



Ep 123: Entrepreneurship Through Acquisition

Keith Matthews: Welcome to the Empowered Investor Podcast, brought to you by the advisory team at Tulett, Matthews & Associates. Have you ever felt overwhelmed by the number of voices telling you how to plan or invest for your future? We're here to help you cut through the noise, bringing clarity to your investment decisions, and helping you build lasting financial peace of mind. Learn more and subscribe today at TMA-invest.com.

Welcome to The Empowered Investor. My name is Keith Matthews, and I'm joined today by our special guest, Mark Deegan of R33 Ventures. Mark is the founder of R33 Ventures, a firm specializing in helping entrepreneurs, helping them with their business valuations, financing, and the buying and selling of small businesses.

Mark has a tremendous amount of experience, and we're super thrilled to have him as a guest today. He started off being a business owner and entrepreneur, spent 10 years working in an accounting firm in the advisory, which is the buying and selling of businesses. Has subsequently taught at both McGill and Concordia, both in their graduate programs and most recently a Concordia teaching a program called ETA.

Entrepreneur through acquisition, which is a fascinating new field, very popular in the United States and becoming more popular in Canada. What that essentially is becoming an entrepreneur through an acquisition of a business versus what might have happened in the past, and it still happens, which is becoming an entrepreneur by starting a business from scratch.

He's got a tremendous amount of experience, acts as a consultant, sees a ton of examples, has wonderful stories to share in today's episode, but we're really going to focus on three areas in the show. Mark is going to give us an overview of the small to medium enterprise operating systems in Canada and how things are working.

He's then going to focus his comments on. Everything you need to know from a buyer's perspective, buying profiles, what that looks like, the strains, things to look out for if you're a buyer of a small business. And then we'll switch gears and go into everything you need to know about selling a business, everything you need to know about preparing your business for eventual sale.

Super excited to have Mark. You'll see he is eloquent, he's calm, and he knows his stuff. So, with that, we hope you enjoy today's episode.

Keith: Mark, welcome to the Empowered Investor Podcast.

Mark: Keith, thanks for having me. I'm a big fan of this podcast, so it's a real honor for me to be here today.

Keith: Well, we're super thrilled to have you as a guest, and we're going to be talking about entrepreneurship, buying and selling small businesses.

Before we get into that, Mark, why don't you give us a bit of your backstory? Tell us how you got to become the expert that you're at right now.

Mark: So, I would say there's three key experiences that have kind of shaped my career. The first being actual operational leadership experience in SMEs. So, my, my first experience was with my family.



Keith: When you say SMEs, Small, Medium, Enterprises.

Mark: Yes, exactly. So, my first experience was with my actual family. We had a business in 2000 where we were manufacturing hydraulic scaffolding. And I was employee number four of 60. So that was my first experience in an operational and leadership role.

And then later on in my career, I was a general manager and shareholder of a third-party logistics company. So that was not part of my career path, but in both of those instances, it gave me real life entrepreneurial experience in terms of what it takes to grow a business.

The second key experience is I had the opportunity to spend 10 years with a mid-Market accounting firm here in Montreal called Next Year Friedman.

Which is now part of E&Y, and I was in their corporate finance group there. At our peak we were about 70 professionals overall in the firm. And that's where I really learned the craft of mergers and acquisitions in the SME landscape. I had some tremendous mentors who took the time to teach me not only what it takes to guide buyers and sellers through this process, but what it takes to be a trusted advisor as well to entrepreneurs.

The third key experience is teaching, I've been fortunate to teach classes at McGill and Concordia in the areas of valuations, M&A, entrepreneurship through acquisition. And you know, everyone thinks that the students are the ones learning in the classroom, but I learn as much as the students.

It really aligns with my core values of continuous learning and continuous development, personal development.

Keith: it's interesting you say that. Our last, one of our last guests, Mark Halloran, talking about career management, and he had five guiding principles, one of which was continuous learning.

Mark: Oh, it's, it's key.

Keith: Well, you've got a very, very wide breadth of knowledge and we're excited to hear your comment about buyers and sellers today. Excited to talk about it. So, let's go. Let's jump into an overview of the small to medium enterprise businesses in Canada. How do you define it? Talk to us about sizes of companies activity and just the overview of the marketplace.

Mark: Absolutely. So maybe I'll take a step back. Keith, you know, when you and I were in business school, we learned about startups. You know that there was probably a course on starting a business and it was about building out a business plan and whatnot.

