

Announcer (4s):

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 missions 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, CEO of Mastery Partners, Tom Bronson.

Tom Bronson (36s):

Hi, this is Tom Bronson, and welcome to Maximize Business Value, a podcast for business owners who are passionate about building long term sustainable value in their businesses. This episode is part of our series on books written by certified Exit Planning advisors or CPAs. Now, I obtained my CPA certification 2019. Earlier this year, I was invited to participate with other CPA authors in the Author Showcase at the exit planning conference in Scottsdale, Arizona, where I picked up some fantastic books. Today's is one of those. In this episode, I'd like to welcome our guest, Rick j Krebs, a CPA entrepreneur and m and a advisor and principal at Business Sales Group, and My Biz Value.

Tom Bronson (1m 28s):

And of course, he's the author of Sell Your Business by Design, Not by Default, A Guide for Selling Your Business for More Money, a book written from the Trenches and School of Hard Knocks. I love that. And it, and it reads like that as well. His examples, detail, successes and failures. And like it says on his website, you'll learn the most from the failures. And by the way, what is it that, that, I think it was Eleanor Roosevelt said, Learn by the failures of others. You, you are not gonna live long enough to make all the mistakes yourself. I love that. So, so welcome to Maximize Business Value, Rick.

Rick Krebs (2m 8s):

Thank you Tom, and I appreciate you having me here today. As you can tell, I'm very passionate about helping business owners make a better exit.

Tom Bronson (2m 17s):

Well, and that's, that's what I love about you, Rick, because you and I share that passion. And so many business owners really don't. They, they think that it's just gonna happen for them. So, and it rarely does. You know, it's, it's a, it's a process, it's a design. That's why I like the title of your book, Sell It By Design, Not by Default. So many businesses sell by default, and that's terrible thing. So tell us a little bit about your background and why you became a certified exit exit planning advisor.

Rick Krebs (2m 49s):

So, I wanted to start a local chapter. I've been in the m and a business now for 12 years, and I wanted to be an influencer, and I wanted to start a local chapter of CPAs. And this was the logical first step, right? To become a CPA myself, and not just CPAs, but people who are interested in becoming exit planning advisors. Because as we're seeing, we're going through this process, we're learning that it takes a team, you know,

each of these disciplines are very specialized. And in order to be good at it, you have to be a specialist because there's so much knowledge in your, in your profession. And so we have to assemble a team of people that will help the business owners when they're ready to sell.

Rick Krebs (3m 29s):

And so I, I wanted to do that as I, as I became a sippa, to be honest, I, I thought that I would kind of have, pay attention through the classes and do check emails, right? And the a d d kicks in a little bit. And so, but that wasn't the case. As I got into the material, it resonated with me. And I realized that, that Scott and Chris are starting a revolution here across sweeping the country. More and more people are interested in exit planning. And, and I wanted to be part of that. And, and becoming a CPO was a big part of

Tom Bronson (4m 2s):

That. That's awesome. Now, did, did I read press release? Did you guys actually start your chapter in Salt Lake already? We

Rick Krebs (4m 9s):

Did. Yep. We started our chapter back in June and we launched it, and we had a great, very successful launch. I was surprised, you know, I was expecting to get maybe 20, 30 people interested. We had 60 people in the room. And so a lot, this is on the mind of not just business owners, but it's on the mind of attorneys, financial planners, CPAs, you know, this is, as I said, it's a revolution. It's something that's, that's gonna hit us. It's a huge wave. A lot of baby boomers are, are looking at retiring. They're thinking about a recession, right? So they want to get out. They don't wanna, don't wanna be running their businesses when they're 75, 80 years old. They want to get out.

Rick Krebs (4m 49s):

So yeah, this is a big thing and a lot of people are interested in it, A lot of excitement I'm seeing.

Tom Bronson (4m 55s):

I agree. We have a local chapter here in North Texas, and, and we sort of went on, you know, challenged during covid, but now that we're back from that hiatus, we're building, building, building every time. So, so it's kind of fun. Now, your book, *Sell Your Business By Design*, not by default, is full of what I'd call practical advice, right? That every business owner, every business owner should read the book. And by the way, just so you know, just like always, we're gonna put a link to the book on our website so that you can go buy one of these books. It's a great book. Mine, I don't know if you'll get one, Mine Happens to be hand signed Right By by Rick. But I bet there's might be a way you can get that.

Tom Bronson (5m 37s):

But, but it's full of what I think is practical advice. So every business owner should read this book and the other books that we've highlighted here. What was the inspiration for writing your book?

