How I Turned $267 Into $20,500,000

One of the things I love about blogging most is the historical reference points left in the posts I publish. I started a business in early 2019 with the full intention of selling it. Some people dream of building a business that they run and then pass on to the next generation. In contrast, the business I created was built to sell from inception to help accelerate my big hairy audacious goal of achieving a $10,000,000 net worth. The original goal was to accomplish this in 20 years or by the time I was 48. Fortunately, that timeline has proven to be very conservative and has actually happened in approximately seven years – hello $10,000,000.

I say "fortunately" because my priorities have changed significantly since starting a family. My wife and I intentionally waited to have kids because we both had certain professional and financial ambitions we wanted to accomplish first. Self-awareness has been one of my greatest strengths and I knew early that in order to be the dad I wanted to be I had to satisfy the serial achiever in me first. I also had a vision for a certain lifestyle that I wanted to be able to provide for my family and I count myself lucky that I found a partner willing to make sacrifices in the short term to ultimately achieve our ideal lifestyle.

I've been waiting to write this post since starting the business 45 months ago. If I'm honest, I thought it would take even longer to reach this point, but here we are. A couple of years ago I wrote about how you could get rich working for someone else but the quickest way to build wealth is through equity. I've been fortunate to have the opportunity to acquire equity in both of my two prior employers before going off on my own. Although I was grateful for the opportunity, it was never material enough to create the kind of wealth I wanted on such a short timeline. I may have publicly published a 20-year goal but that was only to make what seemed like a crazy goal at the time seem more realistic. As soon as I shared that goal, I immediately and obsessively went to work trying to figure out ways to accelerate that 20-year timeline.

There are a few major drivers that allowed me to turn such a small investment into such a large valuation:

> – **I recruited my smartest most talented friends**. This not only seeded the business with the horsepower it needed to go from zero to sixty as fast as

possible, but it was also more fun to build something meaningful with my friends…not to mention the epic company retreats we've had over the years.

– **I then gave them 40% of the company**. In addition to paying them really well, this was the carrot that made this "swing for the fences" opportunity worth the risk for them.

– I paid myself far less than the value I was delivering. For most of the first three years, I only paid myself for my billable time just as I did the rest of the team. The difference is that everyone else was only responsible for billable time. In addition to my being billable 160 hours a month, I also spent another 80-160 hours a month doing sales, admin, HR (recruiting), IT, etc. I did this for a few reasons: (1) as I brought partners on, I wanted them to get a material profit share, (2) I wanted profit margins to remain robust while still making room for investment.

– **I spent six years building up enough career capital that allowed me to convert my previous employer into a very large annuity and anchor client**. I'd be lying if I said this was just as I planned. The only thing that went as planned is that I left my employer better than I found them and I gave them a six-month notice period, which turned into an eight-month window. There was an overlap between when I was running the business full-time and still transitioning out of my C-Suite role. I officially left there in February of 2020. Two months later the CEO reached out to me, with that conversation eventually resulting in several million dollars in revenue to my new company over the last several years, and the relationship still ongoing with no end in sight.

– **I said yes a lot!** In the early part of a career and business, saying "yes" a lot tends to lead to a lot of opportunities and builds up a lot of goodwill and career capital. I said yes to my clients, employers, partners, friends, strangers, etc.

– **I lived outside my comfort zone**. This has been true now for 45 consecutive months as I've done whatever it took to keep the business growing while simultaneously keeping my partners, clients, and team happy.

– **I paid off my mortgage early.** This was one way that I de-risked my transition into entrepreneurship. I didn't want the pressure of needing to make money hanging over my head. This also allowed me to secure a line of credit for the business just in case…although we never touched that line of credit.

– **I had a massive safety net.** By the time my notice period was up with my previous employer I had 5+ years' worth of living expenses in savings. Not to mention that my wife was still working, earning enough to cover all of our living expenses without our ever needing to tap into savings had I failed to earn an income from the business.

– **I set the business up with a 100% variable cost structure.** For the first 33 months, the business operated on this variable structure, which allowed expenses to flex up and down based on revenue. The good news is that the business continued to grow month after month and none of our team members saw significant volatility in their earnings – at least not on the downside. It actually worked very well for the types of people I was recruiting because not having a fixed salary and being paid a very competitive hourly rate allowed them to be compensated commensurate to their level of effort. In other words, longer hours didn't result in a lower effective rate as it did for these folks in their old corporate lives on a fixed salary.

– I set the business up to be 100% remote from day one. Besides eliminating the burden of additional cost to maintain an office space, this had other benefits. First, selfishly it allowed me to run and grow this business from anywhere in the world and to provide me with the location independence that I had always yearned for. It also has proved to be an advantage in sourcing talent from all around the world.

