# TRANSCRIPT:

**Mary:** On today's episode, my guest is Ken Hachikian. Ken has extensive experience serving publicly held and closely held businesses. Ken currently acts as a financial advisor and investment banker to business owners. I ask Ken to participate in this episode to talk to us about how to find a buyer for your business. Thanks for joining me today, Ken.

**Ken:** My, my pleasure, Mary. Thank you.

**Mary:** So, as a starting point, I have read your bio and know that you have an amazing background in helping businesses find buyers. Can you share your background with our audience?

**Ken:** Sure. I have a Bachelor of Arts in Economics from Harvard, as well as an MBA from Harvard. I started my career with the Boston Consulting Group, where my focus was on corporate strategy and capital allocation for both Fortune 500 companies as well as family owned businesses. Subsequently, for 20 years, I served as the CEO of four different businesses, including an equipment leasing company with a billion dollars of assets under management and a healthcare services company that I started up with, 120 walk-in medical locations and 10 cities serving a million patient visits a year. I've also served on the board of directors of both public and private companies, including a 500 million international bank.

**Mary:** So you haven't got bored date, it sounds like.

**Ken:** No, I tend not to be bored. I enjoy doing what I do.

**Mary:** I can tell by that bio. I love it. So can you talk to us a little bit about, well, what is going on in the m and a and capital markets?

**Ken:** The markets remain very active, primarily driven by the fact that there is an excess amount of capital, both in the hands of equity investors as well as lenders. Private equity firms have a plethora of money. I get solicitations from people I don't know, at least once a week, looking for a business to buy. There is more money out there than you can imagine. Multiples are attractive for sellers and there's plenty of debt out there to finance deals. Now, in the context of what we're all seeing of rising interest rates, multiples are gonna get a bit contracted as the cost of debt will increase and returns on equity to compensate for that will have to come down a little in terms of multiples.

**Mary:** But you think that business buying is going to stay active despite that?

**Ken:** I do. I do. Again, buyers are, have, you know, private equity firms are structured where the general partners only make money if they deploy their capital. I'm working on a deal right now where this firm is on their seventh fund. They've raised an excess of 1.2 billion in their 25 year history, and they're paying six plus times earnings for a company that I'm selling. You know, if you have a good business, there are buyers out there,

**Mary:** And we're  been seeing some crazy multiples in the last few years. So like you, we have a very, we don't do any of the publicly traded work at our place. We do all closely held, but we've seen some just multiples where guys have called me and I go, Of course you should sell your business. You can just start over if you want to and do something or do something else. But let's talk about then when somebody does sell a business. So some clients, and it depends on a whole lot of factors, are interested in selling everything and just walking away. Others might be interested in selling some portion of it and retaining an interest in the business. Is it an all or nothing proposition, or are there options?

**Ken:** It's not at all in all or nothing. There are buyers who come in all shapes sizes and colors. There are some buyers who want to buy a hundred percent. There are some buyers who want to buy more than 50 and less than a hundred, and I'll come back to that. And there are buyers who are content to take a minority position. In particular, private equity firms are not managers of businesses. And unless they have a bunch of people, which happens occasionally, but not often in an ideal world, they are looking for the seller to stay on and to continue to run the business. The business that I mentioned earlier that I'm selling, my client is rolling over 30% ownership. She's taking significant amount of cash off the table, yet she retains 30% ownership. And from the investors perspective, the private equity firm, they couldn't be happier because they want her to have a stake going forward.  Now, there can be other roles you, you can remain in a short or longer term capacity as a salesperson, if your skill set is selling and you have strong client relationships, a buyer should be interested in retaining you and providing you some incentive. So it is not at all one size shapes all. There are multiple ways to do this, and you have to match up. You know, part of my job as an intermediary, as an investment banker is to match up my client's desire with somebody who will meet that desire. Because again, not everybody is willing to do a hundred percent or minority or majority. Everybody has a particular preference.

**Mary:** So let's just say, because I run into this a lot in terms of a buyer starts thinking about selling the business and they have no idea what these options are. Who would they talk to really figure out, you know, what can I do? So I think some of them do think it's this all or nothing proposition. And so hopefully they can listen to this podcast and know that it's not, But who's their best go-to source to talk to about buying the business? Is it going to be a broker right away? Or is a broker often going to be biased towards selling everything, which gets a bigger commission? Right?

