CEO CFO

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Patented Online Business Valuation Engine for Business Owners and Entrepreneurs

Business Services
Valuation

Michael M. Carter
Founder and CEO

BIO:
Michael M. Carter | CEO BizEquity
Michael M. Carter is the CEO and President of BizEquity, the first patented and leading online business valuation service. BizEquity was created to democratize and provide better access to business financial knowledge for the Global 200 million SMEs. Michael was formerly Managing Director of The Musser Group, where he worked with entrepreneurs to help finance, structure and grow companies along with legendary venture capitalist Warren V. "Pete" Musser the founder investor behind Comcast; QVC; and Novell. In his career so far, Michael has assisted in raising more than $300 million in capital as an executive or founder of technology companies. He has been affiliated with and has helped to create over $2 billion dollars in shareholder equity or value. Michael has founded three technology companies and served as an executive officer of a billion dollar publicly traded technology services firm. He began his career in Management Consulting at Cambridge Technology Partners where he helped leading Global 2000 organizations embrace technology to enhance outcomes. Michael is on the board of the Arthur Ashe Youth Tennis and Education Center; on the board of Daleco Resources a clean energy and concern; and is the founder of Entrepreneurs Management Group.

About BizEquity
BizEquity exists to help business owners and entrepreneurs answer the most important question facing their business and their prospects for growth. BizEquity has developed the first and only patented online business valuation engine of it's kind to help. Now with BizEquity for 1/25th the cost and in 1/25,000 of the time, a business owner and entrepreneur can know in real-time and receive an estimate of what their business could potentially be worth.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

CEOCFO: Mr. Carter, what is the concept at BizEquity?
Mr. Carter: The concept at BizEquity is to help small owners by bringing Wall Street level knowledge of business valuation to Main Street. When we say that we want to democratize business valuation knowledge, we really mean it. What we are looking to do is by putting it online in a better, faster and cheaper way for business owners to know what they are worth.

CEOCFO: How are you able to do it better, faster and cheaper? What is the traditional method and what have you devised?
Mr. Carter: That is a great question. The traditional method, like a lot of businesses or industries before us, was an offline process that was more expensive and took more time. For instance, typically today the business valuation process, on average according to IBISWORLD, costs seventy five hundred dollars ($7,500.00) and takes four to six weeks to complete. Obviously, there are valuations that are also in the six figure range and the companies that typically get these valuations done are slightly larger firms that spend that type of money. However, the idea of business valuation is really something that every business owner should know. That is because, at the end of the day, that is why he or she is running their business. Therefore, what we have done is said that if you could codify that knowledge base, meaning how you would typically calculate a business valuation offline; if you could codify it and put it online you could decrease the cost in inefficiencies of doing so. We are big fans of Intuit here. If you think about what Intuit did, for instance, with Turbo Tax; Intuit took an offline process of estimating taxes owed for an individual consumer or business owner with QuickBooks and put it online. Essentially, that is what were are doing, but for the business valuation space. The amazing thing is, despite the fact that all business owners create and run their companies to one day sell them or pass them on to the next generation, that less than 25% know what they could be worth. If you think about it, business valuation is what a business should do every year. It should not just be episodic; it should be what they know at any time, because that is

why they are running their business. Less than three percent of all businesses have a business valuation and think that is because of the cost and the time that it takes. Therefore, our goal in life and our mission is to democratize that and grant access for companies in the US, to start, but globally as well, to be able to get this knowledge.

CEOCFO: What were one or two of the harder pieces of information to codify?
Mr. Carter: I think a key piece of this is the algorithm that we have created that have the Generally Accepted valuation policies and procedures codified in that. Therefore, I think it is having the proper algorithm that is not just based upon discounted cash flow, but based upon how businesses are truly trying to run their business, which is to be tax efficient, but then also to marry that to hard coded business rules in terms of how to calculate the value of a business.

