Announcer (5s):

Welcome to the Maximize Business Value podcast. This podcast is brought to you by Mastery Partners, where our mission is to equip business owners to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which fuels our desire to share our experiences and wisdom so you can succeed. Now, here's your host, the CEO of Mastery Partners, Tom Bronson!

Tom Bronson (36s):

Hi, this is Tom Bronson and welcome to maximize business value of podcast for business owners who are passionate about building long-term sustainable value in their businesses. This episode is part of our series called tales from the 17% club. As though we said over and over again, a full 83% of attempted business transitions, fail to reach the finish line, meaning that only 17% are successful. In this series. We interview people who have successfully sold their businesses (we call them the 17% club) to learn more about the process, and hear some interesting stories along the way.

Tom Bronson (1m 16s):

Today will not disappoint. So in this episode, I'd like to welcome our guest, Mitch Felderhoff, president of Muenster Milling Company, a fourth generation dog food manufacturer in Texas. I met Mitch through biz owners, ed, the North Texas, nonprofit that provides mentorship and education for business owners. Now you might wonder why a fourth generation business owner is on our 17% club podcast, where we interview business owners who have successfully transitioned their business. Well, this is going to be one that is going to be one of those very unusual stories. That includes not one but two business transitions and an owner who ate his own dog food for a month.

Tom Bronson (2m 2s):

So stick around. This is going to be a fun ride. Welcome to Maximize Business Value, Mitch.

Mitch Felderhoff (2m 9s):

Thanks for having me. I'm excited to be here.

Tom Bronson (2m 11s):

Awesome. So give us a little background on Muenster Milling Company, the business that you and your brother bought from your parents in 2015 and then sold.

Mitch Felderhoff (2m 22s):

Yeah, so it must have a million nobody's been around for 90 years. This April B nine decades. My great-grandfather, he was a sharecropper died during the great depression and a lot of the local farmers needed a place to take the grain and thought he was a great worker and decided to borrow him the money to finance his operations so that he could put a flour mill in about five years after putting the flour mill in, he realized he could drive to Kansas and get the flour cheaper and bring it back then what he could mill it for himself. So he converted this facility into a livestock feed mill, and we made a lot of dairy feed for the next, probably to 50 years. And then when the dairy consolidation took place in the industry and the cheese plants went so Wisconsin and California, because at the time Munster had a small cheese plant.

Mitch Felderhoff (3m 12s):
And so we sold the dairy feed to the dairies. They brought the milk to town made cheese. It was just a circle that worked well for everyone. When that left, we started making a lot of CA actually we switched to horse feeding, new feed, anything that we could make. So my dad put an extruder in, in 1990, which is what makes a conventional pet food kibble that you see, wasn't really a customer base there. We just put it in to do something different. We got a lot better at it. And probably the early two thousands. I joined the business in 2007 was only in the state for a short time, had some success, excuse me, decided that we wanted to scale the business and then convinced my brother to come back and join me so that we could try and take it to the next level.

Tom Bronson (4m 2s):
Wow. That is quite a long, a long history. Just about to celebrate the 90th anniversary. That is amazing. Now your, your father is still around as your grandfather still around

Mitch Felderhoff (4m 15s):
Now. My grandfather, unfortunately he passed probably about five or six years ago. Dad is still around. He is just no longer in the business.

Tom Bronson (4m 24s):
No. Got that. So, well, let's talk about that though. Let's talk about that kind of that first transition, buying your parents out, what participant, what precipitated that transaction and how did you pull it off?

Mitch Felderhoff (4m 38s):
Well, you know, working for your parents is a unique dynamic in itself.

Tom Bronson (4m 44s):
I've done it, I've done it myself before. In fact, I have the dubious distinction of being fired by my father place. So

Mitch Felderhoff (4m 53s):
I think they probably told me that three or four times, I just never listened, but yet they brought me in essentially that when they hired me, it was to bring change to the business and modernize it and turn over some new pages. At the end of the day, they didn't agree with all those, but they, they could see that the business needed. Some of it. My dad had turned 58 and was tired of borrowing money and being in debt and the changes that I wanted to make required additional debt. And so we wanted to get into the free stride

category, which is kind of the highest tier of premium that you can get in pet food. And he didn't really want anything to do with it because every machine costs a million bucks and we were going to need quite a few of them to ramp the business up.

Mitch Felderhoff (5m 40s):
And so he said, you can do it, but not with my money and if you want it, and then you're going to have to buy it. So I'm tired of being in debt and I'm tired of working so hard. And if, if again, if you want to do it, you can just not with my money.

Tom Bronson (5m 57s):
Wow. Wow. So, so it was okay with you making the changes, but he wanted you to buy him out. So as is he the guy that came up with the idea to actually buy you, buy your parents out?

Mitch Felderhoff (6m 10s):
No, it was, that was actually me because in a family type setting like that, your dad says that in the business, that doesn't necessarily mean he's ready. And so I came back the next week thinking, okay, let's, let's hammer this out. And he's like, well, I wasn't really serious. Like you really want to buy it, which set off a whole new chain of events and discussions. And eventually I had some great friends and mentors that helped me say, Hey, here's, here's the best way to approach it. Ironically, after meeting with them, walked into the office one day and there were some private equity guys getting into her,

Tom Bronson (6m 47s):
Really. So your dad had already talked with some private equity folks about just selling the business outright.

Mitch Felderhoff (6m 53s):
He took a call between that conversation and the few weeks that I went and consulted with some mentors and came back in and they were getting a tour and I sat down and had a nice discussion with them. And they were interviewing me for a sales position for the new company and interviewing my brother to run operations. They had several other facilities somewhere that did some more functions to what we did and wanted to give us both a role on that. And we just, we declined and said, no, that's, we're not, we don't want to continue working for someone else. We were trying to build our own thing here.

Tom Bronson (7m 28s):
And that was, that was you and your brother, you were both unified in that position.

