Michelle Seiler Tucker of Seiler Tucker, Inc. and EXIT RICH Podcast

Speaker1: [00:00:04] This is the Investor Connect podcast program. I'm Hall Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early stage and growth companies. I hope you enjoy this episode. Investor Connect is a 501 C three nonprofit dedicated to the education of investors and startups for fund raising. Please consider donating $100 to the program to help others in their investor and entrepreneur journey. You can find the Donate button on the Investor Connect org website. Hello, this is Hall Martin with Investor Connect, today we're here with Michelle Seiler Tucker, founder and CEO of Seiler Tucker Inc. and host of the Exit Rich Podcast. Charles Company helps business owners with the valuations of their businesses so they can sell for the most profit and find the right buyers for them. The Exit Rich podcast is dedicated to helping entrepreneurs retire rich and exit for the price that they've always dreamed of and deserve. Michelle, Thank you for having me on your show and thank you for joining us.

Speaker2: [00:01:09] Thank you. Thanks for having me on.

Speaker1: [00:01:11] Well, great. So where are you calling from today?

Speaker2: [00:01:13] I'm in New Orleans.

Speaker1: [00:01:15] Oh, great. Well, tell us a bit about your background and how you got to where you are today.

Speaker2: [00:01:19] Sure. So it's a 30 minute show, so I'll make it very quick. I'm an entrepreneur. I've always been an entrepreneur. I started out, you know, owning my own businesses. I did end up going to work for Xerox for a brief time where I was a high volume manager and then was promoted to regional vice president over the South, realized I didn't like working for corporate America, so I stayed in entrepreneurship. I started my own franchise development, franchise sales and franchise consulting company where I was equity partner with some franchisors and really grew their business and put them on the map using other people's money. And then I transitioned from franchise sales, franchise development into mergers and acquisitions nearly 22 years ago and been selling businesses ever since. So we specialize in buying, selling, fixing, growing apartment business owners whose business I found you find to be very interesting have a niche. They need my help. So I'll partner investing my money, my resources, my energy to get their business where it needs to be so we can exit for millions of dollars down the road. We also help business owners get their business ready for sell and what I call the exit Rich program, or it's a monthly program for a year, and we're really focusing on the business, getting the owners working on it, not in it, and building a proper infrastructure, what we call the six PS and, and we sell businesses by businesses businesses. So that's that's a core competencies.

Speaker1: [00:02:54] Well, great. Well, our audience are investors investing in startups and startups who are raising money from investors so they can grow a business to sell it. Everybody wants to get to that point. It's not like you're the person they need to talk to before they sell the business. What do you think is the biggest mistake startups make when they go to sell their business?

Speaker2: [00:03:13] Well, lots of mistakes. Number one, if anybody reads my book, Extra Rich, it's endorsed by Steve Forbes. And Steve Forbes is 80% of businesses on the market will never sell. M&a source says 90% of businesses on the market would never sell. So if you want if you don't want to have less than a 10 to 20% chance of survival and selling your company next to Rich, you know, then you really have to plan for that. And the reason why so many people don't sell the business is because they don't think about selling. I don't think until about it until a catastrophic event occurs. Whether that's internal or external. Internal could be health issues or disputes, divorce, death, external could be this pandemic that we're living in. The worst time to sell your business is during a catastrophic event. You should plan for your exit. I call this in my book Exit Rich the GPS Exit model and ask for. In our book, Exit Rich, we really teach our business owners how to start with the enemy. Like Stephen Covey says, start with the end in mind. Figure out what your destination is that sells. Wise. What's your business for today? What are you starting from? So you want to know where you're going, You want to know where you're starting from, and then you want to know what is your timeframe? And then you want to know who your buyers are, where are your revenues going to end up, etc.

Speaker2: [00:04:27] That's called the GPS exit model, because the biggest phrase of business is don't sell is because business owners haven't thought about it and have a plan or exit. And when they do decide to sell, they call me up with a crazy number like, Oh, I want to sell for 20 million and everybody has 100,000. So if you want to sell for 20 million, build a $20 million business. But in fact, most business owners, most entrepreneurs have created themselves a glorified job that they go to work at every day versus a business that actually works for them. So if you want to sell a 10 million, 15 to $20 million company, you need to build a company and not a job. And so that's the other reason businesses don't sell is because business owners haven't thought about their acts that they haven't planned for. Their people don't plan to fail, they fail to plan. And most importantly, they haven't built their business on the proper infrastructure of what we call the six piece, a solid stock or six B method.