– We eventually augmented our core US-based team with offshore resources. This created yet another level of resilience in the business. We set up resources in Colombia and Ukraine, which has allowed for a very robust leverage model in our labor pyramid.

– **We operated on the basis of pre-collection of our consulting fees**. As a standard practice, we ask our clients to prepay us before doing any work. Because of this, working capital to run and grow the business was never an issue. We did of course need to responsibly manage this pre-collected revenue, which sat as deferred revenue on the balance sheet as a liability, until we had earned the fees. Put another way, we never spent any cash to run or grow the business that may have been in our bank account if we hadn't first earned it.

> To this day – almost four years in – we still pre-collect 90% of our business. When we don't pre-collect, I allow for 10-15 day terms, we are very disciplined in collecting our receivables and we have our clients trained to pay us on time or risk their projects being put on hold.

Many of the books I read and the mentors I talked to advised me not to give away too much equity too soon. In fact, I was told many times that I should wait at least three to five years before I did. I was told that the biggest mistake founders make is that they give away too much equity too soon. My dilemma was that I needed force multipliers to help me grow the business fast enough to achieve an exit in three to five years so I decided to ignore the advice. I was also advised to not go into business with friends or family. Ignored that advice as well.

I needed partners that thought like business owners and not like employees. Could I have achieved the same result had I not given out so much equity? Maybe…but I doubt it. I needed to create a compelling story and vision to convince my friends to take a risk to join me in building something special and part of that story was the upside of the equity.

We have now experienced two major liquidity events over the last 15 months. The first happened in late 2021 when we sold a 60% majority share at a $6,750,000 valuation. The most recent transaction that will be complete by the time you are reading this post was for the remaining 40% of our equity (15 months later) at a $20,500,000 valuation (3X in a very short period of time). Although we have now sold 100% of the original company, the wealth created from that company is far from over. We (my partners and I) are rolling over a significant amount of our monetized equity into the acquiring company's stock (details and a story for another post).

I'd like to walk through what the return profile looks like for the first transaction and then overall including this recent transaction.

Transaction #1:

The Return Before Profit Distribution

Note: This first calculation only calculates the Compound Annual Growth Rate based *on the valuation of the business.*

Initial Investment = $267.42

Exit Valuation = $6,750,000

Duration = 32 Months

Compound Annual Growth Rate = 4,375%

The Return Including Profit Distribution

That CAGR above is incredible enough but it excludes almost $2M in profit distributions over the 32 months.

Profit Distribution = $1,924,345

Compound Annual Growth Rate = 4,816%

The above is actually conservative as it assumes profits were distributed at end of 32 months but were actually paid quarterly or sometimes monthly.

Total Return

3,243,616%

My Personal Value

$5,890,225 ($4,540,225 extracted in compensation, profit distribution, and cash for equity sold. The remainder was the value of my remaining equity due to liquidity event #1 – $1.35M)

After this first transaction I still personally owned 20% of the company and was entitled to 20% of the ongoing profits, a very nice comp package, and a guaranteed exit in 5 years…unneeded since I was opportunistic enough to engineer this second bite of the apple only 15 months later.

Transaction #2:

Note: this transaction is inclusive of #1 above and not on top of just to be clear.

The Return Before Profit Distribution

Note: This first calculation only calculates the Compound Annual Growth Rate based on the valuation of the business.

Initial Investment = $267.42

Exit Valuation = $20,500,000

Duration = 45 Months

Compound Annual Growth Rate = 1,907%

The Return Including Profit Distribution

That CAGR above is also incredible but it excludes almost $2.62M in profit distributions over the 45 months.

Profit Distribution = $2,624,345 **[this only includes distributions to me and my core partners and doesn't include distributions to the acquiring company; the total number is closer to $3.5M, which would only increase CAGR and Total Return]**

Compound Annual Growth Rate = 1,973%

The above is conservative as it assumes dividends were paid at end of 45 months but were actually paid quarterly or sometimes monthly.