Mitch Felderhoff (7m 32s):
Absolutely. Yeah. Cause he had spent probably seven or eight years prior working for Gavalon, which is a similar to like a con Agrifoods. And he had bounced around a lot and, and he had played that game already.

Tom Bronson (7m 48s):

So was that a total surprise when you walked in and private equity, was there taking a tour?

Mitch Felderhoff (7m 54s):

It was pretty surprising. Yeah, we were, we were taken back for sure. Especially with that warning on it, but it was also a good sign that he's, he is ready to move and then he is starting to take action. So we weren't, we didn't take it personal. We just kind of looked at it as a more of a green light to press harder.

Tom Bronson (8m 14s):

What a, what a great lesson to share with other family business folks that might be listening to this podcast that, that it's not a, it's not a personal thing. It is business, right? It's part of your family, but it is business and you took it exactly the right way. This is now a clear sign that dad's ready to go. If he's entertaining private equity, and then you took matters into your own hands. So the private equity make an offer and did you have to compete against them to get the business?

Mitch Felderhoff (8m 48s):

So I, I don't know that they made a formal offer, but they gave an indication of here's where they would probably fall. Those numbers are always really a gray area.

Tom Bronson (9m 1s):

You said that, right? Yes.

Mitch Felderhoff (9m 5s):

But, but the dad took it as truth and kind of said, here's the bar and here's where it needs to be because this is what I'd be willing to take from them. So this is what it would be from you.

Tom Bronson (9m 16s):

Wow. Wow. Even taking the indication of interest, you, you might've saved some money match if you'd have gone and had them go all the way through due diligence, because just for the education of our, of our audience, typically when offers come in and don't get me wrong, I'm not disparaging private equity. They're in a very important part of the M and a ecosystem for sure, but they'll make an indication of interest and they almost always give you a range right. At somewhere between this and that. And the number that business owners always here is the top number. Let's say it's a range of 25 to 30 million. So, so I hear 30 million, but the re, but the number that they really intended me to hear was 25.

Tom Bronson (9m 59s):

And by the way, that's the ceiling. That's, you know, it's never going to go over 25 after they go through due diligence and all of that, that takes that down. So perhaps you could have saved a little money if you'd have said, ah, just go ahead and take it through to diligence then, and see. So, so you came in, then you and your brother came in with an offer and that kind of set the bar. And so, so sort of a, would you call it a friendly transaction? And did you guys did each side, even though it was your parents, there are two sides to this coin, right? You're the buyer, they're the seller. Did you each have legal representation?

Mitch Felderhoff (10m 39s):
We did. Yeah. So we hired a merger acquisition attorney. We hired David hammer and, and worked with him and he was, he was great. And it was probably an unconventional process because there wasn't a due diligence. It was, here's the number that you have to hit find a way to do it. And so we worked with some asset lenders and David helped us get creative on employment agreements and stock options to hit the number. And it was one of those, this is the number or it's not happening. And so David helped us put it together in a way that protected both sides.

Mitch Felderhoff (11m 18s):
The legal side of it was great because it just, they kept everything black and white and pull the emotion out. And the, as far as how friendly was it, there was no ill will on either side. There was just, he had a line in the sand that just basically nothing crossed. So we made lots of concessions. We did not do due diligence. So we just had to trust that everything is what was said. Sorry, I gotta one second. Yeah, we had to trust

Tom Bronson (11m 57s):
The light, went out,

Mitch Felderhoff (11m 58s):
Went out. We just had to trust that everything was fact. And when you're doing inventory, not in the most modernized way, there was, there were risks there that we just had to assume. There was no escrow and true up on working capital. It just was what it was at closing. And so overall it probably took us close to nine months just to get to the point from the initial conversation to where papers were drafted. We drafted the original paperwork and it was 10 or 12. That was like 56 pages. And my dad just said, I'm not reading this and definitely not signing it. It needs to fit on 12 pages or it doesn't happen.

Tom Bronson (12m 41s):
Yeah. Well, your, your definitive agreement was 56 pages and your dad said, they'd only read 12.

Mitch Felderhoff (12m 47s):
Yes. And so we fit it all on 12 and

Tom Bronson (12m 53s):
What'd you like reduce it to three point type or something?

Mitch Felderhoff (12m 57s):

Well, unfortunately, David just said, guys, I don't like it. We'll do it. Here's the risk that you're assuming, not me. And there will be 12 pages, but page 13 will be the signature pages and that's the way it's going to be.

Tom Bronson (13m 14s):
Wow. Wow. Now, so our audience is already familiar with David hammer a few weeks ago. He did two podcasts and it's the same presentation that he gives it. Biz owners said that, that we spread over two podcasts so he can give a little bit more detail. He is absolutely one of the best M and a attorneys. I know, but also understands the whole taxation issue because he's a CPA. And so yeah, if hammer says, okay, that's a sign of a good attorney. You guys make the business decision, but let me just tell you where the risks are. Right. And then it's your decision to make, it's not my risk. It's your risk. As long as you walk in with eyes wide open.

Tom Bronson (13m 54s):
So apparently the risk was reasonable enough where you guys walked in and said, okay, we're doing this.

Mitch Felderhoff (14m 1s):
Yeah. I mean, look, we were, we were both young. I was, I was 30 years old at the time, maybe even 29 when we did the deal and my brother was 33. So we figured if we're going to screw up, let's do it early. And, and we'd also learned that if you owe someone a thousand bucks, you have a problem. If you owe someone several million, they have a problem.

Tom Bronson (14m 22s):
Yes. I remember writing that down from your interview at business owners, ed, that's one of my favorite quotes from you that if you owe somebody a thousand bucks, you have a problem. If you a few million dollars, they have a problem. I love that quote.

Mitch Felderhoff (14m 37s):
Yeah, Absolutely.