Speaker1: [00:05:20] Great. Well, we see a lot of startups raising funding and we always get into the discussion of valuations. And in the early days we end up with a lot of what I call funny money calculations about what a business may be worth. We don't sell it right now so we can put whatever number on it that we can get other people to buy into. But when you go to sell the business, the funny money game ends and now the real world begins. And can you tell us a little bit about setting valuations when you go to sell the business, what do you look for?

Speaker2: [00:05:46] Yeah, so we look for a lot of things. You know, if you've ever watched Shark Tank, which I'm sure you have, you know, a lot of a lot of business owners get booted from the stage. They get kicked off the stage because they simply don't know their numbers and they don't know what their business should be. They don't know their evaluation. And everybody, you know, thinks their baby is so pretty. So it's my job in a shark's job to tell them that their business is not as pretty as they think it is. So we look at a lot of things, you know, and it depends upon the industry. If it's a sass industry, it's typically always a multiple of revenues. If it's any other industry, it's a multiple of EBITA. But that's where the six P's come in. So we evaluate all businesses on the six P's. The more infrastructure they have in place, the more the business can run without them, the more proprietary assets, etc. I'll take you through it real quick, people. You've got to ask yourself, can this business run without you? Are you walking in it or on it? Can you leave for a month? Can you leave for 2 to 3 months and the business will run fine without you? That is what I call the true test of an entrepreneur is how long can you leave your business? And your business doesn't tank? And do you have a management team in place? Do you have the non-compete? Do you have the contracts? You have the employee handbooks? Do you have the right people in the right seats? Have you asked the question Who handles legal accounting, manufacturing, distribution, quality control? The list goes on and on.

Speaker2: [00:07:10] And then people, buyers will discount. So this is a loaded question. We start getting the evaluations because buyers will start to discount like we're selling a company right now and it's run by husband and wife out of their home. Well, the buyers gave me an offer and they deducted a half a million dollars for infrastructure because there are no people, there is no corporate office. There's nothing really other than cash flow and users on the app. And so you really got to look at every aspect of that company. So first is the people. And then the second thing is the product is registering a thriving or dying industry. If your industry is in retail, brick and mortar, you're probably not going to get the highest multiple for that business because it's a dying industry. If you're in a restaurant industry, restaurants have still not recovered fully, so you're probably not going to get the best multiple. You also got to look at it like we were selling a furniture store that catered to the hospitality industry during a pandemic. Well, you know, what happened in the hospitality industry completely shut down.

Speaker2: [00:08:13] So even though the business was doing okay, their customer wasn't doing okay, you know, their client. So they had all of their most of it. I would say 80% of their revenue was tied up in hospitality and they had a 20% in a different vertical. So we really had to discount for that. And so the lenders, because nobody knew when hospitality was coming back. And so when you're looking at product, product is your service, your industry or products, you've got to look at is it on the way up? And you've got an Amazon, that's when you sell. And if you've got an Amazon, then you get a higher multiple. But if you're all the way out and you have a blockbuster and you're about to go bust like they did, then you're not going to get much for your business. Same thing with processes. If your processes aren't efficient, if you don't have SOP standard operating procedures for each department, if you don't have all your ducks in a row, then your business isn't going to sell for as much because buyers will come in and they'll just count what it will take for them to come in and implement all those processes from the beginning. Same thing with proprietary, you know, it's a long answer, so stop me whenever you want. No, it's a great answer.

Speaker1: [00:09:22] There's a lot of elements that go into it. I deal with a lot of startups where we all talk about revenue and it's just about revenue. But revenue is really not the only factor that really goes.

Speaker2: [00:09:31] Into revenue is really never the factor. So I don't know what kind of startups you're working on, but startup revenue is a factor for SAS companies. Profit is not a factor for most other industries. It's based upon EBIDTA because a company can make $50 million but yet lose $10 million every year. So why somebody's going to pay a multiple of that 50 million. But for SAS company, SAS company is always about revenue. So that's the problem. There's a lot of business owners focus and we're skipping through some fees, but a lot of business owners will focus on revenues and not focus on the profit. Who cares about the revenue? Yes, you want to have revenue, but you want to make sure that business is generating a profit. Otherwise most buyers will never touch it.

Speaker1: [00:10:19] Okay. So what do you think is the biggest myth that startups have when they come to you to sell their business?