Rick Krebs (5m 48s):

So, in the past, in the m and a business, I, I am constantly talking to people about selling their business, right? And what I found, I specialize in the lower mid-market, which is our businesses with enterprise values between one and 30 million. And we would do evaluation, and then we would look at it and they'd be like, You know what? I, it came in at 8 million. I really want to be at 12. And I'd be like, Okay, this is what you need to do. We're looking at, even to multiples, you need to get your EBI to this number, this amount and come back in a couple years and let's sell it. Right? Very bad advice. Yeah. Again, learn from your mistakes. It worked. But I wanted to influence them to start thinking about the exit plan, about the sale before it was too late.

Rick Krebs (6m 36s):

Because, you know, they'll come to me and say, Hey Rick, I need to sell. I'm ready to sell. I'm like, Okay, but your business isn't ready. They're like, I don't care. I need to get out. You know? And we can sell those, we can run those selling processes, but it's not, the outcome isn't the optimal outcome. It is an outcome and it works, but it's not the optimal. And what I'm finding with these people is if we can sell or we can exit the right way and maximize their value, it's a game changer for retirement. You know, if you have, say, 5 million in your, in your retirement account, and we can bump that to seven or eight or 10 or 12 game changer, your retirement looks entirely different that way we have one chance to get it right.

Rick Krebs (7m 19s):

We need to get it right. And it was all about influencing people and, and being a thought leader in this space. And so I felt like a book would be a great way to do that. You know, you can only read so many people. And so I felt like get a book out there and I give my book to business owners all the time and say, Read this, learn about it, get educated. And so that's what the book was all about.

Tom Bronson (7m 40s):

Yeah.

Rick Krebs (7m 42s):

But it wasn't enough, Right. I felt like I needed to do more. Never. We, we started the, the Utah chapter of Exit planners. That's another way to be an influencer in the

Tom Bronson (7m 50s):

Group. Yeah. Excellent. Now you say that was bad advice, but that, I felt like that was pretty good advice. Why, why would you say that that was bad advice?

Rick Krebs (7m 58s):

You know, it was, it was good advice, but I kind of put them like the sheet before the wolves.

Tom Bronson (8m 4s):

Oh, yeah.

Rick Krebs (8m 4s):

I, I didn't, I didn't give them direction. I didn't have people in my, in my Rolodex that I could send them to. I didn't have people that were business coaches that could move the EBIDA needle in big ways. Yeah. I showed them what they needed to focus on, which I think was good. Their EBI number or their SDE member. Yep. You know, so they knew what to focus on, but they just didn't know how to get there. And so it worked, but it was clumsy.

Tom Bronson (8m 31s):

Yeah. You see, and that's why we, that's what we do. We're a value advisor, right? We work in that space of doing that. And what, what a lot of people don't realize, and you of course clearly know, is that, you know, 98% of all transactions are transacted on a multiple of ebitda, you know, EBITDA or seller discretionary, you know, a lot of people think, Oh, I got all kinds of things, technology, whatever, whatever. There are some transactions that are based on, you know, tech, a specific technology that you own or, or are recurring revenue. But, but those are the exception. By and large, most transactions are on a basis of earnings. And so you've gotta focus on maximizing those earnings so that you can get the biggest transaction that you can.

Tom Bronson (9m 18s):

And so a lot of people don't. They, they just don't believe that, or they, more importantly, they don't understand how businesses are, are transacted in their space. And so, yeah, you and I probably spend a lot of time talking with folks about that. So now you attack some of the most common issues right up front, right. In that whole first section, confidentiality timeframe, you know, seller notes and more. Now most business owners have unask questions about these things. So what role do these unask questions play in why business owners delay preparing their business for sale until, in many cases it's just too late to do anything about it?

Rick Krebs (10m 3s):

So I think, I think it's uncharted territory for business owners. They've never done it before. And in many ways they treat it like death. They know it's impending, but they don't plan, right? Right. And so they go into this not knowing what they're doing. And too many times I get a call from a business owner at, and they need to sell and they need to sell right away, but they haven't planned. And we can sell those companies, right? Sure. But the ones that start with the end in mind, I say, Mind your exit. Don't blind your exit. Get started early with the very first day when you start your business, say, What is this exit gonna like?

Rick Krebs (10m 46s):

And so you build them to sell them being in this unfamiliar territory, they just don't know what they're doing.

Business owners love to know what they're doing. And so if they don't, they kind of move away from it. And so they pretend it's not gonna happen.

Tom Bronson (10m 59s):

Right? Right. Yeah. In fact, that's the name of my book, which maximize business value, Begin with the exit in mind. Love it. And so, cuz it's, I think it's never, my opinion is it's never too early to start thinking about your exit strategy. In fact, our listeners already know I've done a hundred transactions in my career buying and selling businesses and, and every business I ever acquired, I didn't make, I didn't pull the trigger on making that acquisition until I could clearly articulate what my exit strategy was going to be. And so, and then you relentlessly work toward that exit.