Tom Bronson (14m 40s):
So once it played out, you guys did the closing. Let's just talk about closing day. Was it emotional for you and your parents or was it just here? We're closed and off we go

Mitch Felderhoff (14m 51s):
Was, it was more of a check the box transactional. There was, I think there was more emotional struggle on their end because, you know, they said they wanted to do the deal. And then there was, there was a struggle getting through all of the details of how the deal would work. What would, how do you come to the price and what is life after the deal, like in the relationship from a business standpoint? So there were a lot of contingent moments that, that did make it difficult. And then on, on closing, when you've done something for

40 or 50 years, like my parents had that it became their identity. And so they didn't really have a plan for what happens after and what happens when, because they didn't buy my grandparents out, probably in some of my grandparents were in their eighties.

Mitch Felderhoff (15m 39s):
It, it was quite a ways off. So I don't think they envisioned everything happening as quickly as it did, which is great for them because they, they got paid a lot quicker as opposed to having to wait another 20 or 30 years for it. And it just, it happened quickly. And there was, there was a little bit of resentment on their end. I think that it did happen. So they are, it took some time for them to work through that. So it was kind of felt like there was some holding the nose as you signed the paper, almost like, well, I said I was going to do it and I committed to it. We went through the process and now I actually have to sign the papers.

Tom Bronson (16m 19s):
Yeah. I know. Same kind of day. My dad sold his business when he was 55 years old and, and really didn't know what he was going to do next. In fact, I write about that in my book, I call that act three. Right. You know, act one is our youth when we're young and stupid and then act two is kind of the earning and family years and act three is what's next right after that. And it makes it very difficult to do that. Your dad was you say 58 when this transaction happened or 59?

Mitch Felderhoff (16m 49s):
Yep. Yep. 58 59.

Tom Bronson (16m 51s):
Yeah. So, so that's, that's tough if you don't know what to do. And that's one of the things that we spend a lot of time with our clients talking about what does act three look like? You know, when I ask a business owner, what are you going to do when you don't have to come to the office every day? And if the answer is I'll just play golf, then I have to hire B R or holler BS on that because you can only play so much golf and then you get bored with it because you want some value in your life. And so that I'll bet that was a struggle for them. Maybe, maybe I'll have them as a guest on this podcast to talk about that at some point. So, so you got through the transaction and it, it finally played out.

Tom Bronson (17m 36s):
Were you able to actually make the changes and get the money that you needed to modernize the business? And if so, what was the result?

Mitch Felderhoff (17m 42s):
Yeah, so we, we did, we did well at first, we got a, a line of credit. We had a great banker that we worked with locally that worked at a land bank. Chad and I played football with him in high school. And he had been trying to work with us for a while. So he was very instrumental in helping us put the program together. His

name's Craig Hartman and, and works with Lonestar ag bank and was just a tremendous individual and set us up with a line of credit to go along with the debt purchase. Because if you don't have a line of credit and no cash you're in trouble. So it, it was awesome. We made a lot of changes day, one that we had wanted to make from a pricing standpoint, how we manage the inventory and just who we were purchasing things from.

Mitch Felderhoff (18m 30s):
And so it, it led to some immediate success. And in that first year, we, we had just a fantastic year where we, we, I think we increased our, increased our margin by close to 50%. So making a lot of the changes that we wanted to, and ended up doubling our profits for the year, which

Tom Bronson (18m 51s):
It's still share your financials with your parents. And did they go, wow, maybe we should have made these changes.

Mitch Felderhoff (18m 56s):
Well, they were. So they were still there for, for a while. Part of the deal with dad was he didn't have to give his office up for two years because he didn't know what he was going to do, but he knew he wanted to come in. And I was probably one of the most notorious chain, email forwarders in the country. He, he would just forward email chains, nonstop with jokes and political statements and had lots of hot opinions. And so they were able to see the numbers coming through and, and it, it actually probably stung them a little bit more than it made them celebrate at first

Tom Bronson (19m 32s):
Well, I'm sure at the end of the day, they realize how proud they are of, of you guys doing that. You know, when my brother and I have similar situation, my brother and I worked for, for our father and we would bring him ideas and things. My dad, unlike your situation that you described his answer, his stock answer was always, well, why don't you give it a try? And we didn't learn until way down the road after he sold the business that, that used to make him angry because the things, the ideas that we had and the stuff that we were bringing to the table were ideas that he'd had on his own years before, but tried to pull them off and couldn't make it work.

Tom Bronson (20m 15s):
And then we worked and then we figured out how to pull off the things, you know? And so he would just say, you know, give it a try. And he said, they used to piss me off that you guys would be able to do the things that I couldn't do, but I couldn't be prouder. Right. Have you guys ability to be able to do that. So that is an interesting kind of dynamic. You just brought back a flood of memories about that with my then unfortunately my dad passed three years after he sold the business. And so he's been gone for now 22 years or 20. Yeah. Coming up on 23 years, I guess. So we're coming up on a break, but before we do break a couple of quick questions, let's tease the audience with a little bit about your second transition.

Tom Bronson (20m 59s):

What made you decide to sell the business not long after you and your brother bought it?

Mitch Felderhoff (21m 5s):

Well, it wasn't long, but it felt like 90 years We had, we, we essentially created a new vertical and category within the business and we borrowed heavily against it. So we reinvested every penny we ever made from the company continued to go straight into the business. And so we were heavily leveraged and we got to the point to where, you know, borrowing a million dollars at a time was no longer feasible to help continue the growth where it needed to be. And when you need to take bigger chunks and build new buildings and new facilities. And so we were at a point to where it was either sit here for the next five to eight years, save every penny you make so that you can reinvest it in five to eight years and hope that the market doesn't pass you by or get aggressive and go find, you know, professional money now to build the facilities that you want to build and build the program and the business that you really want to build.

