in your industry, that will give you a bit of a guide. And there are quite a few tools around. I have a couple of tools that I like to use too, which are just online tools that you can get some sort of an indication.

DALE BEAUMONT: So you can type in business benchmarking tools into Google, and you can find them there?

KERRY BOLTON: Yeah.

DALE BEAUMONT: And do they also list what businesses sell for in this industry?

KERRY BOULTON: You can usually get that information from you, say, the business broker association. If you talk to a business broker, especially, they'll be able to give you a guide.

DALE BEAUMONT: So they might say mortgage broking businesses normally sell for this, etc or...

KERRY BOULTON: There are general rules of thumb for different industries.

DALE BEAUMONT: But we want to kind of break those rules of thumb.

KERRY BOULTON: We do.

DALE BEAUMONT: We want to go beyond that. So, how do we break those rules that kind of other people say, 'Well, your business is only worth this.' You know, how do we actually get, you know, 50% more? Or, how do we get double what the industry average is because no one's average that watches this show.

KERRY BOULTON: Correct. We don't want industry averages at all.

DALE BEAUMONT: Not at all.

KERRY BOULTON: And that, to me, would be the low ball, you know.

DALE BEAUMONT: Right.

KERRY BOULTON: Always look...

DALE BEAUMONT: So you could just laugh when they say that...

KERRY BOULTON: Thank you. That's interesting. How did you arrive at that figure? Yes. Look, it comes back to the work that we were talking about in before, and that's about thinking about who it is that's going to buy your business, and therefore you can you pitch it so that it becomes attractive. So...

DALE BEAUMONT: How do you do that?

KERRY BOULTON: Yeah, the things that you really need to do is understand where the market's heading, understand who the competitors are, understand how you can project the future cash flows, because that's what people are buying. That's what the purchaser is going to buy. They're buying the future cash flow that they will be able to extract from your business to put into their business.

So, I mean, take me away from discounted cash flow calculations. It's not me, but your accountant will be able to help you out on that one with when you do your future financial projections, look at the revenue that you're going to generate, and bring that back to a today's value based on an interest rate. That will give you some idea.

They will give you some idea of what you they think that your business could be worth. Couple that with what you need as well that financial planning discussion and see if there's a gap. And if there's a gap, how can, then we need to examine it more closely to find out what we can do to fill to close the gap so that it doesn't exist.

DALE BEAUMONT: Right now, I'm going to put you into a sort of a scenario right now, because the moment that someone gets a sniff that you want to sell your business, they're going to say, 'What do you offer? What do you offer? What do you offer?' How do you answer that question?

KERRY BOULTON: Why are you asking?

DALE BEAUMONT: Yeah, to put it back on them.

KERRY BOULTON: Yeah. Well...

DALE BEAUMONT: I'm thinking about buying a business, your business.

KERRY BOULTON: Okay, and what would you plan to do when you bought a business like mine.

DALE BEAUMONT: I've just come in and run it basically and try to kind of grow it a bit more, see what else I could do with it.

KERRY BOULTON: And what sort of things would you do to grow the business?

DALE BEAUMONT: Great. So basically turning it back around them. So what are the questions? These are awesome, by the way. So you're asking, what was the first question you asked? What do you want for the business? Why are you interested?

KERRY BOULTON: Why are you interested?

DALE BEAUMONT: Why are you interested?

KERRY BOULTON: That's the most important question. Why are you interested?

DALE BEAUMONT: Why are you interested?

KERRY BOULTON: Yes.

DALE BEAUMONT: So even if all you did was just ask the answer that question with another question, you're already going to be, you know, eight tenths of the way there.

KERRY BOULTON: One of the really important things to do is to understand the buyer. It's getting into the head and understanding what's motivating the buyer why do they want the business. No matter what type of sale it is that you're making, even if it's a family business and there's succession happening, you know, understanding that the successor, or what, what's the successor thinking, what's the planning that's going on in them?

DALE BEAUMONT: So some of those questions, if you take notes are so, so, so why are you? Why are you interested? Or...

KERRY BOULTON: Yeah.

DALE BEAUMONT: Why? What are you going to do with the business?

KERRY BOULTON: How do you plan to grow it?

DALE BEAUMONT: How do you plan to grow it?

KERRY BULTON: Yeah.

DALE BEAUMONT: How you going to run it? What are you going to do differently?