Tom Bronson (11m 40s):

So, so, you know, I I suspect that a lot of business owners just don't know what questions to ask. And when they start engaging in that dialogue, it makes them feel dumb. Right. Well, why, I mean,

Rick Krebs (11m 52s):

I should understand. And they don't like it.

Tom Bronson (11m 54s):

They don't, Yeah. Business owners do not like to feel dumb. Right. And so, so, so I'm glad you've written this book in mind cuz it's all about kind of getting these things out there and addressing those. Because once, once a business owner can kind of get that whole thing out of their mind about, you know, I don't, I don't understand this, then they can start asking the right questions and someone can help them move down that path together. You know, it's interesting that, you know, they, your comment that they treat it like death. Unfortunately, death is an all too common exit strategy for, you know, So I tell people, if you don't have an exit strategy, then your strategy is by default die behind my desk.

Tom Bronson (12m 38s):

And, and I don't know about you, but I get calls all the time from attorneys or family members, you know, you know, my husband died or the, you know, I represent the family of a, of a business owner who passed away six weeks ago. And, and we need to sell the business. The, the minute the owner dies, especially if it's an owner dependent business, the value of that business drops like a rock. Yeah. And so, so I'm in, in most cases we try to help, but there's not a lot we can do after that happens. So I tell the business owners, or do you wanna deal with this now or do you just want to kick the can down the street to your heirs who are gonna have to deal with it?

Tom Bronson (13m 26s):

And by the way, they're gonna have a, a less valuable asset. So, so that's, it's a hard conversation to have. What are some of the most common mistakes that you see business owners make when they sell their

businesses?

Rick Krebs (13m 40s):

We talked about the first one, which is a failure to plan. Yep. Early. The second one I would say is not hiring the right advisory team. I would interview your, your potential m and a guy or broker, investment banker, or whoever it is that's gonna help you. I would interview a couple of them and it cost, the good guys are gonna cost some money. Right. And like attorneys, you get an attorney that charges \$25 an hour and that's, that's what you get. Yeah. Well

Tom Bronson (14m 11s):

Good lord, you can find an attorney for 25 bucks. Wow.

Rick Krebs (14m 14s):

Yeah. So I, I'm in the, I'm in the middle of a sale right now and decent size. It's, it's a 18 million transaction and they had an attorney that had drafted their contract with their customers that they've used for years and years. But it, it has some things in there that's really hurting them on a sale. Right. And so if you don't hire the right people and and be prepared to, to pay them, pay them well and they'll be worth every cent that you pay 'em and more. And so you've gotta surround yourself with a good advisory team. And the team members would be, you need a good MNA guy, a business broker, investment banker, depending on the size of your company, you need, I call them deal guys.

Rick Krebs (14m 56s):

These are people that do this as a living 100% of the time. They close a lot of transactions, they know what they're doing. You need a really good transaction attorney, you need a really good cpa, you need a really good financial planner that's gonna take the, you know, take the, the money and they're gonna invest it for you after it's all done. And at a minimum you need those four. So that's the first thing, hiring the right advisory team. How about not being educated about the sale? I see a lot of owners that go into this blindly, they haven't taken time to learn to listen to podcasts or, or learn about it. They just, you know, as we talk, kick the can down the road instead of picking it up and taking a drink.

Rick Krebs (15m 36s):

Well if they, the more they can learn the, the better it is. And another one I'd say is they let, well meeting attorneys drive the ship. You've gotta have control of your advisory. You gotta have good team, but you gotta have control of them also. I've seen many well meaning attorneys just kill deals, deal transactions.

Tom Bronson (15m 58s):

They think they're protecting their client when what they're doing is destroying the ability of

Rick Krebs (16m 3s):

Them to sell. Yeah. Just destroying it and not understanding how valuation works. I would say that's another big one.

Tom Bronson (16m 10s):

Yeah. I want to ask about that and just say before, before we get to evaluation, I, you know, one of the things that we talk about with our clients is all attorneys are not cut from the same cloth. Right. And when you say the right, I I love it. You and I speak the same language, you gotta have the right cpa, you gotta have the right attorney, you gotta have the right wealth advisor. All of the above. And I, I would add onto that, that you want somebody who is experienced in transactions, right. For a CPA and for an attorney too many times, and I'm sure you've seen this in your career, deals are killed by attorneys who are not qualified to be working on the transaction anyway.

Tom Bronson (16m 55s):

You know, they're, they're a litigator or they're a, a real estate attorney. Litigators are notorious kill deal killers. Right. And cuz in litigation world, there's a winner in a loser. You know, in, in business law there is compromise. Right. And so you try and figure out a way to make that work. And so that's the psychology I think that works behind that. But yeah. But I really think that, you know, having somebody who is experienced in that, when, when our, when we get our clients to transaction, we always recommend folks who are, who are specific transaction attorneys, right. That, that they only do transactions because they are skilled in the art of how to get this deal through the juggernaut and get it to a close.