CEOCFO: With something like the Affordable Care Act and the changes that are so "up in the air"; how do you factor in those circumstance?
Mr. Carter: That is a great question about ObamaCare, i.e. the Affordable Care Act. What we have seen, mostly, is that it hard to tell the impact of what that is going to do from valuation perspective. Obviously, with the news in the media today, it is all around the fact that it is going to increase the cost of small business, because now they are going to have to insure that over a certain size business that they cannot "1099" folks. I think that they have to bring them in and pay for full healthcare insurance. It is too early to tell. It is not in affect yet. What is fiction, what is nonfiction?

However, what I can tell you about the Affordable Care Act and ObamaCare is that there had been three times the number of healthcare physicians and doctors and dentists that have done business valuations on our site, www.bizequity.com just in the past twelve months and accordingly in the industry, that are looking to sell over the course of the next three years, than there has been over the last twenty years. Therefore, three times as many doctors or physicians are going to look to sell themselves, I think, in the next few years, because of the potential impact of ObamaCare, than that have done so in any past time period. However, I think it is mostly the uncertainty. It is hard in the short term to estimate fiction from non-fiction around it, so we try to be agnostic and focus on what we can and what our engine can actually calculate.

CEOCFO: I am guessing that the concept is most businesses would take advantage of doing the valuation if they could get it reasonably and were aware that you exist. Therefore, how do people find you?
Mr. Carter: I think we have been one of the best kept secrets and I think that is what we have been told. We have been called one of the best new ideas by Finovate, which highlighted the top fifty financial companies in the US. We have gone about our business quietly. We are in the fourth version of our product. Close to ten million dollars has been put into our engine. They find us organically through search. When they Google or search "what is my business worth" or "business valuation", we certainly pop up. Also, this has been a big effort for us. If you remember the "Intel Inside" marketing campaign in the 1990s around where Intel wanted to be inside of all computing devices, we really want to be inside of all financial services or business services marketing efforts. I think more and more business owners will find us through financial services partners, such as some world class banks we are working with today, insurance agents and insurance carriers we are working with, trust and estate planning companies we are working with, wealth management planning companies that we are working with and then finally, business to business data companies that we are working with as well. Therefore, we really want to be "BizEquity Inside" from a channel prospective as well as obviously, to gain more brand awareness through terrific interviews such as this one with yourself, direct to the SME or small business owner.

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- Michael M. Carter

CEOCFO: Do you find any concerns with people giving out all of their information or is this just not that big of a factor these days?
Mr. Carter: The interesting thing is, unlike the "consumer business to consumer business" services that are out there, we are "business to business". Therefore, we do not ask for unique identifiers or Social Security number or things along those lines. Therefore, I think businesses are generally more comfortable, because it is not personally identifiable. Additionally, I think that you really cannot get someone to give you something unless you are giving them something in return. Therefore, what we do, which is a bit unheard of, is we give a business owner a free number or score as they go along up until the last step and then they have to opt in and transact to get the full twenty four page report. However, up until that point we give a free estimated value. Therefore, as a business owner puts in more data the value of their business changes online in real time, in what we call our Score Board Future on the top right of the screen. Therefore, I think you have to give to get.

CEOCFO: Is it hard for a business owner not to keep going?

Mr. Carter: Yes, I think so. We are not doing anything today with any of the data. It is encrypted. We have a stated data policy online.

CEOCFO: You have some businesses for sale listings and I see BizEquity Capital. What are the ancillary features for you?

Mr. Carter: We are big fans of "core verses context" from a management principles perspective, so it is really important to know your core and what you are good at and focus on it and have everyone driving at that. Therefore, what is core to us is being the best online in the cloud business valuation service. That being said, by answering the question, lends yourself to wanting to help these same businesses grow. Every day we hear from a couple of hundred companies that want us to help them with other decisions that they need to make; which is "who do I work with if I want to sell my business, who do I work with if I want to buy a business. If I am looking for loan do I go to a traditional bank, do I go to one of these peer to peer lending services." Therefore, we have developed and we are developing even more so, an ecosystem of partners for all the contextual services that we could provide. For instance, on the lending side we work with Lendio, which is a matchmaking service for helping folks looking for loans match up to firms that will provide business. On the listing side we work with BizBuySell; that is a classified service. Therefore, I think we are certainly best of breed and we are the only patented provider out there in this space doing what we are doing. Therefore, everyday different business service providers want to partner with us. I think that it additive to the customer experience. However, we are focused on our core which is how to make what we do today better, faster and even cheaper every day.

