TEL EPISODE #042:

Sell Your Business for an Outrageous Price with Kevin Short

Show Notes: http://www.theelpodcast.com/tel-042-sell-business-outrageous-price-kevin-short/

Welcome to The Entrepreneurs Library, the only book-centric podcast that reviews all the top-selling business books and shares author's perspective, firsthand. This is your resource to finding the next great book that will enable you to grow personally and professionally. Welcome your host, Wade Danielson.

WADE: Today we have Kevin Short, author of *Sell Your Business for an Outrageous Price*. Welcome, Kevin, and thank you for joining us on The Entrepreneurs Library.

KEVIN: Thank you, and it's a pleasure to be here.

WADE: Will you take just a moment to introduce yourself and tell us just a little bit about you personally?

KEVIN: Sure. Kevin Short, I'm the managing partner and CEO of a lower-middle market investment banking firm. Happens to be ranked in the top 10 in the country based on the number of deals we close every year. I've been doing investment banking, specializing in mergers and acquisitions, for 25 years. Married, father of four girls, and it keeps me busy all the time.

WADE: Wow. Okay, thank you for sharing that. Now let's jump right into your book, *Sell Your Business for an Outrageous Price*, which was just made available for purchase on August 3rd, 2014. Kevin, we're going to move fairly quickly, but we're going to look through all the questions that our listener/reader is looking to get answered before they purchase a book.

The first one is, what was the inspiration behind writing Sell Your Business for an Outrageous Price?

KEVIN: I've done hundreds of deals in my M&A career. About 10 years ago I began to see this phenomenon of you take a company to market, you expect to get a 5 multiple of earnings, or EBITDA, and lo and behold, we hold these controlled auctions, of course, and somebody bids a 10 multiple. So that began to happen, so it intrigued as to why would some buyers, smart buyers looking at the same data, why would one company be able to rationalize paying twice the price that the average multiple is?

About 5 years ago I dug deep into it and started the research for the book and writing the book. Took us about 5 years to put it all together for it to make sense. I knew it when I saw it, but it was hard to articulate it. So that was the whole premise, is to dig into the subject of why do some buyers pay twice as much or more for a company, twice as much than the average industry multiple. A) Why do they do that? How can they rationalize that? B) What do those buyers look like? C) What do we do to prepare a company so that they are a candidate for an outrageous price?

Those were the reasons why I got into it, because it was happening sometimes by accident getting these outrageous multiples; I wanted to put more science around it, more thought around it as to how do we cause this to happen.

WADE: You've alluded to the next question a little bit, but maybe you can expand; what makes your book different from others regarding the same topic?

KEVIN: Well, we have the enviable position that we're first to market. Nobody else in our research or my publisher, AMACOM Publishing, nobody to our knowledge has written a book about how to get an outrageous price like this. Lots of books about how to sell your company, but nothing out there with the recipe, in effect, of how to prepare yourself to see if you can get more than twice the average.

WADE: Who would you say your book is geared towards? Is this towards the small business, the midsize, the large enterprise?

KEVIN: It's definitely on the smaller end. I would say the candidates for what we're talking about here are as a rule going to be $10 to $100 million in revenues.

WADE: Okay, perfect. That definitely helps. How would you suggest the reader engage with your book? Is this a book that they should read from front to back, or is this one that they can jump in and pull resources out as need be?

KEVIN: I would probably recommend they read it from start to finish, because it builds. What you're going to read are things that intuitively don't make sense to most owners or to their advisors, so that's why I would probably suggest to read it from start to finish, as I lay down the logic and the research and the case studies that I put in the book. If you don't do it in order, I think some of the things may not make sense.

WADE: Okay, perfect. All right, Kevin, this is my favorite part of the interview and the most important, and that's really where I'm going to hand off the mic and ask you to share in great depth your book with our audience, which is made up of readers.

KEVIN: Perfect. As I mentioned before, this all came about from the experiences that, in my mind, all investment bankers have, which is why do some deals go big, get an outrageous multiple, and others don't? The premises here are there's four pillars to this whole concept.

#1, we start with Michael Porter's theories of competitive advantage and competitive theories. You need to look at your company objectively or bring somebody in who knows how to do this to measure your company, to see if you're doing something that a large buyer would experience a significant gain by owning your company, something your company does, or could eliminate a major pain.

An example of that would be we had a client that was in the produce processing business. Happened to be in the Midwest. We identified there was a major multibillion dollar player in that same industry, but the big player only had locations around the perimeter of the United States and nothing in the central region. So they had empty trucks deadheading across the Midwest all the time.

We approached them and said "Our client covers that territory; we would like to sell, but we're going to want this price tag." Of course, they resisted. The story is much longer than what I'm summarizing, but basically they paid an outrageous multiple for our client because they were able to make it up in savings in freight. That rationalized them being able to do that. Instead of paying a 4, they paid an 8 for that company, an 8 multiple.

So #1, you've got to figure out, is there something you're doing in a competitive advantage way that would be attractive to a large buyer?