Total Return

8,647,201%

My Personal Value

$9,265,249 ($6,765,249 extracted in compensation, profit distribution, and cash from the equity sold. The remaining is the value of the equity I've personally rolled in the acquiring company – $2.5M)

The Final Multiple

Besides setting up the business to sell, I also had an idea of realistic value for a consulting firm like ours. In any transaction there are really two stories that need to be told to maximize the value in a transaction:

> (1) **The numbers.** These tend to speak for themselves…as long as you've put a good process in place to make this easily presentable to potential buyers. I was fortunate to have worked in Finance and have plenty of M&A experience to know exactly what sophisticated buyers (strategic or private equity) would be looking for. Because of this insight, we set up good hygiene when it comes to tracking, reporting, and analyzing our numbers for the eventual day we would need them to tell our story of growth, profit, resilience, and mastery over our business model.
>
> (2) **The story.** What the numbers cannot completely speak for, is what a really good narrative (story) *around* the numbers does, and becomes your number one marketing tool in selling your business. You sell people the story and the numbers just substantiate that story. I was again fortunate to have worked with someone who eventually became a mentor of sorts who was a master at this. I witnessed firsthand how he crafted a great narrative around the numbers, bringing them to life by adding dimensionality that only a great operator could add. At the same time, this is a delicate dance between marketing what you have done yet also selling the huge potential the company still has, and the plan to avail of said opportunity. A sophisticated buyer is no doubt going to uncover the risk in the deal from their perspective but that is where a good narrative can turn a risk into an opportunity and thus neutralize said risk or at least minimize it from the eventual multiple that gets applied to value the business. (As in protect the multiple from being diminished by said risk.)

No doubt, our numbers were pretty fantastic from day one. No outside money beyond the initial $267.42 that I seeded the company with was ever raised. There was no debt. Revenue grew triple digits every year since inception at the time of the deal process. When many companies trade growth at the expense of the bottom line, we did both: we were not only profitable from day one but robustly so, with 40%+ profit margins (and a business model that allowed for further margin accretion as we scaled). From an optics standpoint, it also helps when you can show you have a history of beating the budget, and we absolutely crushed ours for the first three years. In fact, in the year that we consummated the first transaction we had budgeted to double our revenue and ended up tripling it from the prior year.

I could have gone on and on about why we were great and would continue to crush it…and I did, but eventually, any buyer wants to address the risks they see, especially in light of justifying the implied multiple that was used to value the business they were contemplating buying. Additionally, as in any transaction, it is a tug-of-war between the buyer and seller. The buyer wants to minimize the price they pay, while not losing out on a deal that makes sense to them and their business strategy. At the same time, the seller wants to maximize their sales price, while not becoming so dogmatic and unrealistic that the whole deal is put in jeopardy. It is part art and part science. It can be a delicate dance and it's important to not let emotions get in the way.

That leads us to how the two transactions ultimately panned out.

Note: before we get into multiples and how businesses are valued, I think it is important to point out that in most deals the multiple is implied and not really overtly applied to a deal. Meaning, that only after you get the valuation can you back into the multiple you received in the transaction. I also want to point out that the multiple I am using in my real examples below are based on a multiple of EBITDA (i.e., profit) where others may be speaking about multiples on revenue in the case of say a SaaS company.

Transaction #1 = 5X Multiple, $6.75M Valuation

You don't always get to know how you did in a negotiation after the transaction is done. In this case, I was fortunate to learn that the valuation of our business was set at a range of 3X to 7X. Why a range? Well, the company that acquired the initial 60% that we sold had a separate valuation team provide this range, and then it was up to the deal team and management to decide where we fit in that range based on the particulars of our business, our management team, risk factors, and our future outlook. Now you start to see why the narrative becomes important. I should also add that I think it is important as a seller to know what your walk-away number is…meaning what value is too low to get the deal done from your perspective. In my particular case, I personally wanted to take a minimum of $2M worth of chips off the table, which implied a valuation of $5M – that was my line in the sand. I also knew that I didn't really want to sell 100% of the company because there was still a ton of upside and that second bite of the apple could be much larger (even at a lower equity percentage of ownership) than the first bite. The good news is that the first offer was already $1M ahead of my line in the sand at $6M and through the back-and-forth negotiation I was able to get that up to $6.75M by the time we finalized the deal.

Did I leave money on the table? Should I have pushed harder or threatened to walk away? Maybe. That's a really hard question to answer with any real confidence without the buyer flat-out confirming they would have paid $X (and trusting whether that was real or not). That said, I don't regret the deal even knowing after the fact that it might have had additional upside to 7X vs. the 5X we received, because I was optimizing for several things simultaneously.

