

Interview with Carl Allen & Adam Markley @ Prox Capital Partners

Introductions

- **Who are you?**
 - We own a bunch of different companies
 - Adam and I buy companies through our PE company called PROX
 - We also coach about 5,000 other entrepreneurs using our proven business buying system
 - We want to create a legacy by helping people create real wealth
 - Our goal is to create an army of entrepreneurs who are living the life they want to live.

- **How'd you get started in “micro private equity” industry?**
 - Most people think about PE in terms of multi-billion deals
 - We're doing what they do – leveraged buy outs – with “mainstreet businesses” (\$1m - \$5m in revenues)
 - Carl Allen
 - I've been at this for about 30 years now (started in 1992)
 - Investment Banker at Bank of America
 - Was buying and selling businesses
 - Had a stint in PE and Corporate
 - Was doing M&A for Hewlett Packard.
 - Became a business broker
 - Wound up buying his first company
 - About 4-5 years ago...
 - I created the market for the “business buying training” industry
 - Adam Markley
 - “If Carl is Wall Street, by background is Main Street”
 - I started working in public accounting early in my career.
 - Got a taste and flair for small businesses early one
 - One of my clients asked “how do I grow my business from one location to many locations?”

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- After that, I was hooked helping small businesses grow.
 - “I feel comfortable walking into any company and making it more money”
- **How did you get involved with Prox Capital?**
 - Adam bought Carl's business in 2019 into a larger business.
 - Since then, they've spun the business out and are independent.

The Opportunity

- **What is the Mega Trend?**
 - The Baby Boomers
 - According to the WSJ, 10,000 retire every single day
 - Something like 20% of them own a small business
 - Lots of people who are looking to sell who don't have a succession plan
 - Their kids want to go on and be doctors and lawyers
 - “The greatest wealth transfer in the history of the world”
- **How big is the opportunity?**
 - 10's of trillions of dollars of wealth will be transferred from retirees to someone else
 - “What we latched onto 5 years ago, only 1 in 11 businesses that try to sell actually do”
 - The number one strategy for exiting the business is shutting it down.
 - There is a massive gap of people who know how to acquire businesses and have access to capital to acquire them.
 - Most people think you need to buy a business in all cash, but you don't. You can use all sorts of creative financing.
- **Who are the major players?**
 - Middle market private equity dips down to businesses doing \$15m - 20m at the lowest
 - Anything lower than that, the juice isn't worth the squeeze
 - For <\$10m, and especially <\$5m, the competition is private buyers
 - The level of sophistication from the buyers side is very low
 - You can develop knowledge by getting into the market and getting some coaching/mentorship.
 - You've got a lot more volume of opportunities
 - More businesses doing \$1m - \$5m with less competition
 - 99% of all businesses are <\$10m in revenue

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- If you own a business in this range, you've only got three options...
 - Close it down and pocket what's left
 - Sell to a competitor (someone bigger than them)
 - This is risky, takes a lot of time, and the buyer could strip the assets and fire the employees, destroying their legacy
 - Sell to an individual who can act as the safe pair of hands.
- **What forces are driving the opportunity?**
 - When you are doing massive deals, it's all about financial engineering.
 - When you're doing smaller deals, it's all about building relationships and taking advantage of "seller psychology"

The Problem

- **What is the story about this opportunity no one is telling?**
 - A lot of motivated sellers but not enough educated buyers
 - You've got millions of small businesses that meet the criteria
 - Qualified = knowledgeable about the process (not financial net worth)
- **What are the major problems no one is talking about?**
 - "I don't have enough money"
 - "I don't know how to run a business / manage people"
 - "I don't know how to read P&L Statements"
 - EXAMPLE: Construction engineer who knows none of this
 - In July, he acquired two companies
 - In September, he acquired his third
 - Went from earning \$90k to earning \$750k/year
- **What are the major problems investors face they don't know about?**
 - "If it's your first deal, go buy something that's in your wheelhouse. Stay in your lane"
 - If you're an engineer with a career at IBM, go buy an IT services company. You already know how this business works.
 - "It's one thing to buy the business..."
 - Where you really make money as an investor is in growing the asset you buy.
 - A lot of people try to do these deals alone...
 - Instead, go partner with someone who has experience.