#2, you've got to have the large buyer. You've got to have a very well-qualified large buyer. You cannot get an outrageous price from a private equity group or a financial buyer. You can't get an outrageous price from a competitor who is similar sized to you. The reason for that is at the end of the day, if you want to get 8 times, and the average multiple is 4, the buyer has to be big enough that they're going to write that check for your purchase out of petty cash. Because if they have to go to the bank and finance it, no bank is going to finance a deal that on its face is twice the average multiple.

So you've got to have a big buyer. Big buyers, at the end of the day, instead of paying you $10 million, they pay you $20 million – at the end of the day, that's not a big deal to a multibillion dollar corporation. So the second part is you're got to make sure and do your homework and your research, and the book lays all that out as to how do you identify those buyers.

Part of that second pillar is you also have to develop a strategy to get their attention. You can't walk in the front door of IBM and say "I want to sell my company for twice what the industry multiple is." A) They won't even know who you are, and B) they'd tell you to get lost because they're not going to overpay as you describe it.

One of the fundamentals of this whole process is once we identify the best buyers, the buyers that can make more money with your business than you can or are going to have the gain or pain advantages, once we identify that small group of buyers, how do we get on their radar screen so that they understand who you are and they begin to realize that there's advantages to owning you? Ideally, we'd like to not be for sale at that moment, and we'd like to entice that buyer to approach you to buy you, so we can play the whole hard-to-get game, which also helps with the price multiple.

So #2 is figuring out who the buyers are, doing your homework to understand what pain or gain you could make for them, what advantages it has for them, build that into a model – you've got to have a model that when you show the buyer how much money they can save or make with buying our client, because they have to have some rationalization to pay this price.

Third, you've got to look inwardly. The third pillar is the seller. Do you have the stomach lining to play poker with millions of dollars? Because this is a high-stakes poker game. The buyer doesn't want to pay you twice the value. They will only do that if they feel like they have to. There's a lot of posturing, bluffing, positioning that goes on, logic underneath all this – and it moves fairly quickly; you're dealing with professional buyers. These big companies have whole M&A departments that do nothing but go out and try to buy companies that will give the company an advantage and not pay very much for it. So you'd better have the stomach lining for it, because you will be put on the grill once in awhile.

Which leads to the fourth pillar, which is you've got to have the right professional team to carry this off. If you don't have the right investment banker and attorney, you're going to have a hard time pulling this off. Most investment bankers do not do this; I've not run into anybody that does it, prepping these midsize companies to get these kind of prices. So they're not really going to understand the whole process. If they don't buy into it or if they disparage it, then I'd just move on and find you somebody that does that.

Secondly, when you're picking your attorney, you'd better make sure you've got an attorney who trusts the investment banker and that is okay with going along with this. Because if everybody's not singing from the same hymnal, the buyer's going to realize that. If the investment banker's saying "Yeah, you need to pay us an 8 multiple, and here's the reasons," and the buyer's beginning to believe that, but they get a false signal from the attorney like "Yeah, isn't this crazy? That guy's out of his mind. If we get a 5, we'll be gravy." Because attorneys will do that sometimes when they're whispering in the ear of the buyer's attorney. So if the attorney is not onboard 100%, then you need to get a different attorney. That fourth pillar of the professional team is critical.

Then when you put them all together, you've got to have somebody managing them. That's generally the investment banker, who is calling the shots, who's advising you on the pros and cons, who's advising you on the probability that you can get this kind of a price. I've taken on clients that I've told them that the probability of achieving this price point, this outrageous price, is 10%. They say, "That's okay, go ahead," and we hit it.

Generally 10% to 30% is the probability of getting an outrageous price, just because of all the things that are against it. Why would anybody pay you twice? Well, we've got to build that case. We've got to convince them of that.

That in a nutshell is what the book is about, is how to identify, how to analyze, how to build a team, how to get the attention of the buyers, and a lot of theory and case studies about how these things evolve over time. And you've got to be very careful and patient as it unfolds.

WADE: Kevin, it sounds like there's a ton of crucial information within your book. If the reader could only take away one concept, principle, or action item out of your entire book, what would you want that to be?

KEVIN: Probably the focus on the right buyer. Making sure that they always have their antenna up about looking for the right buyer that you as the owner believe could make a lot more money with your company.

I'll give you an example. This is one of the ways I learned this the hard way: I sold a steel processing center to a rollup. It was going on around the country. In our auction process, they bid twice what second, third, and fourth place bid. I thought it was a mistake. This was early on, before I had thought more about this. So we sold the business.

I ran into the buyer 6 months later. I was a little concerned he'd be irritated now that he's figured out he paid twice what he had to, and his first question to me was, "Do you have any other deals like that? We want to buy another one," much to my surprise. I said, "Tell me what happened." He said, "We consolidated a plan, we got rid of the agent; we now sell their products through our worldwide platform. We sell our products down through their platform, to their customers. We have made back our entire purchase price in 6 months."