**Ken:** Not at all. I would strongly recommend that somebody who is thinking about selling seek out an investment banker who has done deals before and who has done deals in the size range of their company. You want to be sure that you're not too small or too big for what the capability is of the investment banker whom you be speaking with. I happen to believe that deal experience in an investment banker is more important than industry experience. Others will argue that industry experience is more important. The reason I say that is my job is to tell a story, and I tell that story by listening closely to my client and writing a confidential information memorandum, finding the right buyers, and then getting a deal closed. And all of that falls under what I need to do. You know, I I've done approximately 30 transactions in my career, about a half a dozen of those for companies that I ran, the others as an intermediary. And I, I would encourage somebody who is looking to sell to talk to more than one, two, or three possible investment bankers. If they don't know investment bankers, I would suggest that they reach out to their lawyer or accounting firm for references. They likely would know investment bankers.

**Mary:** So a lot of times they don't talk to anybody and they just go try to find buyers on their own. And that sometimes my clients will want to do that. And some are successful at doing that. If a business owner does want to try and find a buyer on his or her own, what are some of the best practices to find that buyer?

**Ken:** Well, it's not something I would recommend. And the reason I wouldn't, you know I'll give a small anecdote. I had a gentleman call up a close friend of mine who was in the private equity world and said, and, and he was a good friend of his, he said, Kevin, you know, I've been approached about selling my business. I am an expert at running my business, but I know nothing about selling it. And Kevin said, I wouldn't expect you to, you should talk to some investment bankers. And he, you know, I was one of the ones he referred his friend to. But if you're insistent upon doing it yourself the steps are to write a memorandum that lays out your story to prepare with your lawyer's help and non-disclosure agreement. What I do is I then take that memorandum and create a one or two page blind executive summary blind in that it doesn't identify the company but gives a snapshot of what's out there. Then use that blind executive summary to send to prospective buyers. And I'll come back to who we're the best kind of buyers. And then if there are buyers who respond to that, the first thing you need to ascertain is do they have the means to make a purchase or are they just kicking tires? And so you need to get some financial information. You have them sign the NDA, and then you provide them the memorandum. I mean, that's the normal process for selling a business. In a perfect world, you want to find at least two interested parties to create competition. And if the buyers know that there is competition or perceive that there's competition, they're likely to pay a higher price. Sometimes you'll hit a perspective buyer early on who says, Hey, you know, I want to be the buyer. And my response is, All right, we're at the beginning of our process. We plan to go through our process, but if you want to make a preemptive bid and bid high enough to cause us to take this off the market, then go ahead. We'll entertain that. I know what a business should sell for. And if somebody comes in at the higher end of that range, then I would recommend to my client to take the bird in hand. And occasionally that works.

**Mary:** So, what type of business is most likely to be able to find a buyer on its own?

**Ken:** I think professional services are probably the single best example in that professional service firms, whether they be law firms, accounting firms, consulting firms that the talent rests with and the value added rest with the professionals. And those firms really don't command high premiums that really mergers. And so you know, I don't, but there are people who specialize in negotiating those deals for professional service firms. But I think that professional service firms are one example of, of businesses that could sell for themselves. And I think very small businesses, businesses that are, have less than a half a million of profitability it's going to be difficult to find an investment bank or a business broker to sell that. There are those who do, but it will be tougher. And so that might be a, a more appropriate business to try and sell yourself.

**Mary:** So I remember that when I first had an opportunity to be to the lawyer for a company, a fairly significantly sized company that was selling, and we engage a fairly well known investment banking group, and they walked in. And one of the things that, you know, gave their presentation, part of it was explaining the different types of buyers, which, you know, at that moment, being early in my career, I didn't realize that there are different type of buyers. I just thought, you know, if you're a shoe store, you sell to another shoe store or something. But that's not actually at all true. And so I was hoping you could explain the different types of buyers that known or might be able to sell to.

**Ken:** Sure. There, there are fundamentally two different kinds of buyers. The first are strategic in the second, or financial in general, strategic buyers will pay higher price. And a strategic buyer is somebody who is either in the same industry or who is in an allied field. Now, an allied field could be a customer who is looking to backward integrate. It could be a supplier who is looking to forward integrate, or it could be somebody who sells different products, but through the same distribution channels. And so they would be adding your product to service to their distribution channels or their sales channels. All of those kinds of people would be, would fall into the bucket of strategic buyers. Financial buyers are people who were not in the business of what you're doing today, or not in an allied business, but who have money. And, and the prototypical financial buyer is a private equity firm. Now private equity firms make two kinds of purchases. They buy companies to be platforms, meaning that they want to get into that business, grow that business, add on other companies to that platform. Generally the low end of what a private equity firm would consider to be an acceptable platform would be 2 million of, of EBITDA. Sometimes private equity firms won't go lower than 3 million. If you're below 2 million of EBITDA, you're not gonna likely be a platform. On the other hand, I have a client who has a, whose profitability is about 800,000 a year. And I've reached out to a private equity firm who, in this case, because they have other larger companies that they own in that particular industry, it happens to be digital marketing. They would, they would call this an add-on acquisition so, or a bolt on. So there are times when private equity firms can be strategic in the sense that they're, they own a company that's in that business and they're adding onto it. Or they can be financial buyers. And the third category are financial buyers who are individual entrepreneurs who are looking to buy a business. They can be qualified in terms of capability, but very often they will have limited financial resources and, and will often be looking for a seller to take, provide some kind of seller financing to get a deal closed.

