Sound Financial Bites 074 - Marek Omilian

Episode Transcription

> *"When we think about the value of the company…we think of it in terms of profitability, risk and growth."*

Marek Omilian: It kind of all started in business school when my accounting professor became a friend of mine later on. I'll never forget this quote what he'd said, quoting him, "You shall never be wealthy without owning a significant piece of equity," and he meant equity in the business.

Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host, Paul Adams, now brings directly to you.

Paul Adams: Hello and welcome to Sound Financial Bites. My name is Paul Adams, your host today, and I am excited to tell you about Marek Omilian today, our guest. Marek owns a company called Value Prism Consulting. Though that's probably not going to be the thing that you talk about most after listening to this podcast. What you're likely to talk about most is the fact that Marek is about to depart, and by the time you hear this podcast, will already be in an 11-month sailboat race around the world. That's right. He is stepping away from his incredibly successful business for 11 months, having put in processes, procedures, systems, and leadership necessary for him to be away with absolutely minimal communication, and you're going to hear, in part two of this podcast, how that is as little as five not gigabytes of data a month, five megabytes of data per month, and that's how he's running his entire business.

He owns a business called Value Prism Consulting, which helps businesses better understand what they need to do to build value for ultimate sale for banking purposes or just for building a more robust business that can better withstand the vagaries of the marketplace. Marek has built this business enough to be able to be on the road for 11 months, so I hope that you all get a chance to listen, engage, and take away a ton from this podcast, and Marek has a special gift for all of our listeners. He has built a white paper called The 50 Metrics to help build value in your business. This white paper is what his software is built upon that he's going to talk about a little bit later that may be released as early as next year. You'll get a chance to have that, read it, take it in, and you can find that on our website right inside of our show notes. I hope you have a great day, and I think you're going to love Marek Omilian in building value and autonomy in your business.

Marek Omilian welcome to the podcast and Sound Financial Bites. I'm so glad you can be with us today.

Marek: Good to be here, Paul.

Paul: What I thought we could do today that'd be great is separating our conversation, really, into a few different areas. A lot of it having to do with your business and what you do at Value Prism Consulting. Now, you value businesses for business owners or for larger businesses with multiple owners so that they actually know what their business is worth and they are holding this one stock that's very volatile.

That's one thing I wanted us to go into. The next is the idea of what are the practices somebody should be in in their business to get good valuations or have the best shot at getting good valuations.

Then, lastly, have you and I spend a little bit of time just talking about this amazing sailing race where you're going to spend 11 months circumnavigating the globe. Although, I want to talk about that first, and maybe our listeners would even want me to talk about that first, I think these other components are so key for our clients. Could you just start with just a little bit about Marek Omilian and Value Prism Consulting and what you've done to build it so far?

Marek: Sure, absolutely. Value Prism Consulting is a professional services company. We do two things. We value company's assets, you name it, and we'll talk about that in a second a bit more, and we also do business case consulting. We help large enterprise-level customers or clients make database decisions based on evaluating cost and benefits, and understanding the value proposition from some major investments. We do a lot of work for technology companies such as Microsoft, Dell, SAP, and their customers when they're faced with tens of millions of dollars decisions whether to upgrade to a new system or new software, and things like that.

"It's frequently that we see this disconnect between what are clients expect the value to be and then what we come up with."

But, a lot of that business case work kind of spun out from our core expertise, and financial analysis, and valuations. I've been in this field for over 20, 25 years. I started with the Big Four accounting firms, or now Final Four accounting firms, and about 13 years ago, a few of us spun out and set up Value Prism Consulting. We're based in Seattle.

Paul: Right on. Something I heard in there that I don't want to kind of skip over, but I think it's going to come into the second part of our conversation around valuation practices. Did I hear you say that these companies that are going through major software upgrades or needing to change one big component of business will bring your firm in to literally understand if we do this, we think we know what the business outcomes might be, but we also need to know what the valuation impact is going to be?