Tom Bronson (17m 43s):

And so, Yeah. So, and CPAs too, you gotta understand the tax ramifications of the transaction and if you have a great CPA and an attorney working together, perhaps a deal can be structured to minimize your tax consequences. Right. And so,

Rick Krebs (17m 58s):

So, Yep, exactly. And the, these transactions are middle of the road. I tell my people, you know, you look at 'em like the event is like a wedding, not a divorce. And you have to treat it that way. Yeah. As we go through the process, you know, you're recording the other person and you're asking them questions, but you know, you're not beating them up and Right. And if we let the attorneys beat 'em up too bad, then they feel so bad and they walk away from it. So you've gotta look at it like that and, and middle of the road, and I say two things, two requirements. One, it has to be straight up, honest or not at all. And two, it has to be middle of the road and fair to both people. Yeah. It's, it's a win-win or we don't do it, period. Yep.

Tom Bronson (18m 38s):

I I love that. I love that. Now, you had mentioned right before I kind of jumped in and wanted to talk about the team, the whole valuation, business valuation. And I agree with you, but explain to our audience how a business valuation can help in the exit planning process.

Rick Krebs (18m 55s):

So a couple of things going through the process of a formal business valuation, you know, you can hop online, they have little calculators and you can just plug in the number until you get the value you want. I'm not talking about one of those, I'm talking about a formal one where you go through that process of getting your financials together, identifying discretionary expenses and looking at the risk factors with your business going through that process as an educational process. That's extremely valuable to business owners because they learn, they learn the questions that buyers are gonna ask, they're gonna look at, they're gonna learn what buyers are looking at and looking for. And then that it, it's a great exercise. That is a first step.

Rick Krebs (19m 37s):

And also at the end, once they understand, I've had, I've been on phone calls with business owners, we've done evaluation and they're like, I can't believe this, Rick, you mean if I put for every dollar I put towards my ebitda, I get four times return on that and value. We're like whoa. Yeah, I'm trying to minimize that number for my taxes. Right. But it just like the light bulb comes on, I'm looking at a 400% return on my money and I, I don't know about you, maybe Bitcoin or one of those when it was going up, you could get that. Yeah. Right. They see their business as an investment and not just a business after that.

Tom Bronson (20m 12s):

Yeah. We, we always say trade it as an asset, right? You, you treat your home as an asset, right? It's gonna appreciate value. And you, if you decided you were gonna sell your home, you wouldn't just get up one morning, call an agent and then stick up for sale sign. You're gonna clean up, you're gonna have the carpets cleaned, you're gonna paint the walls. And it's all of those things that will add to the value of the house. Same thing. It's not that easy with a business. Sometimes it takes some time for some of the changes that you need to make in your business to actually reach the financial statements and that's where the rubber meets the road, right? And so, so so I love that. I I agree. I, for our clients that are, that are on retainer with us and we have, you know, lots of clients that are, we actually do a business valuation for them every year.

Tom Bronson (21m 1s):

We update it, we show the progress that they're making and, and toward reaching the goal that they stated to us at the beginning. Cuz that's, that's where we start is here's where you are today, let's define where you wanna be and when you wanna be there, and then let's monitor the progress to how we're making it. And so, so I love that. I think that they should go through doing that. You know, there's some online tools that are not terrible, but, but go through the process of really understanding because the drivers, the, the value drivers up and down, it's so important to understand those. So before we jump on a break here, when is it too early to start planning for a business exit?

Rick Krebs (21m 42s):

Never too early. From the day one, when you start the business, you register at your department of



commerce, start thinking about that exit what it looks like, Build it to sell it. And here's the beauty, even if you build it to sell it and don't sell, you build a great business because exit planning is business planning. And you know, Chris Snyders talk a lot about that and I totally believe that. And sometimes we help business owners and they build such a great business, they don't end up selling it. You know what, and good for them.

Tom Bronson (22m 12s):

Yep. Oh yeah. I, we actually help our clients if they wanna make the transition from being a owner operator to being an owner investor because investors look at businesses differently than operators do, then, then we'll help 'em do that. You know, many times we'll have a client that's the business is, is doing well, throwing awful lot of cash and they're like, you know what? I'm too young. I don't want to get rid of it, but I don't wanna work in it anymore. Exactly. Well great, then let's teach you how to, to do that. How to get the right people involved and and be able to own the business as a, as a passive income, you know? And so, so yeah, there's all kinds of ways to do that.

Tom Bronson (22m 53s):

Or many times they get through the process and the business is so improved and they're having so much more fun in the business, they just don't wanna sell it. Right. And so, which I, and

Rick Krebs (23m 3s):

That's a win, right? We talk about a win-win, that's a win.