So here I am thinking I sold this for an 8 multiple based on the prior year's earnings, and I really sold it for 6 months of earnings that happened under their watch. They didn't tell us they were going to do all that. Could we have guessed it? I think in hindsight, we could've. The good news is, we got the price anyway.

But I learned from that, they didn't care what they had to pay for it, because they knew they could make that money back in a very fast period of time.

WADE: That was an excellent story. That's awesome. I think there's a lot of business owners out there mulling that over, wondering "What is the potential for my business?" with that being said.

KEVIN: Yeah, I wouldn't write off the potential of getting an outrageous price till you have it pretty well investigated, because I often talk to owners who don't realize the pain or gain that they could cause for a big company.

WADE: Kevin, do you have a favorite quote from your book? Either one that you personally wrote and love, or maybe one that you've seen resonate with readers?

KEVIN: That's a good question. No (laughs), nothing comes to mind. Other than, like I said, finding the right buyer. I don't know where I would quote that from, but finding the right buyer is a big part of it. I also talk a lot about don't get sucked in by buyer speak. When buyers are talking to you, they're angling, they're undermining, they're setting you up for a big fall. We often talk about don't get sucked in by the buyer speak.

WADE: Kevin, when some of the business owners out there receive in the mail the letter from a company – I'm assuming it's a brokerage – offering to help them sell their company, is there actually any – I'm not sure if you'll know the answer to this question or not, but is there any validity to those in the fact that someone's already researched your company and then sent you a letter based on their research? Or are they basically blindly sending those out to everyone?

KEVIN: It's very rare – first of all, those letters generally come from some form of a business broker with very little research. They're just mass mailing. Our advice is throw them in the trash, and that's generally what most buyers do.

If you get a letter on decent letterhead from either a buyer, the actual name of a company that you recognize, or from an investment banking firm that's legitimate and credible that names who their client is – if they send you a letter that says "We have a buyer," but they don't name them, throw it in the trash. But if they name who the client is that's looking to buy, and generally they'll put something specific in the letter as to why they're targeting them, then those are legitimate. So be careful with those.

As importantly, though, it doesn't matter who you're talking to – you may get a phone call from the president of a billion dollar company that wants to talk to you – that's when the buyer speak begins. Don't let them visit, don't show them financials, don't even tell them if you're for sale. Play hard to get. Never talk nondisclosure agreements. Never let them visit till you know what they're willing to pay as far as a range.

Because they will tell you "I need to see the plants, I need to talk to your salespeople, I need to talk to your customers" – that is so far out of bounds, I can't even stand it. They're professional buyers. They know that they're willing to pay a 5 multiple. You don't need to tell them what it is. And if a 5 multiple isn't going to get done, then there's no point in visiting. "Unless you can convince me that you can pay the 8 multiple under the right circumstances, there's no reason to talk. I'm going to have you talk to my attorney or my accountant or my investment banker."

But you, the seller, have to take control. They need you more than you need them, and you've got to communicate that message if you're ever going to get a premium price.

WADE: Excellent. There's great value in what you just taught, and I appreciate you sharing that. Also, with that being said, it seems that a lot of your book is going to help out and – maybe paradigm shift is the wrong word, but really impact those that are looking to sell their book in the future.

That brings us to our last question, which is what's a book – and it doesn't have to be on selling a business or business at all, but what's a book that you've read that has created a paradigm shift or impacted your life?

KEVIN: Oh my, I read a lot. I would say early on, it was The E-Myth by Michael Gerber. Really gave me a different way to think about companies. Of course, Michael Porter and Competitive Advantage. There's another book called Negotiauction by Subramanian. He's a Harvard professor. Negotiauction takes the concepts of negotiated sale and the auction and combines them. He talks about much larger deals, but a lot of that we wove into our book, and a lot of his principles apply to the smaller deals.

That would be another message to our clients: even though you have a $20 million company, you should expect Wall Street quality investment banking and M&A services. Don't think that because you're so small compared to the multibillion dollar behemoth that you can't get good advice. The truth is, what works for them works for you also.

WADE: Kevin, before we depart, can you recommend the best way for our listeners to get more information on you and your book?

KEVIN: A couple ways. Thinkoutrageous.com. Twitter is @outrageousbiz. Those are probably the best way. You'll get quite a bit of data in both places. Or you can call me at my office, (314) 725-9939.

WADE: Perfect. Kevin, thank you so much for coming on and dropping a lot of value to our audience and sharing your creation with us, your book.

KEVIN: Very good. Thank you, Wade.

WADE: Thank you. Thanks again for listening in today. If you would like to get your hands on *Sell Your Business for an Outrageous Price* or any of the other resources mentioned by Kevin, just look at the show notes at TheELPodcast.com. And if there is a book you would love to hear reviewed by the author, please visit us on iTunes and leave us a review with the book title.

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LINKS AND RESOURCES MENTIONED IN THIS EPISODE:

Check out *The E-Myth* by Michael Gerber on Amazon

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