Mitch Felderhoff (22m 0s):

Because we had, we had watched the business get past, you know, all three generations got passed. At some point, my great-grandfather got passed by people that could do flour better and cheaper. My grandfather got passed because the industry consolidated and moved out of his reach. And, and my dad got passed on the natural pet food because we didn't put more extruders in and have more space. And we just, we didn't want to get passed again. So we had, we had started something really, really strong, and we wanted to continue to leverage that and we didn't have the resources we needed without bringing help in

Tom Bronson (22m 33s):

That is wildly insightful about your own business and kind of thinking about the historical lessons that led you to that decision. So how long was it after you bought out the business that you started thinking about, then finding additional capital to grow this? I don't even know what the time span was.

Mitch Felderhoff (22m 53s):

It was about two years after because we actually, we actually tried and settled on an expansion opportunity up here in Gainesville. We tried to do a $30 million expansion through an opportunity zone, and we actually made it almost to the finish line. We were about a month away from signing and the steel tariffs went into effect and the price is still went up about $3.5 million for the project. And we called the bank and said, Hey, there's been an adjustment from the bid on the contractor. We're going to need an extra three and a half million dollars on this project. And they said, no problem. Just bring cash to make up the difference which we did not have.

Mitch Felderhoff (23m 34s):

And so when, when we, when we hit that mark and realized we, we were about to risk everything we had and probably be within like 5% of budget as an expectation. And after seeing that we would been, you know, 10% short, it was a realization that we needed there grow something that we could get other people to believe in and put real money behind.

Tom Bronson (23m 56s):
Oh, so you made the decision to go find some professional money. How long did that process take from the decision to say, okay, we're going to go find some new money until you actually closed a transaction.

Mitch Felderhoff (24m 10s):
So that was in early, like late 2017 that we kind of had that epiphany. And, but we knew we had to build something worth investing in for someone to come put the capital behind. So we bought our first small lab free Schrier, like $3,500 on black Friday. I think we spent six months trying to figure out how to use it in our office. We decided that we believed in it and we ordered our first freeze dryer. And I think April of 2018, and then 2020 hit COVID hit. We had just ordered two more right before COVID and we got a call from the manufacturer and said, Hey, if you guys don't want to continue, if you don't want to accept these free showers, I've got other people that'll buy them.

Mitch Felderhoff (24m 60s):
And we just said, now we're either going to, we're going to get this over with quickly, or we're going to be awesome. And we went on ahead and continued. And once those two machines came and the capacity was spoken for, we knew that we were on the train to having to find more capital.

Tom Bronson (25m 17s):
Oh, that's awesome. That's, that's a smart play, you know, COVID how did it impact your business? I'm guessing that that probably not a dramatic downside effect, like you would find in a restaurant, for example, I mean, people still have pets and they wanted to take care of their pets. How did COVID impact you guys?

Mitch Felderhoff (25m 38s):
So we, we grew by about 30% in 2020. It was a, it was a big year for us because pet adoptions went through the roof. Everyone was second home and wanted a friend. And so the pet category alone, if you didn't grow by 15%, you went backwards. And it was a really tough year from a labor standpoint and supply chain and still fighting through that. But, you know, we had weeks where we were 25% staffed and orders were up, you know, 150% and in the category. So just muscling through that, you know, Chad was spending 70 hours a week at the plant just trying to get product out.

Tom Bronson (26m 17s):
Wow. And that's when you say, Hey dad, I know you can do it near retirement, come on over here and run these machines.

Mitch Felderhoff (26m 23s):

We've thought about it.

Tom Bronson (26m 25s):

No doubt. Now, did you have a transition team for this process, attorney CPAs? Any of that?

Mitch Felderhoff (26m 32s):

We did Chad and I did the most of the heavy lifting. So we didn't bring an advisor on until the very last second it was, we were having nothing but casual with a couple of the private equity groups that we'd talked to for a couple of years. And then one of them put a number on a piece of paper and it escalated quickly. And I got a call from another one. I'm like, Hey, I think we're in a process officially. Not really sure how it happened, but I've got something I'm, I'm interested in signing. And so within probably a month we had four or five and that's when we called color mentors again and said, Hey, Jay, David, what do we need to do?

Mitch Felderhoff (27m 17s):

And that's when I, they recommended, Hey, I would, I would bring an advisor on to help facilitate the transaction. And if you already know what you're doing and you like to deal, and you like who you're working with, that's fine. And we turned down, you know, a much bigger number than we took, ultimately, just because we wanted to work with the people that we're working with. And, and David hammer did the majority of the heavy lifting for us as, as our tax attorney and M and a attorney. But yeah, it was due diligence stuff. Landed on Chad and I

Tom Bronson (27m 49s):

I'm, I'm curious, it occurs to me that you took cotton private equity money. Was this the same private equity firm that your dad was showing around when you arrived? That was years before

Mitch Felderhoff (27m 59s):

It is not? No,

Tom Bronson (28m 1s):

That would have been the irony of all ironies.

Mitch Felderhoff (28m 3s):

It would have been, it would have been there. They're probably great people too.

Tom Bronson (28m 7s):

So, so how did your parents react to this second transaction?

Mitch Felderhoff (28m 11s):

They were a little bit surprised, but overall I think they were happy. It's the first time now in 90 years that our family hadn't been in debt to the same facility. So there's, they know what it's like to carry that weight around. And I think they were happy to see us accomplish it. And it's, it's been good for the community. We've added close to 50 jobs since we purchased the business and, and take pretty good care of everyone. So I think it's been a good thing.

Tom Bronson (28m 42s):
That's awesome. That's awesome. We're talking with Mitch Felder, Hoff member of the 17% club. Let's take a quick break. We'll be back in 30 seconds.

Announcer (28m 54s):
Every business will eventually transition some internet employees and managers, and some external needs to third party buyers, mastery partners, equips business owners to maximize business value so they can transition their businesses on their terms. Using our four step process. We start with a snapshot of where your business is today. Then we help you understand the way you want to be and design a custom strategy to get you there. Next, we help you execute that strategy with the assistance of our amazing resource network. And ultimately there'll be able to transition your business on your terms. What are you waiting for more time, more revenue, if you want to maximize your business value, it takes time.