Tom Bronson (23m 6s):

Yeah, that's, it is. And but the, but the thing about the exit planning to me is if you do it properly and you get your business ready for a transaction, you just never know when a bluebird is gonna land right outside your door, right? And, and if you get that out of the blue unsolicited ridiculous offer for whatever it is, and your business is ready, well then you, you are ready to go. But if you get those ridiculous offers and you're not ready, it's probably gonna die on the vine. You know?

Tom Bronson (23m 46s):

It's gonna die before it ever gets to a close. And so, so you know, of course every business owner will tell you, Oh, I get offers on my business every day. Well most of those are not real. And every business owner is being called on the planet by, by all the private equity and especially if you're of a certain size and, but not all of them are, are really are real buyers. But every now and then I hear about those deals that, you know, this just popped up on our radar and I'm like, great. Cuz the good news is you're ready. Let's, let's investigate. Right? Yep. And so that's awesome. Look, we're talking with Rick Krebs and I'm having a great time. I know our audience is as well.

Tom Bronson (24m 27s):

Let's take a quick break. We'll be back in 30 seconds.

Announcer (24m 31s):

Every business will eventually transition some internally to employees and managers and some externally 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 where 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 we'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 (25m 12s):

Now is that time, Get started today by checking us out at [www.masterypartners.com](http://www.masterypartners.com) or email us at [info@masterypartners.com](mailto:info@masterypartners.com).

Tom Bronson (25m 25s):

We're back with Rick grabs a certified exit planning advisor and author of *Sell Your Business By Design, Not by default*. Rick, you're also a CPA, right? And so we talked a little bit about this before the break, but why is it important to engage with a CPA who has transaction experience when selling your business? We talked about that from the attorneys, but why is it important to have a CPA who really understands transactions?

Rick Krebs (25m 58s):

So most CPAs and, and I say reform CPA, that's what I am. CPAs are, are very good historians and most CPAs spend most of their time doing either getting books prepared, financials prepared, or doing tax returns. And so they don't see clients or they don't advise clients who are selling their companies on a regular basis because they're, their core business is something else, right? It's preparing financials and doing tax returns or doing audit reviews. And so they're just not aware of the things that business owners need to be aware of. And I'm speaking in general terms here.

Rick Krebs (26m 40s):

So what I find is that, and I'm an accountant and an advisor as well. So that's my core business. When I find, in fact our team, there's two of us and both of us are CPAs because I feel like that background is really important in the space which we're in because a lot of times these people have, have boots up these businesses, they've started 'em from this, from the ground up and as the business has grown, the level of sophistication for their financials, it's not grown. You know, maybe their wife was doing their, keeping their, their records in the, on the kitchen table, you know, with the checkbook when it started and then they got QuickBooks and, and so usually there's some housekeeping that needs to be done financially. And I find that my CPA background is very good.

Rick Krebs (27m 21s):

It lends itself well to helping clients do that housekeeping they need with the financials and giving them up to par and ready for a sale. Now CPAs, as advisors for people that are selling, if you have a good cpa, we will need them and we will enlist their help as far as calculating the taxes and that sort of thing. But most of those are not the guys, most of them are not as familiar with it. So again, you've gotta have experts that, that are experts in this profession of selling businesses and who see these things a lot because there's some, I don't wanna say loopholes, but there's some, there's some areas which, where we can get a little bit creative on the structure that will benefit the sellers to minimize their taxes.

Rick Krebs (28m 5s):

And they may not be aware of those tax laws, you know, what's the tax code? A hundred and something pages a hundred thousand pages I think is what it's up to now. They just don't know everything I know. And I don't blame 'em.

Tom Bronson (28m 16s):

I remember when they used to be able to fit laws on a piece of paper. Right. You know? Right. I wasn't alive then, but that's the way it used to be. But yeah, it's, the tax law is so crazy. Now, do you still practice? Are you still a practicing c I know you keep no, your license, but you're no longer doing that?

Rick Krebs (28m 33s):

Nope, I don't and I don't do it for clients because it's a conflict of interest.

Tom Bronson (28m 37s):

Right.

Rick Krebs (28m 37s):

I, I do have people in my Rolodex who I work with that are very good and so I refer them over so I can help as an advisor to the client and tell 'em what they need to do. I just can't prepare their financials and represent them in the sale. It's a conflict of interest to do so.

Tom Bronson (28m 53s):

Got it. Yep. I have an attorney on our team that says the same thing to me that, you know, if he's working with us on the business says it's a conflict of interest for him to represent them in a and a transaction. And we have other attorneys that we would send them to, but, but if he's not involved in it, then we'd like him to do the work because he's just so good. And so, so now what are, since you are cpa, let's talk about some of the tax considerations that a business owner might face. What are some of those tax issues?