CEOCFO: How do you vet the people you partner with?

Mr. Carter: It is multipronged. It think it is from their customer satisfaction that we gather, whether it is from Better Business Bureau perspective or online. Then there are some social services that allow for that. Two, it is the kind of a market share they have; Are they a leader in this space. The classified service that I mentioned has the most classified listings. The lending service I mentioned is the matching engine for the top three or four lending providers out there, such as OnDeckCapital and so on. Therefore, I think it is customer service, market share and then the final piece would be "mind share"; where are they, how many customers they actually have and how many prospects are looking at them and so on. Therefore, it is multipronged.

CEOCFO: You mentioned medical as an area that is certainly looking to value their businesses. Are there other types of businesses that have a common thread that you find these days?

Mr. Carter: Yes, absolutely! Retail is huge. It is a most common industry classification of a business. They tend to be the merchants that work with the great credit card companies that are out there, such as MasterCard or American Express or Visa. Therefore, those small businesses or merchants are probably the largest classification of any industry that comes online and wants to know what they are worth. The top three or four reasons why people want to do a valuation is; number one, they are looking to sell their business, number two, they are just curious and those are pretty much equal on our site. That means from a propensity of why someone uses our service. That is very interesting, because it shows that it is a provocative question that most merchants and small business owners want to know. The third and fourth reasons are insurance; fifty percent of businesses are underinsured, but they do not really know if they are or not and insurance agents cannot really prove that or not. Then the fourth component is estate planning; at the end of the year, how do they know how much to dividend out from a tax based perspective. Those are the top four reasons.

CEOCFO: What surprises people when they get their reports? Are there one or two things that really stand out that people are surprised you can provide analysis of?

Mr. Carter: I think that most businesses do not know what they are worth on the downside. That means that they do not know that they are typically worth more than they assume. Here is why. This is pretty interesting and has probably been our biggest lesson learned over the course of the last three years. It is that most businesses do not think they are worth that much because their friends that are in finance ask them what their earnings are before interest and taxes and most business owners are busy running their business and do not really take the time to know what that means. However, it is actually the wrong way to value a small business for a merchant. That is because it is not based upon growth. It is based upon, many times, being tax efficient. Therefore, at the end of the year they might not show any net income, but that does not mean that they were not a profitable company for they year. That is because they paid themselves, they dividend out to themselves or other shareholders and they have also covered expenses. Therefore, when you add that back that creates what is called in the industry and with the accepted principals' evaluation, an SDE, Sellers Discretionary Earnings. Most business owners are pleasantly surprised, because they are worth more than they knew that they were. It is really for that principal and for that reason. The second thing, which is a bit more commercial, is that we do not just give a valuation online; we give four different specific valuation figures when someone consumes and buys a report. The price of that is one twenty fifth of the average price. Therefore, it is only for a couple of hundred dollars and they get this report. It is the four valuation figures. Therefore, it is always, "I just thought it was going to be one in more detail." However, the big thing when they get a report that everyone is blown away by is; we do close to thirty different key performance indicators on the businesses performance, against twenty million of their peers in the

United States, the overall small business economy, the industry that they compete in and the geography in the industry that they compete in. That blows people away, because they say, "you did not tell me that I am getting all of this, too." Therefore, that makes us feel good and it helps me to figure out that I could probably be doing a better job marketing the product. We talk about valuation, focusing on our core, but we do much more and we really give this business report which goes above and beyond what we do.