Speaker2: [00:10:24] Is it? Well, let me go back.

Speaker1: [00:10:25] Or is it something else?

Speaker2: [00:10:27] Well, I'm sorry. What is the biggest flat myth?

Speaker1: [00:10:30] You know, the mistake they're making is they come in the door wanting to sell the business.

Speaker2: [00:10:33] Oh, they got so many of them. That's. That's a ten hour show. But let's go back to valuation, because we haven't fully answered that one. And I think it's very, very important for your listeners. So next is we talked about people, product processes. Next is proprietary. So proprietary. That's why I want to get back to proprietary, because I need your listeners to understand this. Proprietary is a number one value driver, the number one value driver. So let's say the mobile branded you are as long as your brand is relevant to the mind of the consumer, the higher we're going to sell your business. For now, if you have a Toys R US, nobody is going to pay any money for you, right? Because you're not really relevant anymore. Blockbuster is not relevant anymore. But Apple is. Apple's brand alone is worth $289 Billion just for the brand. And then we look at trademarks can't do having trademarks in place. Do you have any patents? Patents drive value Trademarks drive value contracts in place. Especially you got federal trademarks, contracts in place, state local contracts doesn't do you any good. It's the federal contract. You have federal trademarks you have to get, and then you have contracts with your vendors, your manufacturers, your clients. You have subscription array client subscription model array client subscription model will add value. Do you have one at a higher multiple? Do you have proprietary software? Do you have a database? Can it be repurposed? Can it be retargeted? Does that database you know, Facebook paid $19 Billion for WhatsApp and WhatsApp was hemorrhaging money and they were about to go under and so and then do you have celebrity cachet? We're still in the business right now.

Speaker2: [00:12:10] It's got all these celebrities that buy their products. So they have huge branding. They are preeminent in their industry, they have huge cachet and they have really proprietary vendor relationships. So all of this stuff drives value. You know, if you've got a celebrity like Oprah Winfrey endorsing your products, that company is so much more valuable with her than without her. And strategic biases. Five different types of buyers strategics and competitors will pay a lot more money because they want their products in front of the queen of everything. And then you've got patrons. If you've got customer concentration, most businesses follow the 8020 rule. 80% of revenue comes from 20% of your clients. If you have 80%, if you have customer concentration over 30%, you're in trouble. You're in trouble when you go to sell your business. And buyers will look at that and want to discount for that and then want to mitigate their risk. So we've got a business we're selling right now for 55 million. They have 75% customer concentration. And, you know, I had to kiss a lot of frogs to get the prince and the buyer to buy this company. And so then you've got profits and profits is what we were talking about earlier, that people focus on revenues. Look, lack of profits is not your problem. Lack of profits is the symptom of not operating on the other five PS If you had the right people and the right seats, they had the management team in place. The business can run without you. You've got your processes bottled up, you're in a thriving industry and you've got all your proprietary assets. You're going to be profitable. It's almost foolproof.

Speaker1: [00:13:54] Oh great. Well, I always tell startups, you know, when you get to the part of valuation you're negotiating. It's a negotiation process, not a formula. And when you sell the business, how much can be impacted by negotiating with the buyer versus it's really a formula. They're just going to set it in. You get what you get.

Speaker2: [00:14:13] No, it's all negotiations. I mean, they have formulas and it depends again, who's your buyers. If it's if it's private equity groups, I got certain formulas because they're not buying on emotions, They're buying a pure finance. Do the numbers make sense? Is it logical? You know, if you've got a sophisticated strategic or competitive buyer, sometimes they're buying more on emotion because like, oh my gosh, if I could buy this business and I could get that contract, then I can catapult my business to the next level. You know, the other thing that I didn't mention in evaluation is the synergies. Synergies. Now, this is so important, people will pay more for the right synergies that will catapult their business to the next level. Private equities don't really care about that, but strategics do, competitors do. And I'll give you an example. We're selling a manufacturing business and we had about 150 buyers. We had 12 blue eyes. They all came with different contingencies to the deal because they want to mitigate their risk. The seller operated on all six PS except for patrons that had. From concentration so that 65% of the revenue is tied up in VP and all the buyers were worried, Well, if you lose BP, they've got 65% of your business.