Today what's becoming more and more prevalent, mostly in the US but it's starting here in Canada, is the whole notion of entrepreneurship through acquisition. So actually, going out, searching for, acquiring and running a small to medium sized business. And it's just another avenue to a startup and it's gaining more and more traction in Canada as we speak.

Keith: You're absolutely right, because you know, if I think back in the day when I did an undergrad at Concordia and, and I did an MBA at Western, it was all about how do you start a company, right? You know, create your business plan and then put the energy around that and figure out how you start it from sweat equity.

Mark: Yes, exactly. That's exactly it.

Keith: So, what you're talking about is a very different model.



Mark: It is. And like I said, Canada still has to catch up a little bit to the US but it's gaining a lot of traction right now. Okay. In terms of the overall market, perhaps I could just give you some highlights from a CFIB report that I produced here. So, it's basically entitled, and I think the title speaks for itself, "Succession Tsunami, Preparing for a Decade of Small Business Transitions in Canada".

This was a report prepared by the CFIB in 2022. And who is the CFIB? Canadian Federation of Independent Businesses. They present a lot of the small to medium sized businesses across Canada.

Keith: Okay. And when we talk small to medium sized business, what does that typically mean in terms of sales?

Mark: It's a broad spectrum, but for the purpose of our discussion, let's define it as revenue between 1 million and 30 million.

Keith: Okay, good.

Mark: Some of the circling back, it's interesting. Some of the highlights of this report, just to set the tone for our discussion, one of them is that 76% of Canadian business owners plan to exit their business within the next decade.

And that's obviously driven a lot by demographics, right? The baby boomers and whatnot, and they're going on to say that over 2 trillion, that's with a T, worth of business assets, could change hands during this period. So, it's, it's massive.

Keith: Yeah, really massive, that's huge

Mark: It really is. They're saying only one in 10 business owners have a formal business succession plan in place to ensure a smooth transition

Keith: and what is defined as formal business plan?

Mark: Probably where they've hired professionals, whether it be accountants or M&A advisors, to put together a plan for when it's time for them to exit.

And lastly, they're highlighting here that finding a suitable buyer is the most common obstacle to succession planning at 54%, followed closely by business valuation. So, agreeing on the value of a business at 43%, and the reliance on the owner for day-to-day operations at 39%.

Keith: So, what that report's telling me is we have a lot of aging founders who haven't done work to get themselves in a position to have a secession and also not putting in the work to get them there.

Mark: So, if you're a business owner, you're probably wrapped up in the day-to-day of your business, right? It's a sprint running a small to medium sized business. So, to your point, what this report highlights is that entrepreneurs will need to take a step back and, and start planning this in order to succeed, in order to align with their expectations, in terms of, of valuation and timing of exit. Absolutely.

Keith: Okay, great. That's a great overview. As we start the next portion of our discussion, we're going to focus on two main themes here. Theme number one is buyers and talk about what that looks like. Buyer profiles. How do you actually buy a small business, and what are the opportunities out there?

That'll be the first section. The second section will be from a seller's perspective, what are the top things we need to think about when you're ready to sell your business? So, let's jump into the buying side.



Mark: Absolutely. So, what I see is two segments of buyers. The first kind of profile is the younger, typically, MBA has a predominantly finance background. So, they, they've probably worked in corporate finance for a few years. They've accumulated a bit of money, or they have some family money, and they're looking to acquire a business and start their entrepreneurial journey.

The second segment that I work with as well are more on the senior executive side. Individuals who are typically in their mid-forties to mid-fifties, who've got extensive business experience, some of them in senior executive roles who were either let go or who either had this entrepreneurial dream at one point in their lives and have realized now is the time to search for and acquire a company.

Keith: Yeah. There are some unbelievable stories that I've heard of individuals, you know, mid-career, all of a sudden losing their job at a large corporation, and it's an aha moment. It's a tough moment for them and their families and then you hear about them pivoting and becoming entrepreneurs.

Mark: Absolutely. I have a client right now who's in, in that exact situation. We're in the search process right now. But he's extremely focused to become an entrepreneur and basically chart his own destiny, because he was in a senior executive role where a decision was made where he was no longer part of the organization.

Keith: So how do individuals actually find businesses? What does that look like in Canada right now?

Mark: First of all, these are private businesses that we're talking about. There is no public market for private businesses, hence the importance of the M&A ecosystem, the mergers and acquisitions ecosystem.

So how do buyers go out there? What they do is they liaise with individuals who are involved in transactional work. So that would be M&A, intermediaries, accountants, lawyers, bankers, wealth advisors. Sometimes it's alumni from their universities. There's a lot of networking involved in finding opportunities.

