

The Compounding Power of Equity

I've been on an extraordinary compounding journey since [starting my business in 2019](#). From the beginning, I built the business with the end in mind—a decision that I believe was critical to the success we've achieved.

To be clear, when I say “we,” I'm referring to both myself and my partners who helped build the business and who continue to run the practice (our business was integrated as a new practice) within the platform company that acquired us. I previously shared the journey of how an initial investment of [\\$267.42 turned into a \\$20,500,000 valuation](#). Today, I want to pick up where that story left off.

Rather than rehashing all the details, I'll share my closing thoughts on the post linked above for context:

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.

We're now approaching our fifth year of liquidity and our **third official liquidity event**. The platform company's private equity sponsor has gone to market earlier than expected after achieving their **minimum 3X return** and a recent larger acquisition that creates headaches with both companies remaining in the portfolio. As a result, we now find ourselves just **ten weeks away from another transaction close**.

In the **two years** since our last liquidity event, the valuation of the stock we rolled into the platform company has increased by **2.13X** - not quite the 3-7X upside I previously speculated, but still an incredible return for a two year hold.

As of **12/31/24**, the business we merged into the platform has generated **\$17.6M in cumulative revenue**. If you add up our **compensation, profit share, liquidity, and residual equity value**, we have extracted **\$26.6M in cumulative value**—and that's before any additional appreciation of the stock we roll over.

This is the **power of equity when paired with compounding!**

The Evolution of My Wealth-Building Journey

Early in my career, I did what most people do - I traded **time for dollars**. I earned a salary working for someone else. And to be clear: [You can still get rich working for someone else!](#) It's just not the fastest or easiest path to financial freedom. In most cases, the path to the most commonly held definition of wealth still involves **some form of equity** - whether through investing a portion of your salary into **stocks, bonds, or real estate** or participating in an **employee stock purchase program (ESPP) or receiving equity grants**.

Now, let's take a walk down memory lane and outline the key milestones in my journey to financial freedom:

Step 1 (2006-2008): Getting Started

- I started working as an **intern in college**, making **\$13/hour**. It felt like a huge step up from my on-campus **minimum wage job**, and I thought I was rolling in cash!

Step 2 (2008-2012): My First Salaried Roles

- I worked a few jobs with salaries ranging from **\$52,000 to \$88,000**.
- For the first four years, my only form of equity came from **401(k) contributions** that were invested into index funds.

Step 3 (2012-2014): My First Taste of Equity

- I joined a **public company** that offered an **Employee Stock Purchase Program (ESPP)** with a **15% discount**.
- Over **18 months**, I contributed **\$39,600** and cashed out **\$88,440**, earning a **123% return**.
- My salary during this period started at **\$80,000** and ended at **\$88,000**.

Step 4 (2014-2019): Entering the Big Leagues

- I left for a **new opportunity** that became a **career and wealth accelerator**.
- I started at **\$98,000** and, by the time I left, was making **\$350,000 (including bonus)**.
- I made it to the **C-Suite by 30** and got my first opportunity to **buy equity**.
- Instead of taking options, I **wrote a check for \$105,000** and received a **low-interest loan of \$195,000** from the company to purchase \$300,000 in equity, that was non-recourse and payable on a liquidity event. I opted to write a check to minimize the eventual tax liability upon a liquidity event.
- When I left to start my own business, I cashed out **~\$540,000**, netting an **80% gain**. I also received a \$60,000 cash dividend when the PE sponsor did a leveraged recapitalization before selling to another PE sponsor.

At this point, I had experienced the power of **letting capital (not just labor) work for me**. I had learned the **value of equity and** was ready to go all-in on **the compounding model** by starting my own business.

Step 5 (2019-2024): The Entrepreneurial Play

This brings us to today. I started the business **with the end in mind** - with the intention to **build a company to sell**.

I'm now marching toward **five consecutive years of liquidity** from **three official transactions**. Of the **\$26.6M in extracted value**, my personal share has been:

- **\$6.4M** from **selling equity**
- **\$3.2M** in **residual equity value** (what I still own after the third transaction)
- **\$1.8M** in **salary**
- **\$100K** in **bonuses**
- **\$1.5M** in **profit distributions**

Total = \$13M

*Sidebar: I'm incredibly proud of the fact that although I started out as the majority owner, to date, **I've extracted only 49% of the value.** I'm grateful for my partners who helped me realize our vision, and I get so much joy and fulfillment knowing that they have received the majority share of the value at 51%. The goal was to get rich with my friends, and I'm fortunate that they also happen to be incredible business partners as well.*

How Can the Value Exceed the Cumulative Revenue?

If you're wondering **how we extracted more value than our practice's total revenue**, the answer comes down to **multiples**.

When you **sell a business**, you **don't just sell revenue** - you sell it for a **multiple of revenue or profit**. That multiple depends on the company's **growth, profitability, and strategic positioning**.

Another factor? We made a **calculated decision** to **roll some of our value** into the **platform company**, believing we were **trading up** for a much larger **compounding machine**.

Lastly, we also get to double dip as we still get compensated to continue running the practice we brought into the firm.

The Story Continues... But My Exit Plan Is Set

While the journey has been incredible, **I'm now planning my final exit** and the end of this specific compounding adventure.

I'll share more details in a **follow-up post** as I **start my two-year countdown**—a requirement to **maximize the final value of my remaining equity**. (T-MINUS 800 Days!)

Stay tuned... because **the best bite of the apple might still be ahead.**

- Gen Y Finance Guy



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](#)