**Mary:** If a client wants to use a professional to help sell his or her business, what are their options? What types of professionals assist business owners in selling their business? Can you explain the differences?

**Ken:** I've discussed the role of an invest investment banker whose job it is to tell your story, find prospective buyers and CLO and get a deal closed to negotiate the business points. You then need a lawyer because you're going to enter into a purchase contract or a sale of stock or membership interests. And, you know, an investment banker is not qualified to handle the legal aspects of it. And thirdly, you likely need an accountant to be sure that you are presenting books and records that are clean, because ultimately you're going to have to make representations and warranties to a buyer that you're providing them accurate information. And there will also be tax considerations, and you want to be sure to optimize tax issues. Now, law firms also have tax lawyers who can assist in that regard, and accountants have tax accountants and there's not all that much difference, but you should have a tax expert. So in summary rate summary, you need somebody to help you with the deal. You need somebody to document the deal. You know, there could be employment contracts if you're rolling over some ownership, you, you need rights as a minority shareholder tag along rights so on, so forth. And you definitely need to be sure that your accounting records are in good shape.

**Mary:** And so one of the things I always like to suggest to clients is sometimes they call us after they already have a letter of intent. And so I'm a tax lawyer. And at that point, if they're agreeing to X dollars and it's a stock sell, you know, there's a big difference on whether there's a stock seller, an asset sell. And we've done, this is part of a whole series of episodes that we've done on the business exit planning. So I always like to just suggest that at least engage the professionals you're going to use early on. And to the extent you're going to need some tax advice, at least have a conversation, give them a heads up what you're doing so you can get some input. But that also goes to my next question of, you know, some clients think that any business broker will do, and I've really found that my clients are best served by someone. And I, I like what you said earlier that it kind of depends. I've always thought it was familiar with their industry, and I think you've given a perspective that it's really, have you done deals? And I think partly it may be have you done deals of the size? Is what you referred to find somebody who does deals of this size in nature and who's going to be best equipped to talk to me about all these aspects of the deal? Is, is that fair? And could you elaborate on that?

**Ken:** Absolutely. Yeah. Let's just say and you know, it doesn't pertain to your clients or my clients, but you're, you're a business that's making 50 million a year. Well, and you're in ABC industry. Trust me, the large investment banking firms in this country are all capable of doing that deal, whether they have experience in that industry or not, because there are more intricacies about a deal than there is about industry knowledge. And if you have a lot of deals under your belt, you know how to get a deal done. On the other hand, if you are making a hundred thousand a year and you're dry cleaner, or you're a restaurant, for sure you're going to want to be selling to somebody in that industry and somebody who has industry experience would be more relevant. On the other hand I'm selling a business today that, you know, sells snacks to the convenience store market. I've never sold a business that sells snacks to the convenience store market, but I'm getting six and a half times earnings for my client and she's getting an outstanding deal. Why? Because I know how to get deals of that size time. So yes, there are times when industry knowledge is helpful, but you know, an investment banker who specializes in, in industry, let's say packaging, remember that they're working closely with a set of companies who compete in that industry and they're buying and selling. And these are companies that they're going to go back to day in and day out for other deals. They're not necessarily, you know, while they should be, and I would hope that they are representing the best interests of their client, these are also people they're going to be doing business with tomorrow when the next day. And so they're not necessarily pushing them for the best terms. You know, the business I'm selling now to a private equity firm, my job is to get my client the best deal possible. I'm not, you know, I want the private equity firm to close the deal, but I, likely will never sell that private equity firm. Another deal. Well, maybe I will. They seem to be happy with my representation of the client, but I, but I'm not worried about their feelings. Yeah. My job is to get my client the best deal.