A lot of searchers will go directly to entrepreneurs as well; they'll reach out on LinkedIn and platforms to go directly to entrepreneurs and see if there's a willingness to have discussions around transition and sale. There are some websites that do have, let's call it listings, of small to medium sized private companies for sale as well.

Keith: What kind of websites would those be?

Mark: To name a few DealStream is one of them, acquisition.biz is another. Either business owners themselves or M&A advisory firms will post a, let's call it a summary, of a business for sale and then potential acquirers will have to reach out to the broker or the entrepreneur directly and get more information.

Keith: We'll make sure we put those in the show notes at the bottom. At the bottom of the show notes will be Mark's LinkedIn profile. We'll make sure some of the reports that Mark is alluding to are included as attachments and also some of these specialized buying arenas, if you will.

Mark: Sounds good. The other thing to mention on profiles, Keith, is that 95% of what I'm seeing in the marketplace is men as well.

Keith: Why is that?

Mark: I think there's a lot of work to do, and there are programs out there. I know BDC is running a program to promote entrepreneurship with women, and there's more and more programs out there.



Why is that? Could it be a family situation? Potentially, you know, in terms of raising children and then there's a lot going on in a household. So difficult to embark on a journey to purchase a business. I'm not quite sure. I'm not quite sure.

Keith: Let me ask you a general question with regards to the state of entrepreneurship in Canada.

One of the things I would notice would be that most young people now, both partners in the relationship, are working full time. And that is not conducive to or not easy for one person to become a business owner and have to put in the types of hours that are required, especially at the startup level.

Mark: Absolutely.

Keith: So, do you have any thoughts in terms of how individuals, how young people in particular are trying to balance this sort of dual income, but one person potentially wishes to be a risk taker, but may not feel like they have the time or the support? What are you seeing?

Mark: I think it comes down to choices.

If I look at myself, for example, we made the choice whereby I would chart my own sort of entrepreneurial path and then my wife would have a part-time job and do more of the heavy lifting when it came to raising our children. And I think different couples have different choices to make when it comes to what are their priorities? Is it income? Is it quality of life? Is it spending more time with their family or others and trying to adapt around that? I don't think there's one answer that fits all there.

Keith: Yeah. I think that's well said. I think it boils down to choices.

Mark: It does. Yeah. It really does.

Keith: Okay, so let's keep the conversation going with the buyers. Now, I'm assuming there's different stages that buyers should go through, or buyers go through, as they're trying to acquire. Companies, do you want to elaborate a little bit on some of those stages?

Mark: Sure, absolutely. Typically, the initial stage is information requests. The seller will have a non-disclosure agreement for an acquirer to sign, and that's fairly standard. Once that's signed, then there's exchange of information and it's not just financial information.

Keith: Just to back up, non-disclosure means that essentially the seller will give the buyer potential buyer information about their company, and they're not allowed to tell it to other people.

Mark: Exactly. That's exactly it. Just wanted standard protection mechanism for anyone exchanging information. So, the information will be more than just financial. It'll be about the business, it'll be operational, it'll be trying to understand the strengths and weaknesses, the growth opportunities of the company. Once the acquirer is satisfied with that information, there's also a, let's call it a topic about business valuation. Aligning in terms of what are the expectations of the seller, and does that align with the buyer's expectations in terms of how much they should be paying for this business?

Keith: And does a buyer typically go out and get a valuation done on a business, or does the seller get the valuation and the seller says to the buyer, here's my valuation. What are you seeing in the Market?

Mark: In most cases, the seller will do their own valuation internally or not, that that could happen as well, but they're not going to share it with the buyer. What they will share with the buyer is the financial information required for the buyer and or their professional to come to a determination evaluation.



Keith: Okay, and then you are a CBV. Yes. So, let's take a moment and describe what is a Chartered Business Evaluator and what exactly they do because we were talking about the buyer having to go out and get a valuation done.

Mark: Absolutely. So, the CBV Institute is a Canadian based institute, and it's the only recognized regulatory body in the area of business valuations.

In Canada, it's actually a leader globally, so there are different institutions of this nature globally. A lot of the other countries look to Canada as a model because I believe the institute's been around since the early seventies. So, we've got quite a bit of history and work done around that.

The CBV designation is basically a professional designation that gives you the ability to sign a valuation report as an expert, and valuation reports could be for many purposes. It could be for a transaction like we're talking about right now. It could be for tax purposes; it could be in a shareholder dispute. It could be in the context of a divorce. So, if you're looking for a recognized expert, it would be a CBV.