Announcer (29m 35s):
Now is that time get started today by checking us out@wwwdotmasterydotcomoremailusatinfoatmasterypodcast.com.

Tom Bronson (29m 48s):
We're back with Mitch Felder Hoff, a business owner who's successfully bought and then sold his business. So Mitch, let's talk about the due diligence process you didn't have. You mentioned in the first half that you really didn't have a due diligence process in the first transaction where you bought your parents out. It was basically a take it or leave it right here. It is. And you're taking the risk. What about due diligence on the second transaction? I'm assuming that your private equity firm did a pretty extensive due diligence.

Mitch Felderhoff (30m 20s):
They did. It was, it was very painful. I I've, I haven't turned 40 yet, so I haven't gone for that appointment, but I've got to assume it's out like that. We, you know, going through the initial conversations with, with the private equity guys and getting the letter of intent, it's all exciting and it's all fun. And it's forward looking at here's what great looks like. And when the due diligence request comes across, I don't know that I've ever seen such a large list of paperwork needed to make something happen. And I honestly, I scrolled through it and gotten a little bit overwhelmed and just said, we're going to look at that tomorrow.

Mitch Felderhoff (31m 2s):

Because once I, once I opened this can like, it's, it's not going to stop the work won't stop. And so I just went and told the wife, I said, Hey, we're going to hang out tonight and have a family night, but you probably won't see me for the next 60 to 90 days because I've, I've not seen a homework list quite like that one in there. And the business was still going through the hyper-growth phase two.

Tom Bronson (31m 26s):
Yeah. It's tough to manage a business and manage a process like that. And due diligence. Did you have anybody inside of the near brother that you could kind of shove some of these responsibilities to so that you could just kind of manage it and manage the business?

Mitch Felderhoff (31m 41s):
We did, but we were, you know, we're already running kind of lean. We brought a fractional CFO in, and then we had, and then house accounting team and they were helpful. So they could run the reports, pull the reports, but we were, we had just made an ERP change about two years prior and still working out some of the kinks on that. So as we would go to pool reports for the last 2, 3, 5 years, a lot of the numbers didn't add up. And so we had to go through and say, okay, okay. I remember what happened in 2014, it was this. And here's why there was an inventory adjustment here because we were matching ERP systems up.

Mitch Felderhoff (32m 21s):
And it w we changed item, number descriptions and methodologies for tracking cells. And so you would see a giant drop-off in 2017, and we couldn't figure out why it was because we changed the way those items were coded. And, and you have a 90 year old building a of them that you find yourself in storage, closets, digging through boxes that haven't been opened in 30 years, looking for title policies. And you're going to every lawyer and title company in the county. Do you have any records of Munster Milling Company from I've got all the way back to 1956, but I can't find anything before that. And we've got to validate that verify there's no liens and it was a major, major process.

Tom Bronson (33m 8s):
I bet. So, so, so were you bang on, was that 60 to 90 days that it took to get through the due diligence?

Mitch Felderhoff (33m 16s):
Yeah, we, we started the dude. I think we signed the letter of intent on May 25th, and we got the deal done on August 10th. So,

Tom Bronson (33m 26s):
All right. So I got to tell you that is pretty impressive, right? I mean, they, they don't always run that quickly. You guys must have really been hammering it out. You know, there's an old saying that my mom used to say to me when I was getting my license speed kills son, in other words, drive a little bit slower. Well, the same thing applies in M and a transaction speed kills, but it means exactly the opposite. If you, if you drag on and

due diligence drags on for a long time, it tends to kill a deal. And so I'll be honest with you signing a LOI in may and closing in August. That's pretty quick. And that's impressive, especially with a long list of requirements.

Tom Bronson (34m 10s):
I never ceased to be amazed at the business owners who get that list and are overwhelmed with the work. I think you did a very brilliant thing by saying, I'll open this tomorrow. Let me go home now and spend some time with my family, because I won't be back in every due diligence process that I've been through. Even though I've had teams of folks to help me in those things, it's basically Saturdays and Sundays, you have to run the business, right? So you're working at night on the due diligence and Saturdays and Sundays and, and trying to get it done. And because otherwise the business can fall apart while you're focused on this transaction.

Tom Bronson (34m 50s):
And so, so I applaud you for doing that one, one other comment, you know, private equity firms and, and other strategic buyers typically employ data analysts, right? I mean, they can rip apart a spreadsheet faster than anybody on the planet. And it's really in your best interest to fi to hire somebody on your side the same way in my last transaction, which was one of the larger transactions I've done. When I sold a business to a large, publicly traded Canadian company, I actually hired a daily data analyst on my staff to run the numbers and process all of the data, same situation like you.

Tom Bronson (35m 33s):
We had two old data sets and trying to pull the numbers together and do we match these numbers with those numbers? And so I hired somebody on my side to do all that work, which made the whole process go that much easier. So once you got through the whole due diligence process that it add or take away value from the business,

Mitch Felderhoff (35m 56s):
It actually didn't change anything. So that was one of the questions we asked them during the interview process was I said, okay, if we, if we sign a letter of intent here for this number, give me a realistic number of, of where you guys see this fall falling. And they just said, well, you know, look, our, our intent is to stay at that number. That's, that's what we feel the businesses worth. And that's what we feel like a fair price is. Our goal is not to beat you up through the, through the process. And, and they didn't at all. They were actually very, very generous to us from a, I would guess patients' aspect.

Mitch Felderhoff (36m 39s):
And from, from the data portion of it, you know, as you mentioned, you sent a spreadsheet, it's coming back within 45 minutes with 35 questions of this. Doesn't add up to me and I would call them,

Tom Bronson (36m 53s):
You answer one question and it spurs 35 more.