CEOCFO: What have you learned in previous ventures that have been most helpful in growing BizEquity?

Mr. Carter: That is a great question. Here is what I have learned. I think there is a big difference between a venture backed entrepreneur and an entrepreneur/small business owner. That means that when you raise venture money to build a product that is not built yet, I think there are many mistakes that can be made and I think you get a bit sloppy, whether you want to be or not. It just goes with the nature. You tend to maybe over hire. You tend to go down different paths. I think that there is a purity of focus and a commitment to the product and delivering of service when you are self funding the company and it is "boot strap" based upon helping customer achieve their goals. I think that is a true kind of small business person and a true entrepreneur is when it is self funded and/or it is based upon customer demand. That has been a great experience here for the team, because we are up to version four of the product and we have built it based upon what our customers and prospects need and want, not based upon something that is on a white board and someone would fund. Therefore, I think that has been the biggest lesson learned. It is amazing what a small committed team can accomplish with a clear mission. I used to read this stuff and not necessarily but into it completely, but we certainly do now. I think, to be a mission oriented business where you say, "if we provide great value, revenue is going to come" and not do the pro forma two years before the product release; meaning not to already count the money that is going to come in based upon a product that is not built yet. Therefore, we said let us focus on creating the best product out there and if we create the best product there will be numerous ways to monetize that. That has definitely been true here and surprising in some of the different monetization avenues with channel partners that have developed.

CEOCFO: What changed in version four from version three?

Mr. Carter: What we learned in version three was that many business owners struggled with figuring out what industry they were in. We had a simple "pull down" box of "find what industry you are in". What we entailed and what our vice president of product created based upon that need was Dynamic Industry Search. It is almost like when you go into Google and you put in a key word, based on that key word, it is not an "either or", it is an "and". You have many different "selects" that come up. Similarly, in our service, if you go into step one and you do not know your SIC or NAICS code, like most business owners, but you know you are in manufacturing and you type in manufacturing, it will list seventy two different types of broad sectors and then another two hundred and twelve sub sectors. It is really helping the user get comfortable and understand the industry they are in. That is because, again, that is such a critical driver to fit the user in. That is one. Two is, the report is improved, as I mentioned about the key performance indicators that are advanced. Therefore, it is not just a business valuation report, but it is a true business report. Then the third thing is, we give four valuation figures. Before, we gave two, which were equity value and a liquidation value. Now we do an equity value, so if you were looking to sell stock in your firm to investors, what could it be worth. We do an enterprise value, which is including the debt in the business. We do a liquidation value, which is; if you had to sell the company today at five 'o'clock, what could you get based upon the state of financials. We also do an asset value, which is typically what a willing buyer would want to pay a seller, but maybe not what a seller would take. Therefore, we calculate the asset value as well.

CEOCFO: Why should investors and people in the business community pay attention to BizEquity?

Mr. Carter: They should pay attention to BizEquity because we are taking a three billion dollar industry that has been offline and putting it online. We are helping the nearly twenty eight million small businesses and the nearly two hundred thousand other folks in financial services reach those small businesses by helping them determine what their worth is as a business and what it could be. At the end of the day, if you boil it down, businesses are being built to serve the communities that they are in and to provide a product or service. However, at the end of the day, they are being built and the hope is, because many of these businesses with their pensions and their 401k programs and the business owners, these businesses should have value and the hope is that they do have value. Therefore, how is that calculated and how will they know? There is a big issue in America and other countries around the world. Three quarters of all business owners do not know that they are worth. Fifty percent are underinsured and most are under financed. How do you help provide access to this knowledge; bring Wall Street knowledge to Main Street and do it in an affordable way? We have been blessed with the timing of this idea as well, with the price of storage being so low, the advent of the cloud online, that we have basically created what Salesforce.com has done in the customer service and sales force automation category. We have created a whole new category called Enterprise Valuation Management, where we have created a Valuation as a Service product that provides a better, faster and cheaper way for any business in America and abroad to know what they are worth.