Speaker2: [00:15:27] But I found a strategic buyer that has similar products and services but was not a competitor. And they've been trying to get in BP for two decades and can never get in the door. So guess what they did? They said, oh, well, I'll bet everybody else they paid 165% more for that company than what the company was appraised for. Because they want to. Bp We have another client, that manufacturing company. We had a manufacturing company had a $5 million distribution facility. And the buyer the buyer has manufacturing has distribution centers all over the United States. First thing the buyer is going to cut is $5 million. So just like I said earlier, don't deduct things because you don't have the infrastructure, you don't have the people, you don't have the processes in place. They also will add to the EBIDTA because if they can cut a distribution center or something like that because of synergies, then they'll add to that. So they they increased their revenues by $5 million, just like shutting down that one facility and they moved all their people to other facilities that they need help in.

Speaker1: [00:16:34] Great. One question I always ask my guest is what online information source do you find most helpful in your work?

Speaker2: [00:16:42] Oh, I can't give away all my secrets. I am one of them. Just one. I'll give you one. Let's see. I mean, we use so many. One of the biggest things we use is Google, believe it or not. So there's a shout out to Google again. But we use Google a lot. But we have we have three different proprietary systems where we can pull information, you know, just on contact information like people's names, companies. Then we have softwares where we can tell what deals have taken place. Was it Ebola? What was the revenues of that transaction? How long did it take? So we've got probably six, five, six different software systems that we use to gather all the data. But just I would say we use Slack, we use Google. And of course, we use Zoom.

Speaker1: [00:17:32] Great. Well, that's very helpful. And so you have a podcast show as well. Can you tell us a little bit about it or the audience so they know it? And why do you think it works so well?

Speaker2: [00:17:44] Why am I podcast work so well? So my podcast is as Exit Rich, and, you know, I think the reason it works so well is because business owners sometimes feel lost. You know, they feel like, Oh my gosh, who do I go to? How would I go to get marketing or should I go for tax strategies? Where do I go to maybe find an integrator to integrate all my visions? Where do I go for legal strategy? Where do I go to find a good staffing agency or a good recruiter? Or how do I build my business tax? How did other people do it? And how do other people have seven and eight, nine exits and all the exits and all that information is on exit Rich. And so we've we've interviewed the founder of Constant Contact who sold his business for millions. We've interviewed and that's Alex Stern. We've interviewed Jeff Hoffman, who was a founder of the airport kiosk and also one of the founders of Priceline. We've interviewed, oh, my gosh, Dr. Neil Cobain, who is a college professor at High Point University, and he also is on the board for La-Z-Boy. I think it's Pandora, Great Harvest Bread Company, and one of those bread companies and a bunch of other companies. And so you're really getting firsthand knowledge about how companies started from the ground up and how they built their huge empire and they were able to actually reach us all the tips and strategies and resources that you need in between to grow a sustainable, scalable and sellable business for your desired price tag.

Speaker1: [00:19:25] It's great when the last 2 minutes that we have here, what else should we cover that we haven't?

Speaker2: [00:19:31] Well, we haven't covered whether I should get my book. Well, they can reach out to me, but the big thing I'll say is that every business owner, like I said, it can be lonely sometimes to be a business owner, because who are you talking to? Your employees. Sometimes you don't want to go home and talk to your spouse. My husband tells me, Don't bring work at home. You know, sometimes it's hard to find people to talk to. And not only that, but business owners are so used to making mistakes and learning from their own mistakes. Why not learn from other people's mistakes? Why not really go out there and get yourself a great mentor where you learn from their mistakes and not just any mentor, but somebody who specializes in your particular industry or your particular craft. And it'll shorten the learning curve dramatically. I always say it's hard to read the label from the inside of the bottle and an outsider's perspective. I read the warning signs and keep you out of the danger zones.

Speaker1: [00:20:22] Great. So where do they find your book?

Speaker2: [00:20:24] So my book is still in bookstores. It was on the roundtable and now it's on the shelves and the Barnes Noble, all the major bookstores. Amazon, of course, our website. Excellent. Rich BBC.com, Extra Rich BBC.com. The audio version came out in June, so if you prefer to listen to read, then you can get the audio version on Audible, Amazon, iTunes wherever you buy your favourite, your favorite book, and then everybody can reach out to me at Sala or I'll make it really easy Sky at 360.

Speaker1: [00:20:59] Great. We appreciate your sharing that contact details. That was my last question. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:21:07] Thank you.

Speaker1: [00:21:09] Investor Connect Helps Investors Interested in Startup Funding. In this podcast series, experienced investors share their experience and advice. You can learn more at investor connect dot org multi Martin is the director of Investor

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