Mitch Felderhoff (36m 57s):
Yeah. That's what I would call. And just say, guys, I'm a dog food salesman. I'm doing the best I can with Excel. Here's here's the answers I have. But ultimately, you know, it was, there was a competitive bidding process. So they did want it because there was, there were backup options for us, if it didn't work. And they knew that, and we're trying to grow the market fast. So there was a gold, the faster we could get through the deal, the faster we could order more units and build a new facility,

Tom Bronson (37m 28s):
Right? I like that. Now, nearly every private equity will tell you that that no, it's not our intent to be job, but too many times the due diligence process is designed for nothing more than to beat up the purchase price, right? Lower the price, figure out a way to be able to do that. You guys, we're very fortunate in that, that you didn't wind up with that kind of a conversation. Cause that's what I call due diligence due diligence is nothing more than, yes, they need to verify with their mind, but nothing more than an exercise to find ways to lower the purchase price. And it sounds like you guys came away totally unscathed at the end of due diligence process is what we typically arrive at what I call the, in what we call in the industry, the retrade conversation come back and they'll give you a list of things that they've found, and this is why we need to reduce the price.

Tom Bronson (38m 21s):
But it sounds like you didn't, you never had that retrade conversation. Then

Mitch Felderhoff (38m 26s):
We, we never did. I think part of it, we didn't hire a banker ahead of time. And so we were nothing but transparent the whole time. We didn't try and fluff any numbers on, Hey, here's where we really are. Here's hidden profit. We didn't give adjusted EBITDA numbers. We just said, here's what the business is. And here's what we're doing. And we're being truthful about it. And you can trust, like you can verify it. And they did. And Zane Terrance represented us from the investment banking side. And so, you know, he had a couple of conversations with some of those guys. They weren't coached up to add anything here.

Mitch Felderhoff (39m 6s):
You know, this is what it is. This is where the business is. And it's, that's, that's where they are. And you know, they accepted that. And then they verified it and said, yeah, you know what? We agree. Everything is good. They didn't, you know, they could have beat us up if they want to do. They could have found some, some ways to say, Hey, this right here, we can deem you. We can do new here. And they didn't do it.

Tom Bronson (39m 30s):

Good for you on that. I, I gotta tell you, that's one of the things that I advise our clients all the time, as, as our audience already knows, we help business owners prepare their business for transition. And, and while you're right, there are many investment bankers or brokers that will try to kind of Polish the truth a little bit. You know, sometimes it's polishing a turd, but we say, give the unvarnished truth, right? If you, if you know where the skeletons are, if you know where the challenges are, identify that stuff right up front. Because if you do disclose that in advance and they can never come back to you and lower the purchase price, because you are trying to hide something from them.

Tom Bronson (40m 20s):
Right? So I've always said that. And I love that, that you guys took that approach. It sounded innocently because you didn't, you hadn't been coached up by an investment banker or a business broker. But I think that that is to me, the very, the right approach. And it's the same approach that I've always taken. So you're not, you're not going to find anything because I've told you everything, right? I've, I've said where the problems are and what we're doing to fix them. And so take it at face value. I actually had somebody in a retrade conversation, try to go back and, and reduce a purchase price. It was on this last transaction by $2 million over something that they discovered.

Tom Bronson (41m 1s):
And when I reminded them that we had disclosed that and showed them where we disclosed it months before, before they actually gave us an LOI. I said, now, look, I know you're calling to retrain this deal, but it's not going to be on that. So what else did you find? Right? Because Then it's being, it's being honest and open and upfront. I love that if you, you know, especially with a professional buyer, a private equity or a strategic buyer, man, they're gonna find it right there gonna find problems. And, and so try not to hide them, disclose them before they make their offers.

Tom Bronson (41m 41s):
So what did you learn going through this whole process

Mitch Felderhoff (41m 46s):
Plan years in advance for what your business will be like when you do want to make a transaction? Because it doesn't just help you, even if you're just going to take on more debt. The professional lenders that we spoke with had the same questions and everything needs to be organized in the way they want to see it. So if I, if I had listened to probably everything that I was told six years ago, we probably would have hired a private equity group from a consulting fee to come in and say, Hey, if we want to sell one day, what do you want to see? How should this loop look like if we want to raise money to, to grow the business, what do we need to do to check the boxes on what you look for in the industry?

Mitch Felderhoff (42m 29s):
And, and I think they're happy to do it because it helps them learn about the industry. And it gives them an

idea on what the pulse is and may establish a relationship early, because at the end of the day, they, they do want to work with people they want to work with. And if they believe in your business and you, then they would love to be at the top of the list. When you do go to make a transaction. And then I think organizing your data around those requests, we would probably would have made the due diligence process that much easier. And I think every day, Chad and I were emailing each other at four 30 in the morning and at 10:00 PM at night, because that was the only time we had to work on, on the project.

Mitch Felderhoff (43m 10s):
And if, if we had set up the reports the proper way in the ERP system four years ago, or two years ago, I guess when we installed it, most of that stuff would have been a click of the button export and send it to them. And it would have been very easy. And instead we were matching up reports from two or three different ERP PS and trying to marry them together. And so I think just having the data organized the way they want to see it on the front end, it makes everything quicker and less stressful for you because you're questioning everything that you go to look up. Did you just, is this the way they want to see it, or my doing something wrong?

Tom Bronson (43m 49s):
I love that, you know, reaching out to a, an investment banker or someone to get some fresh eyes on it. You know, that's what we do here. I, I strongly recommend, you mentioned Zane Terrence, here's a copy of his book. You know, 17 reasons your company is not investment grade and what to do about it. You don't even have to hire an investment banker. You've got a nice book here that gives you all kinds of reasons. Or even in a, in my book maximize business value. It's a shorter read easier than, than reading Zane's bud. Zane's a good friend though. And so, and I love his book, but you can find resources to kind of help you think about creating that investment grade business.

Tom Bronson (44m 30s):
And I think that's some great, you know, the starting a little earlier thinking about the long play, right? So many business owners are caught in the long-term for them is what's going to happen before year. End well know what's going to happen in five years. What's going to, what is it going to look like in 10 years and think about that longterm and the long game so that you can articulate that and, and, and do that. I think that is some, some great advice. What, what other advice would you give to business owners who are looking to transition?