Marek: That's right. People would think about valuations as what's my business worth, and that's the right thing to think about, but the topic could be extremely broad, and the way we think about that is more in terms of value drivers. What are the value drivers behind either the value of your business or decisions you make, or metrics that you have in your dashboards that you focus on? How does that really drive the value overall? We'll talk some more about some of the work we've done recently, but we focus a lot on -- anything we do, we focus on value drivers.

Even when with coming up with sort of discrete estimate of value for a business, we like to think and point out to the client what are some of the key assumptions and value drivers that drive that conclusion, and have a discussion about that.

Paul: So that they understand not only if we spend $2 million to upgrade this software system, they might know what they're going to make in new revenue, new profit, but they may not know, "Is it going to increase our business by $4 million or decrease the value of our business by half a million?"

Marek: Yeah, and really the way I think about my sandbox or my play area, if you wish, in terms of valuations, there literally are hundreds of reasons that valuations are needed. People are most familiar with mergers and acquisitions. I'm getting an offer, I'm making an offer to buy a business, and that's what people are familiar with. But, there are so many other reasons such as tax compliance, financial reporting, but also that decision-making, and so that business case world that we are in, which is very much a niche area for us, but a business case world deals with decisions or analysis. Let us do the analysis and compare two different options and see which option has a better financial return, given a risk profile of a future option.

Paul: Now, these business owners, whether they're a partnership, three of them owning a large business, or a single owner, they have a tremendous amount of their net worth basically wrapped up in a single stock, and that's something that we've talked about that we got picked up by Forbes, and Fortune, and Inc. with some of the interviews they did with me last year was this idea of you won't have financial independence on your company stock, and I always think about any particular investment. What's its volatility?

I've got, maybe, some more poignant questions here in a moment, but share with me a little bit about what it looks like for you where somebody comes to you and they're getting a valuation and they think the business is going to look a certain way, and from a valuation perspective, it comes out differently. One, maybe an example where you've seen the extreme differences between those two, and then two, how did you watch that business owner reconcile it?

“What gets measured gets done.”

Marek: Absolutely. When we think about the value of the company or the value of enterprise, we think of it in terms of profitability, risk, and growth. Those are really the three areas that drive value sort of 30,000-foot level, and then we can zoom in to the ground level and talk about specific metrics. But, those three areas, profitability, obviously, the more profitable the business, the more valuable it's going to be, all other things be equal. Obviously, the business with the higher growth is going to be more valuable. That's why a lot, for instance, software as a service company, SaaS companies, or even a company like Amazon, they're valued on growth as opposed to profitability because they continue to exhibit this high growth rate year over year.

The third level is risk, and there's probably not enough being said or discussed around risk, and risk could show up in many different ways. For example, in terms of customer-base, it could be a high customer concentration or lack of customer verification. If there's a business that most of the revenues arrived from, say, two or three customers or even a single customer, that business is far more risky than a business that derives the same amount of revenue from, say, 100 customers. It's more diversified that way. The same thing goes with suppliers. The same thing could go with reliance on key employees and things like that.

Some of the work that we did, recently, we're in the process of building this tool to help business owners identify key value drivers that are organizing these three categories: profitability, risk, and growth. But then, bring it down to sort of the level that they understand that they can focus on, and measure, track, and come up with action steps to improve specific metrics. We identify 50 plus or so metrics. We have a white paper that we can share with others that talks about how to actually organize those metrics themselves and keep track of. What we are building right now is this value score tool that would actually help business owners, over time, measure progress they're making on improving the value of their business as they're improving these 50-plus metrics.

