Elizabeth Mower:

Hello, this is Elizabeth Mower president of BEI.

John Brown:

And I'm John Brown, the founder of BEI.

Elizabeth Mower:

Each episode we take you into the world of exit planning, sharing the stories, struggles, and opportunities of business owners and their advisors. We'll get into this episode's conversation right after this.

Jared Johnson:

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John Brown:

With me today is Gene Blanton, who surprisingly is not a BEI member, but he really supports our members and I'd like Gene to kind of explain what do you do? And then we'll get into how that fits so perfectly into the whole exit planning process, not just for advisors, but also for the owners who are listening in.

Gene Blanton:

Excellent. Well, John, it's great to be here. Your conference every year is just a wonderful event. You've got just a great quality people that I've met here. John the bottom line is I'm an entrepreneur and there's a lot of definitions there, but I like to say that's a French word, meaning incapable of gainful employment. I've had several companies over the year, kind of the background there. One of the companies that I ran years ago, we had actually matched up 4,000 businesses with 4,000 SBA lenders.

Gene Blanton:

And out of that exchange, we started a growth advisory firm. And my partner is Wade Marrs, and we started five years ago, a growth advisory firm where we had been catching lava, so gray beard, baby boomers about to go to pasture. And any client that we've engaged with over the last five years, if we would engage with them for over 12 months, we've more than doubled their value. And my role here today, what I'm doing, I'm the co-founder of Capitalworks. We're what we call a capital transaction management platform. The whole capital transaction world kind of puts the fun in dysfunction. You've got one side, you've got over a million companies with over a million in revenues from the small to the middle market that are in search of capital. And then for example, right now on the private equity world between private equity, family offices and corporate acquisition groups, there's over $3 trillion looking for homes to land.

Gene Blanton:

And that process in between the due diligence process and the difference in the language between the two entities, the companies and the capital providers, that's what are our process bridges and that it's a due diligence, an analysis, and prescriptive synthesis platform that matches up capital providers with companies that are seeking capital.

John Brown:

From the exit planning perspective, say we have a business owner, she has a business, it's growing. She has maybe an exit date, five or six or seven years in the future. But her growth is being stunted. The businesses growth is being stunted because it doesn't have the capital. And I think that's something a lot of advisors frankly don't really think about. Unless we are in that world that you're in, we're not thinking about that type of need for capital, how do you go in? How does your company go into a business like that? And one maybe you help them grow value, maybe one of your businesses does, but how do you help them determine how much capital they need? And how do you provide that capital?

Gene Blanton:

That's an excellent question. We've got kind of a four step process that we do. They are as advisors, we come in and first do rigorous analysis. We are looking to see all the moving parts. John, we go in with that client, and the first time that we're sitting down with them with an advisory role. We've done a complete industry analysis to see where the industry is overall, what they're doing. Then we'll run a evaluation analysis to see where their value is. And then the fun part is that we run what we call an evaluation gap analysis to where the difference between what the company's worth and what the owner thinks it's worth.

Gene Blanton:

And then we run a complete performance analysis where we're looking at all the issues there, cashflow issues, we're looking at debt capacity, we're looking at the return on the capital that they have within the business. And once we've run a really rigorous analysis, then what we've done that we've systemized now for advisors is analysis is one thing, breaking up the whole into parts. But then to be able to take that and come back with the synthesis of putting together those pieces for a very prescriptive approach. And from that we put together what we call a bold strategy in what we're doing. And then we have specific metrics that we measure the execution. And it's all based, and it's all measured around are you actually growing value in the business?

John Brown:

Can you give me an example, a client or customer scenario where you've gone in and done that?

Gene Blanton:

Yeah. I'll give you an example one I'm going to talk about tomorrow. We had a typical client their debt about 30 million in revenues, an owner about my age, early 60's.

John Brown:

43.

Gene Blanton:

Right, yeah. 43, right. Few years ago, but he had had a health issue, kind of woke up in the hospital. How did I get here? Type thing. And typical business owner and I am an entrepreneur so I've operated like that too. We are fond of saying John, a lot of the business owners we deal with when we first deal with them, if the owner assumed room temperature, nobody would know where the key to the head was. And he was kind of that way, micromanager, et cetera. And we came in and he was trying to decide whether to sell, whether to get capital to grow. He just wanted to know what his options were.