Keith: Fair enough. So, what you're saying then is a lot of valuations actually get done, we're sort of sidestepping here for a second, get done for non-transactional purposes. Tax, separation, divorce, just internal planning. That's just an exercise in and of itself?

Mark: It is. It is. And I'd say 90% of the CVV's are either employed by accounting firms or Revenue Canada.

Keith: Okay. Wow. So, let's talk about valuations then. From a buyer's perspective. What are the top things that they need to consider when they are valuing a business? Without getting too much into the nuts and bolts of evaluation, what are the big things that they want to look at?

Mark: Typically, in SME transaction, businesses are valued at a multiple of normalized EBITDA. Normalized meaning that we're adjusting for any non-recurring or non-operational expenses. So, the financial statements that are presented to a potential acquirer may or may not reflect the true profitability of the company.

So, there's some digging to do in terms of these adjustments. That would be one of the major areas where we spend quite a bit of time on.

Keith: Fair enough. Okay.

Mark: The second would be researching on the multiples as well for the industry. I don't want to get too in depth into that, but that, that's an exercise in itself as well.

And then understanding the working capital needs going forward, would be an area that we spend quite a bit of time on as well.

Keith: Okay. Let me back you up for just a second. I know you said you didn't want to jump too much into valuations, but I'm going to ask one question on valuations. What are you seeing in the marketplace with regards to general valuations today versus where they were 10 years ago, generally speaking. We won't get industry specifics now. Has there been any changes? Is it pretty much status quo for multiples? Have they gotten a little bit richer? Have they gotten weaker? What are you seeing?

Mark: I was going to say before the announcement of the tariffs last year, we were seeing some multiples increase in different industries, and we were seeing much more of a robust market in terms of buyers and sellers coming to the table.



Right now, with the uncertainty that we're facing in Canada, it's done a couple things. One, it's maybe pushed back transactions. So, owners are dealing with tariffs in different ways and saying, okay, well I may not get the value that I want right now, so let me delay my transaction. Or if there is a tariff impact directly related to the company, then we're seeing that risk being reflected in lower multiples.

Keith: Interesting you say that. I know we're talking about the small medium-sized enterprise, but when we get into larger companies that trade on the stock market, even the smaller ones, there's pressure on their company multiples because of the tariff. Canadian companies. So, what you're seeing is all the way ripple right down to the smallest of the companies.

Mark: Absolutely. Absolutely. So, the decision is do you delay the sale or do you go to market and potentially sell for a lower multiple.

Keith: Fair enough. Okay. Well, listen, this has been a great section on the buyers. Is there anything else you want to add? I know that there'll be sort of a catchall at the very end of today's episode, Mark, but is there anything else you want to add with regards to things that you're seeing in the marketplace for buyers?

Mark: I would say that, and this may surprise some of your listeners, that there are quite a few buyers in the market. On a regular basis, I'll probably get one to two calls a week of individuals searching to purchase a company. It's much more widespread than, than people think and, and then when people call me and, and I mention that to them, they're very surprised, they're very surprised by that.

The other thing which I would like to highlight from the buy side as well is that it takes time to purchase a business, to search for and purchase a business. Some of the studies out of the US, there's a Stanford search fund study that gives us some data of 20 months. So that's a long time

Keith: 20 months to buy a company?

Mark: Yes, the search process is 20 months. Here in Canada, I'd probably say it's more along the lines of 12 months to 18 months, but it's still a longer time than most individuals think it takes. It's almost like it takes that time to really understand what you want and to find a good fit as well.

Keith: You know, when I think, when I hear that time, I don't think that sounds too long at all. You know, couples will spend a year buying a house. You know? And a year buying some of these major items, they'll spend a year buying a car. Why wouldn't you spend that or double or triple that in an investment that's so significant to me that just sort of normal.

Mark: It is normal and, and I agree with you, but if we put it in the context of what we started our podcast with that 76% of business owners will be transitioning. There's a perception that there are a ton of small to medium sized businesses for sale right now, and that's not really the case. Maybe I'll preface that by saying it really depends on the size and scale of the business.

If someone is looking to purchase a restaurant or a franchise, or a gas station, or a depanneur, there's quite a few of those available and are always available for sale. If someone's looking for a niche manufacturing company that does a million dollars in normalized EBITDA, it's going to be more difficult at longer search to find that company.

Keith: Okay, fair enough. You've done a perfect segue into the next section, which is having a discussion around the seller. So, let's switch gears here and talk about what should sellers be considering as they prepare to sell their business.