Rick Krebs (29m 24s):

Sure. So there's two or three. One is just a basic understanding of tax law and that is ordinary income rates are typically higher than capital gains rates. And so when you sell your business, typically they're on asset

sale basis. Part of that sales price is going to be ordinary income and part of it is going to be capital gains. And so you just need to understand that the structure and the allocation are very, very important. There's an IRS form is form 85 94 where you, where you allocate the assets and that allocation can be depending on the deal size, you know, it can swing your tax bill hundreds of thousands of dollars.

Rick Krebs (30m 5s):

And so you just need to be aware of that allocation, how it's made and aware that you want to put more of the income over in the capital gains bracket and less of it in the, in the ordinary income bracket.

Tom Bronson (30m 17s):

Right.

Rick Krebs (30m 18s):

10,000 foot level, that's what it is.

Tom Bronson (30m 21s):

Yeah. Cuz that's, most transactions are kind of asset based. That changes if you are fortunate enough to be one of those folks that gets a stock sale, right?

Rick Krebs (30m 30s):

Yep, yep. And so the, the three different types, there's an asset sale, there's a stock sale and there's a hybrid. It's called the section 3 38 H 10 sale, which is a hybrid at the two. And being familiar with those, in fact the the latter one we just spoke about, the hybrid, a lot of CPAs aren't aware of that. They're just not in the business enough to be aware of. And I have buyers that have bought multiple business over multiple years that aren't aware of that.

Tom Bronson (30m 54s):

Yeah.

Rick Krebs (30m 55s):

Little things that can just save you a ton of money.

Tom Bronson (30m 57s):

You just proved right there that you know what you're doing because I I, but I've talked to a thousand advisors and I've mentioned a 3 38 H 10, no, you know, 10 people out of a thousand might understand what that is. And so, so you're right. That's, that is amazing. So, so since we're talking about this, why don't you talk about business sales types of structures that, that you've got those three. What is, how do those three different structures work?

Rick Krebs (31m 31s):

Sure. So let's talk about an asset sale. Most of the transactions are done as an asset sale, meaning your entity stays in place, you sell the assets of the business, both tangible and intangible. The asset assets of the business are sold to the new buyer. They create an entity, they operate under a dba and your entity is, is eventually just closed down. Right? It's a shell company after the sale. So it just closed down. And so those assets that are sold, the different types of assets are taxed differently. And I, I won't get into too much detail, just know that, you know, if you have a, a heavy equipment type company, you're gonna look at a recapture situation and have a lot of the, the sale be ordinary income.

Rick Krebs (32m 17s):

If you're a service based business where most of your assets are intangible assets, then you're lucky because those are subject to capital gains, right? And so it's better. So asset sale on one hand, on the other hand you have an entity sale or stock sale, meaning you sell the entity, the assets remain in the entity and they go to the buyer. Buyers typically don't like to do that. That because they lose it tax wise, it's less advantageous to them. If they're doing a 5 million transaction for instance, they use, they, they lose roughly 5 million worth of future tax deductions because they get to amortize those assets over 15 years. Well it's between five and 15 years.

Rick Krebs (32m 58s):

And so most sales are done as asset sales because it's better for the buyer and it's not just a little swing, it's millions of dollars of swing depending on your deal size. Once in a while you have to do entity sales, right? Like I do oil field services company and they have these valuable MSAs and they're with the company while we have to do entity sales. And that's why the hybrid came up, the section 338 H 10. And what this is, is it lets you treat the sale as a stock sale for legal purposes and as an asset sale for tax purposes. So it's a little combination of both and it's as advantageous cuz the buyer can go ahead and depreciate those assets and we satisfy the legal requirement of the business.

Rick Krebs (33m 41s):

You have to be a corporation to do that or an LLC taxes a corporation to do those.

Tom Bronson (33m 47s):

Okay. So

Rick Krebs (33m 48s):

The other thing, if you're a C corp, you know C corp, it's tough to sell those. You can still sell 'em, but they're looking at a double taxation. So again, the reason you need to start planning for this years ahead, yeah we can take C CORs and make an next selection on it and sometimes we do that, but it takes a few years with your tax planner to carefully that's it was waters.

Tom Bronson (34m 7s):

Yeah. And I, I tell folks it's five years, you know, five years before your transaction, you've got to do that because otherwise you might be subject to a lookback. Oh

Rick Krebs (34m 14s):

Yeah. Oh yeah. Well that's the last thing you want, right? Yeah. And when you're trying to sell a C corp, if you sell the assets out of the C corp, you have a gain within the corporation and then you pay taxes on it when it comes out as a dividend. Right. You get, you know, the effective is like 60% tax rate.