Mitch Felderhoff (45m 2s):
No. What you want, like, and be very, very clear about it. And, and when you go through the deal, you'll have opportunities to tell, to tell them what you want, and if you're not decisive and clear on it, then I think that that can cause speculation and certainty on their end and investing because they want to know, they wanna know that you have a plan that you're not scared to be decisive and, and, and convicted about what you want. Because if, if you're just, oh, it might be nice to take some risk off the table or put some chips in my

pocket. They don't have any interest in that. They're not, they're not playing poker. I could say it's more calculated than that.

Mitch Felderhoff (45m 43s):
And so just really know what you want really out of life. And, and if you can discuss it with your family ahead of time and say, Hey, what does success look for us in 3, 5, 10, 15, 20 years. And then how does this play into that equation? And for us, it made sense to take risk off the table and put a little bit of money in the bank finally, and, and start to, to grow our plan for our life for the next 10, 20 years.

Tom Bronson (46m 9s):
I, you know, that's, I will tell you that that's kind of one of my regrets that I didn't involve my kids in those kinds of decisions. I have my wife, my wife and I have been married for 31 years. And I think it's 30. I keep saying 30. What are we coming up on 32? I don't remember. No, it's 31. So she knows that I keep up with that stuff. And so, but I would involve her in a lot of conversations, but I wouldn't involve my kids. So I'm, I'm, that's one of those kind of long-term regrets. So if you're a young business owner who are paying attention here, involve your whole family. And that, I think that is wonderful advice to give what, you know, you sold the business, but you're still in the business.

Tom Bronson (46m 49s):
So what are you doing now

Mitch Felderhoff (46m 52s):
Heavily involved? So my, my title is president of sales and marketing, which as a fast growing business, on the private label side, so heavily heavy private label. And then we also have a brand and a D to C channel. I essentially help manage all of those. And so we've got, you know, a decent Chunk of responsibilities where we're all still wearing seven, eight hats, because just because you bring on a professional, doesn't necessarily mean they want to open their checkbook and let you hire 35 people to make life easier. The goal is for the business to run and hit the numbers that it needs to hit.

Mitch Felderhoff (47m 35s):
And so I still get up plenty early and stay up late, getting the project done, but it's, it's now we have the runway to achieve what we think we can achieve. And so our, our goal is to create healthier alternatives, to conventional pet food diets for the pet owners and to reach as many people as possible. And we couldn't do that without increased capital and better facilities. And so that's where we are today is trying to accomplish that.

Tom Bronson (48m 1s):
So you and your brother still have some ownership piece in the business.

Mitch Felderhoff (48m 5s):

We do. Yep. We actually, the majority of our net worth is still tied up in the business. And we wanted to bet on ourselves and, and also keep that pressure to keep delivering. If you get too comfortable, sometimes you stop taking or throwing punches. And we wanted to have all the reasons in the world to keep running hard.

Tom Bronson (48m 23s):

Excellent. And I have to tell you that is a story that professional investors love to hear. They, they just like others. They want to look at the business. They want to be sure that it can grow, but they're investing in people. And I think that that was a great thing for you to communicate to them because it demonstrated that you too are committed to this business longterm because they can't run it on their own. They still need people to run their business. Look, before we end, I have to go all the way back to the beginning, you know, and having to talk about the 30 day dog food challenge. Now we're going to have that on our, a little snippet of your blog of that on our blog this week, as well as we're going to provide a link to your documentary on it on YouTube.

Tom Bronson (49m 13s):

So why did you eat dog food for a month? And what did it do for the business and what did it do for you personally?

Mitch Felderhoff (49m 21s):

Yeah, so, you know, as a smaller company, it's hard, it's hard to be David and get up and try and fight Goliath every day. And especially if you don't know what tools to use. And so we were going through a stage in the industry where there was a bunch of information being spread that you can't necessarily trust boutique brands. There were some studies that came out that dog foods that were grain-free were making dogs sick, and they listed like 18 or 19 different companies that had a significant number of, of dogs that were affected. We weren't on that list, but in an effort to kind of further punish the smaller guys, they just threw out and boutiques and we were considered a boutique brand.

Mitch Felderhoff (50m 6s):

So we were getting, if you run a Facebook ad, you know, the danger of doing that anyway, just because the amount of people that will leave negative comments that are just there to say bad stuff. And so everyday I was getting 10, 15, 20 messages of, I can't believe you guys are doing this to dogs. And like, w we haven't done anything and we can have a discussion about the science, and it's a hundred percent on our side. And we have the best nutritionists in the world that have helped us design these recipes and test them. But it didn't matter the message didn't resonate. And I was like, well, I'm kind of done having that conversation. I'll just eat it for a month. And no other CEO is going to do that.

Mitch Felderhoff (50m 46s):

And if that's not good enough for our customer, then they're not really the right customer for us anyway. And so we were on my wife and I were on our 10 year anniversary trip, and I just said, Hey, I'm, I'm done going halfway on this. Like, I don't want to be like this forever. I want to, I want to make significant impact. I'm going to eat the food for a month. And she was just like, okay. I mean, I believe you that you'll do it. And like they, six or seven is when we first told anyone, because I was just intimidated by the process. Like, you know, it's, it's easy to say, Hey, that would probably get some attention and be good from a PR standpoint.

Mitch Felderhoff (51m 26s):
But when you go to do it, it's, it's a little intimidating to realize you're only eating dog food for the next month. And

Tom Bronson (51m 32s):
You didn't supplement with anything else. It was just the dog food.

Mitch Felderhoff (51m 36s):
Just dog food, dog, food and water. No, no alcohol, no coffee.

Tom Bronson (51m 41s):
Like my head would explode if I didn't have coffee. Yeah.