Mark: Maybe Keith, I'll take a step back and just talk about the profiles of the different sellers.

So, there's the typical profile of the 65 plus individual who's started their business, grown it, has other plans, whether it's, you know, family related or travel related and are looking to sell their business. That's the typical that we see.

Lately though, I've been seeing two different extremes beyond that. I have a client in Toronto, two shareholders of a business, one shareholder's 74, one is 76, and they asked me to come in and do a pricing exercise to value their business. They're still unsure as to when they're going to sell their business.

I was in a buy-side process recently, where the seller was in his mid-eighties and still was not sure if they wanted to transact, they still wanted to be an entrepreneur. Well, they were hanging on. They were hanging on for a reason, whatever that reason is, I'm not sure, but we still see those extremes in the market.

And then I'll take it a step further. Recently, I've been working with younger entrepreneurs in their late forties and early fifties who are selling as well. Partially because, in one case, the individual has other projects, so they've got multiple projects on the go, and they wanted a liquidity event.

In another situation, the, the owner's just been working hard since the age of 14. They just want to enjoy life now at a different level.

Keith: Well, listen, there's so many different stories behind every business owner.

Mark: And it's all different like you said. It really is.

Keith: Well, thank you for the profiles. So, when you're coaching and consulting with these individuals, what are the top things you try to get them to focus in on? And obviously when you're selling a business, you should be thinking about doing certain things years before the transaction occurs, so you're sort of walking them back a little bit. But let's go through this.

Mark: Yeah, you're right. It's about planning and intentional planning. So, there's the whole, let's call it tax and accounting aspect to preparing your business. And that revolves primarily around the capital gains exemption, making sure that business owners qualify for that. And not only that they qualify for that, that they could optimize it, whether it's by way of a trust or other mechanisms to optimize their, their capital gains exemption.

And you know, I've been in situations both on the buy side and sell side, where in one case, the seller realized very late in the game that they didn't even qualify for the capital gains exemption. Most of what I see is they're potentially not set up to optimize.

Keith: And essentially this really should be done very early on in a business owner's career when they own the business.

Mark: Absolutely, and there's certain rules in terms of timelines that need to be adhered to qualify. So, getting that proper guidance is key. It really is, and the earlier you could do it, the better. It's just, you'll be more prepared when the time comes.

Keith: For most of the business owners that we work with, all this has been done by the accounting firms they work with well before they typically meet us. And it's just done as they acquire businesses. They're putting in the family trust. They're making sure the structures are sound and essentially making sure that is all in place.



Mark: Yes. And that's key. And some small to medium sized businesses deal with smaller accounting firms that may not have that expertise, and that's typically where I see a gap sometimes later down the line.

Keith: Okay. So, number one, make sure your tax and your accounting and your strategic planning is in place. What other things do you want to make sure that they're looking at?

Mark: The other common thing that I see is dependence, client dependence. Meaning that one or two of their clients represents a majority portion of their revenue and that has a ripple effect. So, I was in a sell side mandate where a client of mine, who was selling their business, had one client that represented 45% of their revenue. Typically, what happens is you're starting a business, you develop a great relationship with a client. That client grows, either by acquisition or by organic growth, and then all of a sudden, they take up a big portion of your revenue. And you may or may not have decided to focus on diversifying and trying to grow your client base. That's typically the storyline that I see.

So, in that instance, a few things happen when an entrepreneur is ready to transact. Number one, not all buyers want to even entertain a business that has such a high client concentration, so the buyer pool will be limited. The second thing that's likely to happen is that all things being equal, a buyer will not pay the same multiple for a business that has, let's say their largest client represents 10% versus this 45%, they're going to pay a lower multiple. So, the valuation will be impacted for the seller.

And then the third thing that I see, which is quite normal in a transaction to structure it, is, you know, instead of a typical transaction where a seller will receive anywhere between 70 to 80% of the purchase price at closing, we may have a structure where it's something like 50% and then the other 50% over a few years to ensure that that major client sticks around. So, you could see the owner just getting penalized in multiple ways in this type of situation.

Keith: That's like an investment philosophy of diversification.

Mark: Yeah. You teach it every day with your clients!

Keith: So, do you remember the book, the E-Myth?

Mark: Yes.

Keith: So, a lot of what was written in the E-Myth was all about preparing entrepreneurs to be working ON their business, and not IN their business. And the on the business meant preparing it for the eventual sale so that they were business wasn't dependent on them. To continue the process and that it wasn't dependent on one or two clients and had processes in place. I'm assuming that you would say all those items that were mentioned in the E-Myth are still totally relevant in today's marketplace.