Tom Bronson (34m 30s):

Yeah. Which is outrageous. It's like the worst,

Rick Krebs (34m 32s):

Right? Oh, I know. Business owners hate it. And I do too. You know, the IRS out there with their hand

Tom Bronson (34m 37s):

Out. Now I recently, I talked with a, with a client who is a a C corp that's getting toward a, i I just couldn't convince their CPA to that. They should have transitioned to be an corp, but there probably wouldn't have been enough time passed. Anyway, so I had a conversation with the CPA a few weeks ago when I was with the client and he said, Don't worry, we're just gonna show everything as personal goodwill,

Rick Krebs (35m 9s):

Slippery slope.

Tom Bronson (35m 11s):

What's that?

Rick Krebs (35m 12s):

Yeah, that's a slippery slope. Yes,

Tom Bronson (35m 14s):

It's yes it is. Yes. So, so don't, Yeah. Get, get the right advice, you know, when you're, when you're talking with your folks, make sure that you get somebody who really understands this. I would, I would even recommend that you might call Rick because he understands all of this stuff and we're gonna tell you how to do that in just a minute.

Rick Krebs (35m 30s):

So one other thing, Sorry Tom, one other thing I wanna bring up before I forget is there are some C corps out there. There's a, there's a little known tax law where C CORs are not subject to double taxation. In fact

they're not taxed on any of the gains. And what I think happened is, I look back on the law, I think one of the lawmakers had a, had a relative that owned a C corp and they wrote this like very narrow escape from C corp tax law where the gains are not, are not taxed. Right. And there's very few that can qualify for it. But there is, there is an out and it's kind of a narrow out, but there is one that people should be aware of if they

Tom Bronson (36m 13s):

Is there. Yeah. Is there, is there anything in particular, I mean Reader's Digest version that that a company would go, Oh I would, I might qualify for this. Is there any kind of criteria that you can share with us on that?

Rick Krebs (36m 25s):

You know what, they need to talk to their CPAs. Yeah. And say, and just say, Hey I understand that there's an out for my C corp. Look it up. Because again, it's a very narrowly focused practice and you have to, you know, it's like walking a tight wire almost. But there's a few lucky owners of C CORs that have been able to qualify for this and not pay any gains, any capital gain on the sale on a C corp.

Tom Bronson (36m 47s):

Boy, that's awesome. That's awesome. Well, before you tell us about your business, quick question here. Is there a good way to increase a business owner selling price?

Rick Krebs (36m 59s):

Yeah. So you'd ask for a good way. I'm gonna, I'm gonna give you three. Okay. I could have a whole list, right? Yeah. But these are the things that, that buyers like one, they like management in place business has to own better, has to run better in the owners' absence than in their presence. So solid management that's gonna take it and run with it. They like solid customers, they like to see high customer retention rates, they like to see low customer concentration, right? So if your customer concentration is high, you need to work on that, go out, get other customers and, and business owners sometimes get a little bit lazy with that, right?

Rick Krebs (37m 39s):

But looking at that, when I say hi, if your top three customers are more than 50, 60% of your business, you need to go find some more customers. Yep. Right? And and diversify. And they love to see employees that are happy. Now the employee issues becoming, I say it's an issue because finding good people is really hard in this market. And there's head hunters out there all the time. I have a digital marketing company and they called it the, the great resignation. You know, they lost like five people in one day. Oh yeah. And so good people, you know, you look@glassdoor.com, what are the ratings? Are the employees happy? And so those three things.

Rick Krebs (38m 21s):

And then I would add to that, number four is you've gotta have a product or a service which is unique and I would say world class that's leading the industry. If you have a secret sauce, something that gives you edge,

the edge over your competition, they really like that. They like leaders in the industry at whichever industry you're

Tom Bronson (38m 41s):

In. That's awesome. In fact, my next book, which will be released probably around the time that this series is wrapping up cuz we're gonna talk about my, my second book at the end of this series for our audience. And it is 65 specific things business owners can do to improve the value of their business. Great.

Rick Krebs (39m 4s):

Love

Tom Bronson (39m 4s):

It. And these four things are in that book. And so, so yeah, it's, it's, it's kind of a follow on to our original book, which is talks about the reasons why you should be doing this and thinking about it. And then would give you, you know, specific things that you can do in the next book, which will be coming out here in the fall. So around the time that this podcast is, is released. So well tell us a little bit about your practice and how you help clients drive toward their ideal exit.

Rick Krebs (39m 34s):

So I'm of e and acquisitions firm. We're called Business Sales Group. Been doing this for about 12 years now. And how I got into where I'm at is, well first I sold my company and I didn't have any help really. How's that? There's a mistake. We ended up getting attorneys involved not getting paid and it was a mass, an absolute disaster. And so after that I had a friend who had did business brokering. He's like, Rick, you to do business brokering. So I started doing it. I learned how to help other people not make the same mistake that I made. And I saw, we did, we did main street stuff a million and less usually and business brokers do a great job with those.