> (1) I personally wanted to de-risk and take chips off the table. Anyone that has been reading me for any length of time knows this is due to my "risk mitigation first" approach. We beat all the statistics that were against us, so taking chips off the table was, in my opinion, the prudent thing to do.
>
> (2) Create more security for the team by joining a much larger company.
>
> (3) Find the right partner that could also bring sales opportunities to the table beyond just cash. It's much easier to sell into a warm market for a bigger share of the wallet of an existing client than it is to sell to a cold market.
>
> (4) Secure another exit at a pre-defined future date. In our case, this came with a contractual obligation for the acquiring company to buy our remaining 40% on the five-year anniversary at a pre-defined formula with different levels of kickers based on performance.
>
> (5) And lastly, although the transaction happened about two years earlier than I had expected, this transaction was really needed in order for me not to burn out with all the things I was personally doing and the number of hours I was spending. I was already starting to hire people to shed some of my responsibilities, but this transaction really allowed me to accelerate that in a big way.

Transaction #2 = 14X, $20.5M Valuation

I know I've mentioned this before, but one of the common themes in my life has been accelerating timelines. It's not by accident but it is a recurring theme. I became aware that the company buying us was simultaneously involved in a transaction to be acquired by private equity, which got me planning the second transaction before we closed on the first. I'll admit, I thought it would be possible about three years after the initial transaction but here we are just 15 months later doing another deal. In this time, I've learned a lot about the company's ins and outs and the goals of the PE firm. I first wanted to confirm that an early deal would be worth it because I knew it would likely involve a heavy rollover of our equity into the larger platform. I got to know the senior leadership team more intimately to make sure it was going to be a good fit to go "all in" on them. I made sure to document our continued success on a monthly basis with my monthly performance memos to the key players. I wanted to make sure we were always top of mind.

I played it coy anytime it was brought up that the firm would eventually like to buy the remaining 40%. With each passing month, I sensed that desire increasing as we not only continued to perform but as we both confirmed our assessments of each other as long-term partners that fit well culturally and philosophically. I started doing some modeling in the background to determine that line in the sand number again. I then started talking with my partners about a potential early transaction and walked them through the model I built. In the model, I ran two scenarios: (1) the amount I thought we would have no problem justifying (and be happy about doing a deal for everyone, not just me as the single largest individual shareholder) and (2) the number they might say yes to (and the number that everyone would be ecstatic about). The spread was $7.9M and $10M for our remaining 40%, which implied a valuation of $19.75M and $25M. If it were just me, I was even lower at $6.4M or a $16M valuation.

For additional context, our predefined formula would had valued our remaining 40% equity at $2.9M and so our ultimate deal at $8.2M provided us with almost a 3X premium for doing the deal early. I'm sure you're noticing a trend, but this deal once again allowed for additional de-risking because the amount we would be rolling over to the acquiring company's stock was no longer tied to the individual performance of our part of the business. We would now get the benefit of the entire company, which is 150X larger than our piece, and with private equity involved likely to yield juice to the returns with leverage.

Total = 5X x 60% + 14X x 40% = 8.6X

I feel pretty good about selling a company that is less than four years old for 8.6X.

The Story Isn’t Over Yet

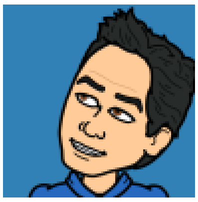
Although we have officially sold 100% of our equity in the original business, we have taken some of the “house’s money” to parlay our bet on the larger acquiring company. Due to certain specifics that I’m not ready to share here just yet, I believe the equity we have rolled over will be worth at least 3X by the time we reach the next liquidity event. I don’t know if it will happen but I do believe there is a chance that this could have an upside as high as 7X on the value we rolled. There are of course a lot of factors that will go into how the next exit looks, but I will say that the third bite of the apple is looking very tasty – as in the juiciest bite of apple we have ever tasted.

– Gen Y Finance Guy

Notes:

- I don’t want anyone to think I’m trying to mislead you when you see that it only took $267.42 to get this business off the ground. This is the only amount of money that I pre-funded the business with and from that point forward insisted that the business self-fund itself going forward. It doesn’t quantify the effort (human capital in the form of hours) that went into making the business a success.
- In the early months of the business, my co-founder and I were still employed and didn’t have the stress of needing to earn an income. We set ourselves up as contractors in the business and only got paid for the billable work we did for clients. You can imagine that I had a lot more hours over the billable work for our clients to keep the company growing (sales, admin, recruiting, marketing, etc).
- The probabilities were stacked against us from day one as most companies don’t make it past year one and of those that do, most are dead within five years.

- It’s also important to make sure it’s clear that although this is my story, it wasn’t me alone that pulled this off. If it were not for my partners and my team, the results would have been dramatically less.
- We started the company with an exit plan on day one. For most, an exit plan isn’t even on the radar.



Gen Y Finance Guy

Hey, I’m Dom - the man behind the cartoon. You’ll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I’m a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own financial stats. I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! Read More