Mark: Absolutely, a hundred percent. But here's the thing, I could talk to this vantage point, having been in an SME, operational and leadership role. You really have to be intentional. You really have to be intentional with the planning aspect. Because you're running a sprint every day in terms of running a small to medium sized business today in Canada with all of the opportunities and all of the challenges that we face in the marketplace.

So there has to be intent. There has to be intent where you want to take a step back and you want to plan for a successful exit whenever that will happen. But the intention has to be there to do so.

Keith: I like the way you've phrased it as a sprint, because I've never heard it that way, but I actually, I think you're, bang on.



I look at how we've operated our business here and I love, I absolutely adore this business, and it's part of what keeps you coming to work, keeps you young, keeps you vibrant, but we totally believe in everything we're doing. Love helping people.

Mark: Yeah.

Keith: But it's, for me, it's been a sprint. I've been sprinting for 30 years.

Mark: Yeah, absolutely.

Keith: And but, and I still wake up and go like, I'm ready to go. So that's just an aside here, but that means something.

Mark: It's a lot of work. It's a lot of work because typically small to medium sized businesses don't have the resources that larger companies have.

Right. You know, if, if you're working at a large company, you have an IT department, you have an HR department, you have support. Many times, business owners are wearing those hats and many more.

Keith: Yeah, many, many hats.

Mark: Yeah.

Keith: Talk to us about how much time it takes to sell a company. If you're a seller now, how much time should you, I mean, just the planning part, which we're talking about. That can be sometimes 10 years in advance, or five years in advance. But once you start saying, I'm ready to sell, talk to us about how long it might take. Talk to us about the strategic buyers that you might want to identify or what types of buyers, if you're the seller.

So those are sort of two questions.

Mark: Sure. So, some of the data out of the US as well is indicating that eight months is the average. And if I'm looking at Canada, I would say we're, we're probably in that range. So, eight to 12 months I think is right. We have to factor in a couple things though. So, eight months from the moment that business owner is saying, I want to sell my company, and that we have the material ready to go to market.

Once we transact, there's typically a transition period where the buyer would want the seller to remain mostly in a consultative role for a period of time, and typically that's 12 to 18 months. It doesn't mean that the seller is remaining full-time, but they will be available and have to be available for the acquirer.

So, all in, you're looking at two, two and a half years. Perhaps more, before the business owner is completely out of the equation.

Keith: Fair enough. When I look at our clients that have sold businesses, it's about the number of years it takes them from the time they say I'm ready to sell. And most of the business owners we've dealt with have been very structured, very thoughtful, and have spent a decade preparing their business. It takes about two to three years for them to actually get through the transaction.

Mark: So, the clients that I was talking to you about earlier in their late seventies and eighties, from the moment they say yes, they've have to add on those two to three years.

Keith: So, you have to plan for this. What you're saying is plan for those two to three years because you probably see a lot of people excited to get out and then they go, I still have 36 months to go.



Mark: That's exactly it. Yeah.

Keith: And what are the types of profile buyers that sellers could look to? I think there's competitors in the marketplace, there's private equity firms for larger firms.

Mark: So, it really depends. There are pros and cons to each profile of a buyer for a seller. And what I encourage sellers to do earlier on in the process is to understand their criteria. What are their key criteria?

Is it that they want the highest price? That could be one. I meet a lot of business owners that want to maintain the continuity of the business and,

Keith: and if they do that, they probably want to sell internal,

Mark: perhaps. Yeah. So maybe internal is a better fit than perhaps a competitor as well. So, maintaining continuity, whether it be the name, the culture, the team, et cetera.

Others want a quick exit. They don't want to stick around for a 12-to-18-month transition. So, understanding your criteria from the seller's perspective will line you up with who the best purchaser may be. So, circling back to your question, individuals who we've talked extensively about are a profile of a buyer competitor.

So, a direct competitor, all things being equal, would pay a higher price for the business because there are potential synergies on the cost side and on the revenue side. One of the key concerns for sellers is confidentiality. So, if the transaction does not go through, we've now divulged a lot of information to a competitor.

And as well, continuity. So, competitor may come in, change the name, bring in their own culture, may make some staff changes as well, which is very normal. So again, we have to align that with the criteria. Management is another important profile of a potential acquirer. You do have management or management teams that are looking to eventually acquire the business that they're working in.

Banks look at this very favorably because the individual acquiring knows the business very well. Funding could be a challenge. Because these are employees, these are individuals that may not have extensive funds to transact. And then the other thing that I come across quite a bit in these scenarios is just because you're a good employee, good manager doesn't mean you're necessarily going to be a good entrepreneur.