KERRY BOULTON: Correct.

DALE BEAUMONT: So, just basically asking all those questions. So if they've answered all those questions and they're still saying, so you know what you're asking price,

KERRY BOULTON: Yeah.

DALE BEAUMONT: Then what would your next step be?

KERRY BOULTON: What do you think it might be worth?

DALE BEAUMONT: Okay, so you put it back on them.

DALE BEAUMONT: So my next question was, do you name the price, or should you actually let the buyer name the price?

KERRY BOULTON: I would invite offers to start with.

DALE BEAUMONT: Invite offers.

KERRY BOULTON: Yes.

DALE BEAUMONT: Okay, fantastic.

KERRY BOULTON: And that will give you two things. First of all, that will give you feedback and understanding what perception might be out there as to what people could think it's actually worth. And then that gives you an opportunity to actually respond to say, 'Well, there's a great business over there that you might like to look at, because that's probably in your ballpark, whereas our business is at a much higher level than that.' Or something around, you know, some wording around that, without actually giving away the price.

DALE BEAUMONT: Right.

KERRY BOULTON: Okay.

DALE BEAUMONT: Because they're probably going to come back and say, 'I'll pay you, you know, one and a half times net profit', or something like that. So if they low ball you what's your next step? And obviously you already made the point before, you probably shouldn't be involved in the negotiations at that at that level, so you're not kind of emotionally involved in these professionals that obviously do this.

KERRY BOULTON: They do.

DALE BEAUMONT: All day, every day.

KERRY BOULRON: Yeah.

DALE BEAUMONT: But if you're stuck in this sort of situation and someone low balls you, what do you do?

KERRY BOULTON: I'd say, thanks. That's interesting, that you should say that. Why? Why you? What made you think that that was a reasonable, a fair offer? Find out.

DALE BEAUMONT: Yeah.

KERRY BOULTON: Find out, find out the information. And then I would just, I wouldn't even engage any further. I'd say, 'Look, that's really terrific. I'm going to contact my business broker. And would you like to take this further? You know, I can introduce you.'

DALE BEAUMONT: Okay, so then pass it off to the person looking after that...

KERRY BOULTON: Absolutely, yeah.

DALE BEAUMONT: And they can do the proper negotiation for you.

KERRY BOULTON: Yeah. Absolutely.

DALE BEAUMONT: Okay.

DALE BEAUMONT: So how do you create competitive attention? How do you find other buyers? It's about.

KERRY BOULTON: Well, if you've done, if you've been through the process similar to the one that I've described earlier, which is about thinking about who might buy your business. And you do market your business proactively out and you invite offers. You might be surprised at the number of offers that you actually people who are actually interested.

DALE BEAUMONT: Because you might be talking to five different people that aren't your competitors, but they're all competitors with each other.

KERRY BOULTON: Correct.

DALE BEAUMONT: So now they're kind of...

KERRY BOULTON: Yes.

DALE BEAUMONT: ... wanting to, perhaps, if they don't buy the business, their competitor will, and they'll get all that benefit.

KERRY BOULTON: Correct. And so you create a mini auction, basically. You can do that. You can actually create it, you definitely need to have your broker involved in that. A third party must be involved in that whole negotiation process with you to make it so that you're at arm's length, because you'll become too emotionally involved. That always happens. It doesn't matter who you are.

DALE BEAUMONT: A lot of people have either maybe perhaps sold their home before in the past, or they know their parents that maybe have. So they've been involved in it in some way. How? And you've been involved in real estate too. How's selling a business different to real estate in terms of negotiating multiple offers?

KERRY BOULTON: You know, they are quite similar. The emotion that is there is incredible. It really is, because it's your business, is your baby, just your home, is your castle, you know. So it is very the emotion that's actually caught up. That's driving you often clouds your thinking.

And as I mentioned also earlier, you sometimes business owners can have inflated views, you know, but hopefully we've got past that, and we're at a realistic level, but it's just the emotion that you do get caught up in. Selling a business is very difficult in that it's your identity. You've been wrapped up in it, and all of a sudden, ultimately, when it when it is gone, there's almost like a grieving process that the people go through.

Notwithstanding, for some it's 'Thank goodness, it's over. I'm past it.' But for most who've been, you know, started from scratch often, and really built it, and it's been their lives. You know, it is...