- “There's a big difference between being an owner operator vs owner investor”
 - We don't know anything about frying burgers, but we are investors into businesses that are working
 - You can have a partner or a GM that can do the “hard work” of the day to day operations.
- Your job is to be there to facilitate the transaction
 - We don't want to operate the business. We're going to sit “above” the business to help it grow.

The Catalyst

- **Why is NOW the best time for this type of investment**
 - “It's the perfect storm...”
 - There's 2.6 million businesses for sale, right now, in the United States.
 - Only 1 in 11 will sell in the next 12 months
 - Everything is changing about the way people are working...
 - Even last year, there were 6.6 million Americans who left the corporate world and started a new business from scratch
 - 96% of those people will fail in the first 10 years
 - There are loads of people who want control over their financial destiny
 - They don't want the risk of being laid off by a large corporation.
 - Business ownership is the perfect solution to leave corporate and do your own thing...
 - But instead of doing a startup, buy something that already works.
- **Is there another investment asset that can generate this kind of yield?**
 - ADAM: I've invested into just about everything you can think of.
 - If you were to give me any choice, I'm going to go make my money into small businesses, then move it into less asset classes that have lower ROI but a better store of value
 - When you buy a business, you have an opportunity at infinite returns.
 - You're buying something with existing returns
 - You don't have to put any of your own money into the deal depending on how you structure it.
 - You can get much better returns on capital invested than a dividend stock

The Mechanism

- **How do people take advantage of the new opportunity?**
 - “We’ve created a proprietary system to do this”
 - We’ve taken what the pros do on Wall Street and applied the methodology to a small business
 - The 10 Steps
 - **1) Mindset**
 - People say knowledge is power, but I disagree. It’s only power if you take action.
 - We really help our students understand “why are we doing this?”
 - No one wants to own a business, you want what ownership provides. Wealth, cashflow, pride, ego, freedom.
 - **2) Deal Specification**
 - Do you want to be an owner investor or owner operator?
 - What sectors do you know? Understand?
 - **3) Deal Origination**
 - Building a funnel, looking at lots of opportunities.
 - Once you’ve found a bunch of deals you like...
 - **4) Deal Analysis**
 - Is this a good deal?
 - **5) Deal Valuation**
 - How much is this deal worth?
 - “This is high school math. You don’t need an MBA”
 - The math is the easy bit, it’s the relationship building part that takes time
 - **6) Make an Offer**
 - **7) Raise Funds**
 - If you need financing for the deal, you’ll need to do this.
 - Finance the assets, get an investor, get an SBA loan
 - **8 Find Partners**
 - Getting people to help you, like an attorney/CPA to do the due diligence.
 - **9) Closing**
 - Doing the deal
 - **10) Grow the Business**
 - Once you own the business, now it’s time to grow the asset.
- **What does your investment process look like?**
 - “The first thing is what’s in your head”
 - You have to develop an understanding of the process

- Once you understand the process, you can do it over and over again.

The Solution

- **How can people watching this interview get started with this new opportunity (and using this new information/strategy)**
 - “Leaders are readers”
 - Carl reads two books a week. A lot of my knowledge has come from books.
 - Barbarians at the Gate – The story of the \$25b LBO of RJR Nabisco in 1987
- **Additional Resources**
 - www.TrainWithCarl.com/Equifund
- **What separates the “winners” from “losers?”**
 - Understanding your “Reason Why”
 - What is your purpose? Why are you doing this?
 - “When we look at all of our students who’ve done well, they all had a burning desire to change their life”
 - This is what made getting out of their comfort zone and trying something new.