Gene Blanton:

And so when we came in, we analyzed the company and what we found in there, he had three different divisions. And each of those did about 10 million in revenues. And when we talked to him about growing the company and all. He said, well let's grow all three divisions. We said, well, timeout. Let's take a look under the hood. We examined the three divisions, John, and out of about two and a half million EBIDTA of his entire company, he had one division that was producing 2.2 million of that. One division producing about 300,000 of that. The other was losing in every component. And even the one that was kicking off about 300,000. In about 60% of their clients, they were losing money. And guess which division daddy founded and he was the son. There was the emotional attachment to the first division that was commoditized that they were actually losing money on every transaction because he wasn't taking in, although his margins were the same, he wasn't taking in the total cost of execution.

Gene Blanton:

We totally revamped that company with the emphasis on the first division of the company, rebranded their marketing, identified the players, and then grew that company. And within six months we'd added 10 million in revenues with a 50% increase in their actual net profit. And that's what the analysis piece of it will do. We determined in there and with his particular one, because these were longterm clients, had he stayed where he was at, to grow to the next level, he would have had to take on debt to capitalize the growth. Because we revamped it and because of the contract structure in the first division, he was able to grow without any additional capital. We're agnostic, we want to do what's best for the client.

John Brown:

Right, Yeah.

Gene Blanton:

We're not just trying to broker them a loan or a private equity investment.

John Brown:

That's fascinating, so really what an owner can do is maybe they come to you thinking they need that financing.

Gene Blanton:

Mm-hmm (affirmative).

John Brown:

But maybe they don't. And that's the growth, that growth analysis that really you're engaging in.

Gene Blanton:

We always look at the business model. We tell the story. One time my partner was speaking at a printing company or at a convention there of printing companies. And one of the guys spoke up and said, he was upside down on cash flow and all that kind of stuff. And my partner Wade said, well, when they come in and place the order, he said, your competitors doing that. Why don't you just charge them upfront? Oh my clients, they'd never pay up front. He said, just try it. And so the guy started trying it and it just, something as simple as that totally changed their cashflow model. And so debt, bringing in outside capital should always be, not the first thing you look for. Outside capital will not fix a bad business model.

John Brown:

Right.

Gene Blanton:

And that's what advisors need to understand and zero in on first.

John Brown:

What would you recommend to the exit planning advisor world on how to identify a client that might need your services? Both financing and then both the growth model.

Gene Blanton:

Well a couple of things there. I believe and I'm going to share this tomorrow. It comes down to what your definition of entrepreneurship is. Dr. Howard H. Stevenson, who was the point man for entrepreneurship at Harvard. He says that entrepreneurship is not an effect or a particular type of individual. It's a behavior. And so as advisors, John, we're ultimately in the behavior modification business. That's what we're in. And so when are the times that people are really in pain?

Gene Blanton:

Those are the times that we can help change their behavior. Our message to exit advisors is that unlike that exit where they can kick that down the road, I don't want to think about that. If you can engage with them earlier in the process, when they're raising their hand for growth capital, their behavior becomes very compliant. You don't have problems gathering up financials, you don't have problems gathering up the documentation, et cetera there. And a company hits that along different stages, that point we call too big to be small, too small to be big.

John Brown:

Mm-hmm (affirmative).

Gene Blanton:

And those would be the times and they usually experience and usually they've kind of outstripped systems, bless their heart. They've got Aunt Maude who knew how to do quick books and now she's the CFO of the company.

John Brown:

Yeah.

Gene Blanton:

Way underpowered and so they're starting to experience some pain and that's a lot of times John, when the owner is starting to become overweight and this one they're thinking about exiting.

John Brown:

Right.

Gene Blanton:

I just want out from under it. But if you can, as an advisor looking out for the best interest of the client, if you can show them another way, we've seen clients get re-energized, re-engage, take it to a whole nother level and then came back and help them exit further down the road at a much higher price.

John Brown:

And that's great. Let me switch gears and talk about something maybe you don't do, but I think you can give us insight. In a lot of the exit planning we do for inside transfers.

Gene Blanton:

Mm-hmm (affirmative).

John Brown:

Transferring the business to the kids or the management team, we design a slow transfer of ownership to the incoming owners based upon them improving the business.

Gene Blanton:

Right.

John Brown:

In some metric that we can measure. But at the end of the day, we usually have a scenario where that insider has purchased and owns 30 to 40% of the company often. Then part of our model says, okay, now go out and get financing and take the original owner out for the remaining 60% plus of the ownership interest. One, is that a model that is appealing to financial sources, banks and your company? Secondly, when should probably the exit planning advisor, but maybe the owner contact someone like you to see if that financing capability exists in that particular situation?