Paul: This is something Marek and I talked about before the call that the kind of -- for lack of a better way of saying it, the white paper that's behind the entire online system his company is building right now, that the white paper that's behind that, he's been open to giving away to our listeners. So, you can get that at value.sfgwa.com, that's our website, and putting your email address, and we will drop that white paper to you almost immediately, which is a great gift, Marek. I can't thank you enough for that. That's going to be, I think, a big deal for both the people that are listening to this who are the business owners that know they're going to need to sell one day and for those key executives inside of larger businesses that one of the greatest ways that they can bring value to the company is really understanding what's going to drive value for the owners so that they can bring that specific value to the ownership of the company. Tell me about when you valued something and somebody thought they were going to get -- they just had in their head it was going to be one number, and it turned out to be something different.

Marek: Yeah, absolutely. Unfortunately, we run into this very often where business owners may be receiving unsolicited offer or inquiry for potential sale, and maybe they even receive a term sheet, and they come to us, and the term sheet, unfortunately, is either low ball or not really adequate. But, when we do the analysis, if it's just one potential suitor, one potential buyer, and they're low-balling it, we frequently are able to help the owner understand where that potential buyer may be coming from, why are they coming up with what they're coming up with, and also prepare our indication of value, our analysis that supports value that's different frequently higher.

"You shall never be wealthy without owning a significant piece of equity."

It's not our role. The investment bankers and business brokers are out there to create a competitive bidding process to make sure that the value realized is more in line with the fair value or the comparable value of other transactions. But, on the other hand, frequently, what we're seeing is that, unfortunately, the offer is lining up with what the business is worth, and the reasons for that are, unfortunately, going back to those 50-plus metrics are because there is lack of concentration, or there is sort of lack of growth. Maybe, the business has sort of leveled off last few years and maybe even declined, because the owner has already realized enough cash flow and is sort of running it as a lifestyle business.

Frequently, we see these offers at two or three times cash flow or two or three times EBITDA earnings before interest, tax, depreciation, amortization, which is synonymous with cash flow, and it's hard for these owners to accept the two or three times cash flow, because they feel like they can simply run the business for another two or three years and realize the same value. It's really going through this analysis and focusing on improving profitability, reducing the risk, improving growth, making sure they're showing some year-over-year growth in revenue is what's going to command the multiples that are much higher than the two or three X. Maybe in the range of six, seven X, maybe higher depending on the industry, depending on the motivations of the potential buyer as well.

It's frequent that we see this disconnect between what our clients expect the value to be and then what we come up with, and then it's really up to us to sort of educate them and help them understand with a need to change for their expectations to be met in terms of value.

Paul: I know you can't be prognosticator, but let me ask you a little bit of a general hypothetical. One, just this is more of a gradation question, but how big of a deal -- and you guys deal with many multi-million dollar transactions every year. You guys are doing a lot of business. I don't want to make any mistake, Marek, to our listeners. Marek is not like a guy who's like a home appraiser that happens to appraise businesses, like when you get a chance to check out their website, this guy is a very well-known entity in his world. I think you're going to see that as we continue to delve deeper here.

But, if you could have shared with them -- so, you end up educating them. It's how you deal with their grieving process when they find out that they thought their company is worth $15 million and it turns out to be worth $8 million. What would have been different for that owner had you been able to educate them 10 years prior, the same things that you end up having to educate them in after they find out the business isn't worth what they hope it would be?

"I've always thought about my business and income from my business as an asset itself."

Marek: It's kind of the old cliché saying, what gets measured gets done. By the way, you don't have to track all the 50-plus metrics that we identified. What we actually do, as part of the service, we rank order the metrics and pick, maybe, the top five or top 10, and something manageable, something that the business owners can think of. Of course the top five, top 10 can change quarter to quarter, or half to half, or year to year. As some of the metrics could improve, they may just slide down in terms of how much more they can impact the value. If someone can employ this sort of dashboarding, focus on the right metrics, understanding what drives the value of your business and kind of tick the boxes over time usually from our experience, it takes about two or three years.