It's two very different profiles. So, there's a lot of, I guess, assessments in terms of whether a manager has what it takes to be a business owner.

Keith: That's actually, it's a great description of all the different buyers, you know, it makes total sense.

Mark: Yeah. There are a couple more Keith as well. Like you mentioned, private equity, and family offices and they're looking at traditionally like larger transactions.

Keith: So, what typical size would you see for a private equity transaction?

Mark: I would say as a platform investment, meaning if they're getting into an industry and they're looking for their first investment, I would say it would be 5 million of EBITDA plus.

And then what they typically do is they go after fragmented industries where they're going to be purchasing smaller companies later on. So those smaller companies could range and they're



Keith: consolidating. That's the consolidation.

Mark: That's exactly it, they're rolling up and creating value that way, absolutely. So, they're more on the larger ticket transactions. Yeah.

Keith: Okay. Do you have a personal preference when you see a seller, can you tell, you know, within a few months of consulting what you think is the best route for them to take?

Mark: We can. By getting to know the entrepreneur we really can. I've got different stories. So, you know, I was representing a seller who's a doctor who owned two medical clinics. Private equity was knocking on our door. We had extensive discussions with private equity. We basically went to the stage of a letter of intent, and the price was amazing. It was even more than what we thought we could get.

But during the process, my client realized that this private equity firm didn't understand the operations of running a clinic. And my client was very focused on patient care, and he didn't want to lose that going forward, even if he wouldn't be involved on in the day to day. And so, we, we eventually pulled up, we pulled out.

It just didn't make sense for us. There are many stories like that where it's almost like the transaction to a certain point, as long as there's a certain threshold of valuation and financial comfort that there has to be an alignment with the values of the entrepreneur in order to line up successfully.

Keith: Well, that's a great point.

Mark: Yeah. Another buyer segment, which we didn't touch upon is family as well. And I think that's the first choice for an entrepreneur in many cases is to try and transition to your family, the next generation. In many cases, the next generations just not interested,

Keith: maybe not interested, and also the founder might realize they have to stay in the business.

Mark: Yeah.

Keith: When I think of those multi-generational family businesses, I think sometimes the founders work till they're 75. You do see that they work right till they're 75, so that the younger generation can mature into 40-year-olds that can grasp the responsibility and manage the business.

Mark: Yes, that's absolutely right.

What I've seen with some success in terms of a model is the, let's call it the children or the next generation going outside to get external experience and then coming back into the business and coming back into the business in a, not necessarily a leadership role, but in a role that allows them to learn the business.

So, when I was in my family business, my stepfather, we were in a manufacturing environment, so he made me do, time studies where I would go around to each manufacturing station and time, how long it took to manufacture different components. I thought it was a very silly job at the time. But what that allowed me to do was to understand the process, and it allowed me to create relationships with employees so that they don't feel threatened, that I'm timing them doing their job. And it allowed me to learn the business and to later on take more of a leadership role.

Keith: Very smart.

Mark: Yeah. At the time I didn't think it was wise.



Keith: Okay, well this has been great, I think we've covered off a lot of the seller side. The last area to just discuss is elaborate a little bit on your experience, what you've seen at the process of the final transaction.

What are the things that you need to be aware of for both buyers and sellers as you get close to that last six months of transaction?

Mark: Absolutely. So. Once we've exchanged information and we've established a value, the next step is a letter of intent, and then we enter into due diligence. So, there's a financial due diligence, an accounting due diligence, a tax, and a legal due diligence whereby acquirers should engage professionals to conduct this. This is quite important in the process. And there's also operational due diligence as well. So, buyers will be looking at HR, sales, IT, etc. Everything in terms of the components of the business. Once we're satisfied with that or during that period, then there's the whole financing component as well.

So, acquirers have to secure the financing necessary to acquire the business. If we were to look at kind of a rule of thumb right now in terms of what I'm seeing for financing, typically we're looking at a 20% investment on behalf of the acquirer, 60% of the transaction being financed by a bank, and then another 20% by way of a balance of sale.

So, the seller actually financing a portion of the transaction, and this is really how acquirers create wealth, is by using leverage. This is a wealth creator for them. If you think about it, they're putting 20% down equity into a business after six, seven or eight years. Once the bank loan is paid off, assuming zero growth, they will have had a multiple of invested capital of five x on their funds, hopefully qualifying for a capital gains exemption as well.