**Mary:** So one of the trends I've seen recently with some of the smaller businesses is to, and these are usually driven by a consultant of some type, but let's say in the healthcare field, you have certain types of practices that aren't necessarily part of the system in the same way. So maybe there's a lot of independent physical therapy clinics that still exist. There's, you know, some of those are now a part of orthopedic hospitals, things like that. Or, but let's just say that guy comes and says, you know, here you have one physical therapy clinic in, you know, Grand Island, Nebraska somewhere and brings together and says, Hey, if we get you all in the same billing system and we have cohesive management and so we create this affiliation and build it to about 24 physical therapy clinics, then we can sell as a group and be more marketable and get more for each of you than if we sold individually. I haven't seen the outcome of that yet. I've just seen that trend in the last couple years. So I'm just interested in whether you've seen it and what your thoughts might be on that approach.

**Ken:** That approach has actually been around for a long time. And, and sort of the vernacular is doing a roll up where you're rolling up together a variety of similar businesses, roughly the same size in different places in the country. That's a perfectly valid approach. It works when there are economies of scale to be realized, you know, which is often the case, but not always. So you need to have a economies of scale. They could come in purchasing, they could come in advertising and marketing. They could come in selling distribution channels. So there have to be some economies a scale to make that roll up work. Secondly, if you, if you are a participant, you need to be sure that you're not being locked up and losing options if they're not successful in getting the roll rollup put together. So it's one thing to say, Okay, I'm interested, maybe even signed some version of the letter 10, but you need to have an out, you know, you can't give somebody an option to buy you for a long period of time. But rollups have are common in healthcare services. I happen to actually do that early in my career where I mentioned earlier I had 120 walk-in medical centers. I only opened about 35 of those and bought the rest in other markets around the country. So that kind of approach is, can be very valid as long as there are underlying economics to support that

**Mary:** And that the person driving that really knows what they're doing and offering. I mean, because a lot of times my solo practitioner, right, is they're really good at what they do and then they start getting to a certain age thinking about selling. And you know, part of like we've talked about in another episode is partly getting your business ready for sell. And that's kind of where I'm seeing that with some currently is some business owners who are trying to position them or thinking about, Oh yeah, it's time to position myself for sell and that's not really my skill set. And by being part of that group, their hope is that they're going to have better ideas on how to get that business ready to sell.

**Ken:** Sure. You know, a another place where I see this is professional services. You know, there, there are some large accounting firms today nationally who have done rollups. And there are regional firms who have bought up smaller accounting firms and put them under their umbrella. You know, there can be value, for instance, in the brand of the large firm, but in all of that you need to be sure. And, and this is actually putting on the hat of the buyer, that there isn't such a close personal relationship between the seller and his or her clients such that when that owner seller goes away, you lose the clients. You know, what are you buying? So you need to be sure that that seller has incentive to be sure that the clients stay, you know, you might structure a purchase price that's tiered based upon retention of business. The risks there are more for the buyers than the sellers.

**Mary:** And so if you were giving a business owner of whatever size, if there's a common one, if you have to break that down, feel free. But if you were to say a business owner who's thinking about getting ready to sell and trying to position themselves to sell, what is the top number one tip that you would give them so that when they come to see you, that they've taken steps to be in a position to make themselves sellable at a good price?

**Ken:** Two steps that are related. One is to have whistle clean financial statements. A buyer is going to expect it. And, and if they're not, when you get into discussions, if the financial statements are messy, it's going to turn off a buyer. So you, you need to have very clean financial statements related to that. Many privately owned businesses often have some personal expenses that may somehow get run through the business and a buyer is not surprised by that. But you need to be able to isolate that so that a buyer understands that, okay, your business is making 500,000, but there's another 200,000 of personal expenses that a buyer wouldn't be incurring. And that's the difference between, you know, EBITDA earnings before interest taxes and amortization and adjusted EBITDA. And the adjustments are for non-recurring expenses that a buyer wouldn't occur. So my advice to somebody to prep their business is be sure you have clean financials and be sure and be sure that you have taken the steps to maximize your profitability. Because ultimately a buyer is buying earnings. They're not buying promises, they're not buying future sizzle, they're not buying good looks, they're buying earnings, they're buying cash flow. And so if there aren't earnings and there aren't cash flow, you're gonna have a very hard time selling.

**Mary:** So you have any last thoughts today on this topic? Ken?

**Ken:** I would say it's very important that, that somebody looking to sell retain the appropriate professionals. And, and I'm sure you've seen Mary and I've seen where people make that mistake and don't and get into trouble frequently on the tax side, you know, because they haven't either in advance or at the time of the sales structure themselves to minimize taxes, expose themselves to double tax issues possibly expose themselves to not getting capital gain treatment. So it's very important to have a tax advisor, to have a lawyer, to have accountant, to have an a an investment banker, you know, a business owner should be and likely is an expert at their business, but they should understand that they're not experts at selling their business and they should be bring in professional help to help them do so.

**Mary:** Well, thanks very much for being with us today.