DALE BEAUMONT: There is a quite famous story of Richard Branson, right? Do you want to share that with people?

KERRY BOULTON: Yes, which is quite fascinating, in his days of growing when he's had to sell his music, Virgin Music.

DALE BEAUMONT: Virgin Music.

KERRY BOULTON: Yes, to Sony, he needed the money desperately, and he talks about when he's walking down the street and he's got a check for a billion dollars in his hands, and he's crying. He's literally crying. He's just can't. He's sobbing, because it's something he grew from nothing. And even though he's got this check for a billion dollars, which he really needed...

DALE BEAUMONT: It was his identity.

KERRY BOULTON: His whole identity had just been sold off. So you, you know, you find some you could you might be out socially, and someone says to you, oh, and what are you doing? What are you doing now? What are you doing with yourself?

DALE BEAUMONT: Nothing.

KERRY BOULTON: Correct. Now, you know one of the things when people do sell their businesses, and particularly when you do get a very big payday. One thing I would highly recommend is to do is take some time to decompress, I think. And that's a really useful word, decompress because you're so stressed, and sometimes it takes months to overcome, to get over that, but then have something to do.

Have something else useful to do, because a life without purpose is no life. You have to have another purpose in your life. And that can be a whole range of different things. It can be. I mean, you might want to get involved in in the community. I've been involved in our local community sports club for 20 years.

So, you know, those are things that you enjoy. You might want to do some volunteer work. You might you might want to put back into the community in

different ways. You might actually want to go out and mentor and be an advisor for other people who are actually in their businesses.

And you know, one of the other strategies for selling your business is, in fact, to have a form of vendor finance, where you might bring in someone else who's going to buy the business, but you might mentor them in your own business. And this can be hard too, because you've been...

DALE BEAUMONT: They're going to pay you over a period of time.

KERRY BOULTON: Correct.

DALE BEAUMONT: Right.

KERRY BOULTON: Yes. So you could mentor the next person.

DALE BEAUMONT: If someone wants to buy the business and the right person, but they just don't have the money.

KERRY BOULTON: Yes.

DALE BEAUMONT: And you're going to say you're going to pay me, let's just say it's \$100,000 a year for the next five years.

KERRY BOULTON: Yes.

DALE BEAUMONT: And I'll help you in that transition.

KERRY BOULTON: Yes. And...

DALE BEAUMONT: Now what's a management buyout as well? What's that concept?

KERRY BOURLTON: Okay.

DALE BEAUMONT: And how does that work?

KERRY BOULTON: Okay, well, that, in fact, is what I did when I bought the freight business from May Nicholas was a management buyout.

DALE BEAUMONT: So this is where you as the General Manager, either and you could actually get a couple of other staff members.

KERRY BOULTON: Yes.

DALE BEAUMONT: To either put up their money together or...

KERRY BOULTON: Yes.

DALE BEAUMONT: ... to raise some capital. And basically it's the staff or the management team, right?

KERRY BOULTON: Yes.

DALE BEAUMONT: ... buying the business from the owner.

KERRY BOULTON: Put a syndicate together. It could include external investors as well, but basically the business is bought from within, so internally, and it may mean that you leave some money in the business same I got some vendor finance from May Nicholas back in back way back when. So you would leave some money in the business, and then that gets paid back to you over time.

DALE BEAUMONT: Got it. Okay just before we close. And I love the fact, by the way, we talk about the emotional kind of side of things, about people having a purpose after they sell their business, or hopefully even before along the way.

KERRY BOULTON: Of course.

DALE BEAUMONT: It kind of like a big shock to the to the system.

KERRY BOULTON: Sure.

DALE BEAUMONT: But the other thing I want to talk about, some people say that terms are more important than price. Now, obviously, when we talk about how to sell for the best possible price.

DALE BEAUMONT: But what are the terms that we should be looking for, you know, as as well, in terms of, you know, because I know sometimes you actually get paid in cash. Sometimes you get paid in stock. Sometimes you have to stay on for a year or two years. There's so many variables. What are some of the things that are the best case sort of scenario that you should aim for?

KERRY BOULTON: Well, best case scenario is, here's the cash, and I'm out of here. Okay.

DALE BEAUMONT: Leave the cash, walk out the door.

KERRY BOULTON: Correct.