Rick Krebs (40m 18s):

But I saw this underserved space investment bankers typically do 30 million and above business brokers do a million and and below. But there's a space in between where I didn't see that people were getting the help that they needed. And so we focus on that space between 1,000,030 million in value. And with the CPA background, I feel like that my skills lend themselves well to business owners on those. And we're all about adding value and having a good exit. So as part of the exit planning, we work with clients early on and we help them assemble their exit planning team and we help them start getting educated and get the people that they need and surround themselves with the people who can add, increase the value of their business, get 'em started down the track that they need to go for a better exit.

Tom Bronson (41m 6s):

That's, that's awesome. I I hope that maybe one day we'll be able to work together because it sounds like



we've got a good fit for some synergy for our work. I I, I was not aware that you sold that business. I'd love to have you on, We do a series twice a year called Tales from the 17% Club, cuz it's only 17% of the attempted transactions actually reach the finish line. So 83% failure rate. Would you, would you buy a, you know, would you buy a car if you had a 83% failure rate on it? No. And so, so, but so why do you try to sell your business when it's not prepared? Because you, the odds are against you.

Tom Bronson (41m 47s):

But we interview folks on that podcast about their transactions. So if you'd be willing, I would love to have you on and talk about that other transaction and the lessons that you learned from it. And because it's, to me it's all about just empowering our listeners with good information and, and we've had some folks on there that have had bombs and we've had folks on there that have had real great exits as well. So, so hopefully we can get you on there. Well, one last question. This podcast is all about maximizing business value. What's the one most important thing you recommend business owners do to build value in their business?

Tom Bronson (42m 28s):

One thing,

Rick Krebs (42m 29s):

One thing I would say get a valuation and learn about how valuation works.

Tom Bronson (42m 37s):

Yep.

Rick Krebs (42m 38s):

Do that early. Look at be able to, to take the glasses from a buyer and put them on and look at your business like a buyer would. And the valuation is the first step in doing that.

Tom Bronson (42m 50s):

Yeah, I love that. I think, I think every business owner should, because most business owners have an unrealistic opinion of what their business is worth. And so if you get evaluation it'll at least help you kind of ground. And then if you need it to be worth whatever your unrealistic expectation was, start working on that.

Rick Krebs (43m 9s):

Yeah. It segues into so many things, right. The valuation just starts that process. It's a tip of the iceberg. Yeah. And you can start learning about all the other things you need to learn. But that's the, I think that's the single most important because that's the first step right

Tom Bronson (43m 23s):

Now. I love that. I think that's a great step. Well, I'm not gonna let you off the hook even though you've been

a great guest here yet. We've gotta ask you our bonus question. And our bonus question is, what personality trait has gotten you into the most trouble through the years?

Rick Krebs (43m 37s):

I try and do too much, Tom. I squished too much in a day.

Tom Bronson (43m 44s):

I have unsuccessfully lobbied Congress for years to give us, you know, 20 or 35 hour days. Right. But I just can't see to get there. So Yep. We're all given the same amount of time what we do with it. Right. I that's, I totally get that. So how can our viewers and listeners get in touch with you?

Rick Krebs (44m 4s):

My website, [www.bletterbsalesgroup.com](http://www.bletterbsalesgroup.com), that's shorten for business sales group.com, [www.bsalesgroup.com](http://www.bsalesgroup.com) or my email is [rickbsalesgroup.com](mailto:rickbsalesgroup.com). Or you can see the book on Amazon Sell Your Business By Design, Not by Default.

Tom Bronson (44m 26s):

Yeah. This is what it looks like and it will be on our website and available in Evergreen. So, so you can go there and and pick it up right from our website. Rick, this has been a great conversation. Thank you for being our guest today. You're welcome. Thank you for having me on Tom, you can find Rick j Krebs at his, the website that he gave you b sales group.com or you can find him on LinkedIn and of course you can always reach out to me and I will be happy to make a warm introduction to to Rick Krebs. This is Maximized Business Val, this is the Maximized Business Value podcast where we give practical advice, I forgot where I was there for a second.

Tom Bronson (45m 9s):

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 cuz if you follow us, you'll be notified every time we drop a new one every week. So until next time, I'm Tom Bronson reminding you to learn as much as you can about exit planning by reading books, written by Shepa certified exit Planning advisors while you maximize business value.

Announcer (45m 43s):

Thank You for tuning into the Maximized 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](http://www.masterypartners.com). That's master with a y mastery partners.com. Tricky town.

Tom Bronson (46m 28s):

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