So that's a tremendous wealth multiplier. And that's the opportunity.

Keith: Well, when you add leverage, I mean in all financial models, when you add leverage, you will increase your return.

Mark: Absolutely.

Keith: Your percent return.

Mark: Absolutely. Absolutely. And that's the game here in terms of wealth creation. Once you've got the due diligence and the financing lined up, then you're really running towards the share purchase agreement where the legal teams finalize that binding agreement where you're actually going to transact and become a business owner.

Keith: So, you've mentioned professionals.

Mark: Yes.

Keith: Which of the exact professionals that would traditionally be involved in final stages of a transaction.

Mark: So, in a transaction you may or may not have an M&A advisor such as myself. You'll definitely have the accounting firms involved. For the accounting and tax due diligence, you'll have a law firm involved as well for the legal due diligence as well as drafting the share purchase agreement.

So, at a minimum, and you'll have a bank, typically you'll have a banker as well if there's financing involved. So, at a minimum, that's the core team.



Keith: Okay, perfect. Minimum accountant, lawyer, banker?

Mark: Yes.

Keith: And M&A expert evaluator?

Mark: Yes.

Keith: Four groups? Would be in a traditional transaction?

Mark: Yes. Okay. And then, you know, if in due diligence you want to bring in some HR type professionals or other professionals to dig deeper under the hood type thing, then you integrate them as well into your deal team.

Keith: Perfect. Well, Mark, this has been, so far, a fantastic show. We've covered off a lot, and so much information for both groups, buyers and sellers. We're going to wrap up now. So, we're going to wrap up with your top advice for the buyer and your top advice for the seller. Let's start with your top advice for buyers.

Mark: So, for buyers, I would say really focus and go all in into the process. And that means really being intentional with your efforts to purchase a business. And some buyers are doing this full-time, meaning they've left their job and they're really a hundred percent into this and others are doing this part-time while they're working, regardless of whether it's part-time or full-time.

It's a very competitive market. So, you really have to be intentional and rigorous in terms of what your efforts are to try and transact here. And I would say as well, during that process, try and differentiate yourself. And what do you mean by that? Well, what are some differentiating factors that I've seen that have led to some success?

You know, instead of reaching out to a business owner and asking if they're for sale and, and kind of going through a regular type of discourse with them, why not provide the business owner with something to start. A market study, an analysis, an interesting article about their business or their industry.

Typically, human beings believe in the principle of reciprocity. So, if I'm going to give you something or provide you something with a bit of value, there's a good chance that you're going to provide me with something. And that may not be, hey, you know, buy my business, but it may be, yeah, let, let me spend some time with you.

Or, you know, I'm not interested, but I may have someone within my network. So, coming up with a differentiated approach to reaching out to business owners I think would be great.

Keith: This is your Bishop's experience coming out.

Mark: Yeah, this is the Bishop's experience coming out,

Keith: you know, an incredible school, we both know you were a graduate there at undergrad and an incredible networking. It is powerful alumni and reciprocity is huge.

Mark: It is. Absolutely. On the sell side. I would say begin with the end in mind and let me paint a scenario for you. Wouldn't it be beautiful if a business owner had an idea of what their value of their business was today, what they wanted to exit at in terms of a goal and when they wanted to exit and



there was some sort of value creation plan that we could put together between today and the day that they want to exit.

And we may not get it right. We may not get it a hundred percent right, but the fact that we're intentional about it and we're putting some effort and energy into it. Chances are it'll lead to better results than maybe where they're at right now and give them more visibility. And that would just create value for them, for their business, for their employees, for their community.

So yeah, that would be my core advice to, to sellers.

Keith: Fantastic. What I'm hearing here is a lot of focus.

Mark: It is for both buyers and sellers.

Keith: It is.

Mark: Yeah, it is. And it's not easy. In our today's environment with everything going on. But if you want to reach that goal, whatever it is, whether it's on the buy side or sell side, you really need it.

Keith: That's fantastic. Well, Mark, thank you so much for coming in today. It's great to do this together in the same room. It's a real pleasure for me. And. You're such an expert. You've provided such great visibility for buyers and sellers. Thank you again for coming in and sharing points with our listeners.

Mark: Thank you for having me.

Keith: It's been a blast. Thank you so much. Really enjoyed it. And to our listeners, thank you so much for tuning in, and we'll see you next time. Thanks for listening to The Empowered Investor Podcast, brought to you by Tulett, Matthews & Associates. If you've enjoyed today's episode, be sure to follow or subscribe and share it with somebody who wants to invest with clarity and confidence.

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