If the company is not -- frequently, what we hear from investment bankers is that company is not salable, meaning it's not ready for sale. Nobody's going to buy it, aren't in shape, and so to make it salable, you can't really turn these metrics around overnight. It's a two or three year process, because you have to figure out something like customer diversification, that's a multiyear process. Something out like maybe making sure that all your key management has non-compete agreement employees such that when the buyer buys the company, they don't walk away and start competing. That can be done fairly quickly in the quarter, but some of the other programs are more time-consuming and you just have to be patient and methodical about getting it done.

Paul: When we interviewed on episodes number 59 and 60, we interviewed Kevin Short who wrote the book "Sell Your Business For An Outrageous Price" and he's an M&A guy. He had very much the same thing that you said is, oftentimes, people at businesses that can't be sold have to get some of those key things put in place like the executive stay bonuses or something like that in place that they can actually take care of it, which includes -- you and I had the chance to talk offline a little bit about just how much you've focused on not just building your business, which you've done an incredible job of, but you've also been in that same philosophy of building your personal balance sheet.

Marek: Absolutely.

Paul: What insights would you share with our audience just around, for lack of a better way of saying it, so many business owners might be listening to this, and they've been earning good income, but they either plow it all back into their business for years, but then when the business is doing well, they're not saving on their personal balance sheet, they're just enjoying maybe a better lifestyle?

Marek: Absolutely. We could talk for hours about this. This is a very interesting and dear-to-my-heart topic. It kind of all started in business school when my accounting professor became a friend of mine later on. I'll never forget this quote what he'd said, quoting him, "You shall never be wealthy without owning a significant piece of equity," and he meant equity in the business. I worked for large firms before, and they compensated me well, and I slowly accumulated some wealth. But, I remember the tax bite was a huge negative because it was all ordinary income. When I started my company 15 years ago, I focused a lot on sort of pulling the cash out, building my wealth outside of my company.

I'm a CFA, chartered financial analyst, so I know enough to be dangerous about sort of portfolio management, and I've always thought about my business and income from my business as an asset in itself, which means that it fits a significant part of my portfolio. I need to make sure I grow my other assets to diversify a way from the risk associated with my business. Interestingly, my son, he's 24, is working for a large high-growth company here in Seattle that compensates well and compensates mainly through stock units, and we just had this discussion about it too how he's already gotten off wealth locked up in the RSUs and he needs to really focus on putting the cash in some other investments other than his employer's stock.

Equity ownership is one thing and diversification is another thing, and of course, from the good old "Rich Dad Poor Dad" book by Robert Kiyosaki, you got to make sure you own assets that are producing some sort of income or appreciate and continue to grow your wealth.

Paul: As you've done that over time, I think about even the RSUs, and when people have a lot of RSUs, I always look at that similarly like you drew it together that you've got equity in your company, he has equity in, effectively, somebody else's company that he's an owner, and now, that is not a reason to not save, but your advice to your son was this is a reason to set money aside somewhere else, not a reason not to, which is, I think, what a lot of people keep up to. Like, I don't need to save. I've got $3 million in Amazon or Microsoft stocked.

Marek: Exactly. That's absolutely right. I have over $3 million in Value Prism Consulting equity that is locked up, so to speak, and it's generating income, which is great, and hopefully, it's going to continue generating income into the future, but I want to make sure I build another portfolio of assets outside of it that, if something did happen, I can lean on to those other assets.

Paul: Right there is where we're going have to end part one of my conversation with Marek Omilian. In part two, we're going to end up talking about his sailing race as well as learning about how he set up his life and business so that he could be gone 11 months. We're going to start the next episode in talking about what Marek has done on his personal balance sheet to prepare himself both for this trip and for his long-term wealth building. Don't forget, go to value.sfgwa.com to get the free white paper, 50 metrics that drive value in your business. As always, we hope this episode has been a contribution to you being able to design and build a good life.

I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances and your future to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn. If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, SoundFinancialBites.com, or email us at info@sfgwa.com. Be sure to check out the show notes for links to any resources that were covered in each episode. For our full disclosure, please check the description of this episode, the description of this podcast series, or you can visit our website. Make it a great day.