Gene Blanton:

Well to answer your question, one of the things that we do, we're really targeting CPAs because they already have the financials, they know it. One of the things that we run there, John. One, the analysis that we run is a debt capacity analysis. And just like we saw in one of your M&A sessions this morning, many times entrepreneurs leave too much capital in the business. Maybe they're under-capitalized, et cetera. But we know what the debt capacity is based on the banks, all these 13,000 capital providers that we have based on their criteria and their input. An answer to your question, the earlier, the better. To find out what's there and banks do like that. More and more entrepreneurs are deciding that's... What you described is what we call our legacy value. In essence, it's not do I die at my desk, our sell totally out if I've got a good team and can share the wealth and grow on up to the next level.

Gene Blanton:

But yes, the metrics are there and then one of the things that we do that the banks love and want to see on that is an overall governance process once that's done. I'll give you a quick example.

John Brown:

Yeah and talk to me about what that governance process is?

Gene Blanton:

Well the governance process in this example that I'm telling you here, the in-law father owned the company, son-in-law came and worked for him. And the young guy that worked for him just grew the value of the company. Had no equity in it, no anything. And dad was a wild man and would come in and say, write me a check for 100,000 to the young guy that had run the company and he'd say, you know dad, we don't have. I don't care, write the check. And so anyway, it was one of those deals where we went in and help them structure where the young guy had a minority stake in the company.

Gene Blanton:

But the governance was this, we put it in the operating agreement that how distributions were going to be done and certain levels like you talked about before, performance hit before everybody profits off of them. And when dad, when you take a distribution, son-in-law gets his portion of the distribution and all that. And then what we did, put in the operating agreement that we did a third party, in this case, a CPA who signed off to be what we call a capital steward. And they had the governance process in place to make that minority stake work. And the banks loved that and were able to lever on that because they now had a very structured way. And that's one of the things that we're really looking to do is free up private capital with the governance component and because the what we use there, John.

Gene Blanton:

They are all standardized financials, kind of like Edgar does for the big boy wall street market, our platform does the same thing. Everybody's financials look exactly the same and so you can measure the metrics a lot better. That's how we put that in place. That's a bigger and bigger option that's out there growing more and more. I applaud you guys for training your guys in BEI here on doing that because I think you'll see more and more of that option coming up in the years to come.

John Brown:

I can really see how our planning leading to an exit reaches a point where working with you makes a lot of sense. I mean it doesn't in the very early years.

Gene Blanton:

Mm-hmm (affirmative).

John Brown:

When we're not even talking about getting financing early.

Gene Blanton:

Sure.

John Brown:

We have to build a structure first or start to build it. And then you're able to come in and in our world complete the process.

Gene Blanton:

Well very much, and the thing is too. Along that way and if advisors are known for being able to able to point somebody here and say here's a source of capital.

John Brown:

Right.

Gene Blanton:

That's going to fund this and all, it is a difference, a change. We've been there as investment bankers because it's one thing to address a group of folks and say how many of you guys want exit planning? How many guys want to sell your company? Versus how many of you need capital? And the whole relationship and the thing I love about what BEI does. John, the way that you stress building that relationship with that client and the other advisors and if you catch him early enough in the game and you were responsible or pointed them to and they were able to get 5 million in financing because of their relationship with you, that builds a lot of trust.

John Brown:

Yeah.

Gene Blanton:

And it goes a long way.

John Brown:

That's great.

Gene Blanton:

Yeah.

John Brown:

That's wonderful. Anything else you wanted to add?

Gene Blanton:

Well, I just appreciate the opportunity to be here, met some outstanding people, just the folks here are ultimate professionals and I love just the caring and the sharing. Nobody's running around doing what I called the chihuahua's syndrome, hiking their leg, marking their spot.

John Brown:

Yeah.

Gene Blanton:

Everybody, John is interacting and sharing with everybody. From 2003 when I first came through your bootcamp years ago to now. I just applaud you as an entrepreneur.

John Brown:

Thank you.

Gene Blanton:

And as a passionate evangelist and a real pioneer in this area. I just applaud you for what you've got done over the last 16 years as a fellow entrepreneur. I have a lot of respect for that.

John Brown:

Well Thank you very much. It's been a lot of fun and at the end of the day, that's why we plan.

Elizabeth Mower:

Thanks for listening. Join us for our next episode. For more content like this, please visit exitplanning.com.