Mitch Felderhoff (51m 46s):
Yeah. I ended up losing 30 pounds. My cholesterol and triglycerides dropped in half blood, sugar was down. Testosterone went up. So everything that they could measure, my blood was a positive

Tom Bronson (52m 1s):
You all right. So did you get a baseline before and then, and then go back to the doctor afterwards?

Mitch Felderhoff (52m 5s):
I did. Yeah. I went to the doctor did blood work, but two days before I started, and then on the very last day, I went to the doctor as well and hit like 30 pounds on the dot.

Tom Bronson (52m 16s):
Oh my gosh. What a, what a great weight loss program, maybe, you know, I've been trying to lose about 30 pounds. Maybe I'll eat dog food for

Mitch Felderhoff (52m 24s):
It'll fall off of you.

Tom Bronson (52m 26s):
Oh my gosh. Now, was it, was it terrible or was it really wasn't that bad?

Mitch Felderhoff (52m 33s):
It was terrible. We had a, we had a few things, Tom, that like, they didn't taste that bad, but part of the goal was to eat everything we made. And some of the things that didn't taste that bad, weren't really suitable for like a full diet. And, but yeah, it was not, you don't, you didn't look forward to, I mean, pizza gets old after four days. And even if it's your favorite, so, so dog food especially got tiring.

Tom Bronson (52m 59s):
Well, I say that would be my story. My wife and I actually owned a pizza restaurant. And at one point it was a very high end pizza restaurant. And we were really to the point, our kids were teenagers at this point. And, and what's for dinner, we'd be at the restaurant. We're like, which, which pizza do you want us to bring our kids know? I called it an occupational hazard that our kids were going to eat pizza, you know, six times a week. Sorry. It's got all major food groups, right? It's if you put some fruit on it,

Mitch Felderhoff (53m 29s):
Vegetables, carbs protein.

Tom Bronson (53m 31s):
Absolutely. Absolutely. Well, awesome. So one last business question before we go, by the way, be on the lookout for that blog post and the documentary video, it'll blow your socks off. So our audience needs to pay attention to that this week. One last business question. This podcast is all about maximizing business value. What is the agenda boil down to one thing? What is the one most important thing you would recommend business owners do to build long-term value in their business,

Mitch Felderhoff (54m 5s):
Focus on your strengths, and don't get distracted. It's really easy to get pulled off sides and go try something new. And, and I'm, I'm ultra susceptible to that. I like to try new things and I like to go fast, but if you really focus in on a strength and really analyze the market, so it's just analysis capital and execution. And if you find the weak spot and you put capital and all your efforts behind that, you will be successful. And if you continue to grow that segment, you don't have to leave it while it's growing, you know, continue to just double down and focus and execute and get better because there is always better. You don't really meet you'll, you'll probably never see peak awesomeness at your business because someone's going to come along and make it better later.

Tom Bronson (54m 53s):
That's awesome. Great advice. Great advice. So, but we've gotten all the way to the end here, and I always ask the bonus question and most of our audience listens all the way, because they just want to hear the answer to this question. So are you ready for this Mitch? What personality trait has gotten you into the most trouble over the years?

Mitch Felderhoff (55m 16s):
Well, there's about seven of them, but

Tom Bronson (55m 19s):
No, I didn't ask your wife to get me a list. She'd still be talking, right. So

Mitch Felderhoff (55m 24s):
Probably the I'm, I'm pretty intense. And so when I find something new, I go all in on it right away. And so a distraction for me is not a minor distraction. It becomes a significant distraction quickly. And before we know it, I'm trying to launch another brand and order a hundred thousand dollars of packaging. And we haven't done an analysis to see, can we even make the product and do we have the capabilities and, and how many resources are going to be needed to pull that off. And so I'm really, I've had to surround my self with people that are brakes to slow things down so that we don't spend too much too fast and too into different areas.

Tom Bronson (56m 6s):
I'm imagining that yours and my culture index look very similarly. We made a decision on, on a new direction for a piece of our business last week. And I mean like Friday and I was working out on the weekend and I'm on with my staff this morning at seven 30 a staff meeting. I'm like, why haven't we started this already? People come on.

Mitch Felderhoff (56m 28s):
Where are

Tom Bronson (56m 28s):
We? Well, you only told us on Saturday. Okay. All right. I'll give you a break. We'll have until noon. So Hey, thanks. How can our viewers and listeners get in touch with you?

Mitch Felderhoff (56m 41s):
You can send me an email. mitch@munstermillion.com is really the best way. Be happy to talk with anyone that I can.

Tom Bronson (56m 49s):
Awesome. Thank you, Mitch. For me, you've been a great storyteller and thank you for being our guest today.

Mitch Felderhoff (56m 55s):
Thanks for having me.

Tom Bronson (56m 57s):

You can find Mitch Felderhoff at Munster Milling - Munster is like the town, M U E N S T E R Milling.com. Or you can also find him on LinkedIn and you as of course, like always, you can always reach out to me and I'll be happy to make a warm introduction. This is the Maximize Business Value podcast, where we give practical advice to business owners on how to build long-term sustainable value in your business. Be sure to tune in each week and follow us wherever you found this podcast so you'll know every time there's a new episode. And by the way, if you or someone, you know, has successfully exited a business and therefore a member of the 17% club, and you'd like to be interviewed, or they would on this podcast, be sure to reach out and let's schedule a conversation and talk about that exit.

Tom Bronson (57m 51s):

So until next time, I'm Tom Bronson reminding you to look far down the road because it's never too early to start planning your own ideal exit while you maximize business value.

Announcer (58m 6s):

Thank you for tuning in to the Maximize Business Value podcast with Tom Bronson. This podcast is brought to you by Mastery Partners, where our mission is to equip business owners to Maximize Business Value so they can transition on their terms. Learn more on how to build long-term sustainable business value and get free value building tools by visiting our website, www.masterypartners.com that's master with a Y mastery partners.com. Check it out!

Tom Bronson (58m 53s):

That was perfect. I wouldn't make any changes on that.