DALE BEAUMONT: We'll deal with everything that you can make behind

KERRY BOULTON: Correct, yes, if you can, that's the least risk for you as the seller.

DALE BEAUMONT: Yes.

KERRY BOULTON: But nine times out of 10 that isn't going to happen, because a lot of the intellectual property in the business is caught up in you the owner...

DALE BEAUMONT: Yes.

KERRY BOULTON: ... even though you may have done your best to actually get it all out and systemized, there'll be a perception from the buyer that they need you there. They need you around for a while. That may change after two or three months, but there are different scenarios. So there could be an earn out where a portion of your payout is tied up with the future profits of the business.

DALE BEAUMONT: So we're paying you a million dollars. Here's \$500,000 now, and we'll pay you the rest if the business hits these goals.

KERRY BOULTON: Correct, right.

DALE BEAUMONT: And then. So you've got to, you're going to stay connected to the business coach, the people to get the results.

KERRY BOULTON: Correct.

DALE BEAUMONT: So we get your own money out.

KERRY BOULTON: Correct. You've still got your skin in the game.

DALE BEAUMONT: So what's that called? That's called earning out.

KERRY BOULTON: Earn out. yeah.

DALE BEAUMONT: And it could be any combination of upfront high, upfront low.

KERRY BOULTON: Yeah.

DALE BEAUMONT: Whatever.

KERRY BOULTON: And it could be over whatever period of time.

DALE BEAUMONT: Six months, two years, five years.

KERRY BOULTON: All negotiable.

DALE BEAUMONT: Okay.

KERRY BOULTON: Everything negotiable.

DALE BEAUMONT: What else are there other things that buyers may want to throw in there? And then it's up to you to decide ultimately.

KERRY BOULTON: Sure.

DALE BEAUMONT: Are you going to negotiate on price to get the terms that you...

KERRY BOULTON: Well, they may, depending on the business that's buying you. You could get stock, for instance, shares, you know, if you're being bought out by a company

that's a listed company. So they may give you a certain amount of cash, and they may give you a certain value in shares. So you're punting on the value of those shares increasing or not going down.

DALE BEAUMONT: Now, can you sell those shares instantly, or are they sort of escrowed or put on ice in a way, for maybe a year? So you can't actually just take it straight to the bank.

KERRY BOULTON: Usually they'll be on ice for a little while.

DALE BEAUMONT: Right.

KERRY BOULTON: And again, the term is negotiable.

DALE BEAUMONT: So they'll want to say, here's the shares, and you can't sell them for a year.

KERRY BOULTON: Yeah.

DALE BEAUMONT: And that way, you know you want the company to grow so you can increase your value as well.

KERRY BOULTON: They still want your skin in the game.

DALE BEAUMONT: Got it.

KERRY BOULTON: On the other hand, they might, might say, we will... Sometimes people have this notion around holding on to a little bit of equity in the business. So that may happen, so that somebody might buy your business. Say, for instance, you're selling off to a private equity group, which is someone else we haven't talked about yet. They have a very short time frame with private equity usually. They see great opportunity with your business, and they're going to grow it, usually three to five times...

DALE BEAUMONT: Yes.

KERRY BOULTON: ... in the next three to five years and then sell it. That's always the way it goes with private equity. Part of their deal might be that you retain a certain percentage, a small percentage, so the best that's a really good outcome for you, because you get you unlock the wealth that you created. So you've got a cash payout, but then you're still interested, and you still got a little bit of skin in the game as far as the future is concerned. Often they don't want you around, though. They want you out.

DALE BEAUMONT: Yes.

KERRY BOULTON: Because they're bringing in different management style and different key people to be able to exponentially grow the business.

DALE BEAUMONT: And they want to know when you're influencing the staff and kind of still, you know, hang around.

KERRY BOULTON: Correct, correct. And it's very difficult in an earn that type of situation, say you're in an earn out. It's often very difficult. When you've been the boss, you've been calling the shots. It's my way of the highway, so to speak. You know, all of a sudden you're answering to someone else, and you've got to start doing management reports that you're not used to doing.

DALE BEAUMONT: It's got to be done by Friday.

KERRY BOULTON: Chop, chop. What? Otherwise it will be Chop. Chop. Yes, exactly. Absolutely. So it's very difficult, you know, often, to be in that position.

DALE BEAUMONT: Fantastic.

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