

Episode 89 - Patrick Lange - Sell Your Business! [00:22:41]

Intro: Welcome to Profiles In Prosperity. The leading podcast for residential service contractors sponsored by Service Roundtable and hosted by David Heimer.

David Heimer: Hi, this is David Heimer. Welcome Profiles In Prosperity. Patrick Lange is the founder and owner of the Business Modification Group. He focuses on helping HVAC business owners sell their businesses. Given the significant presence of private equity firms buying HVAC and plumbing companies, I think this is a very timely conversation. So Patrick Lange, welcome to Profiles In Prosperity.

Patrick Lange: Thank you so much. I really appreciate you having me on.

David Heimer: Let's explore how you got into this. You used to own and operate an HVAC company. How did that happen?

Patrick Lange: Yeah, so kind of a twisted story. I've owned a lot of businesses over the years and I've been a business broker for probably 14 or 15 years now, and I listed a heating and air company for sale, and I bought it and I've ran it for a little over two years. So I guess that's probably been six years ago now. And after running it for 2 years, I realized that I didn't belong running a heating and air company and was gonna sell it. And my oldest son worked for me at the time and I told him that he was about to have a new employer. I was gonna sell the company. And he said he really liked the industry, really liked the business and wanted it and so he bought me out.

So when I did that, I was still doing business brokerage and running the heating and air company at the same time, it was a small company and I really missed brokerage. And at the time when I was looking up valuations on heating and air companies and where it should be selling for and what it was worth, I couldn't find a lot of people who were helping people out specifically in the we'll call it, a main street size company. So companies are doing between a million to say 5 or 6 million dollars in sales. There wasn't a lot of information and a lot of people. And so at that time, I made the decision to switch my business brokerage practice, which up until then I'd sold everything, bars, restaurants, gas stations, flower shops, you name it, and decided to focus just on heating and air. So that's probably been a little over four years ago. And I was just initially in Florida then I kind of expanded through the Southeast and now I'm nationwide.

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David Heimer: Yeah. Fantastic. And it's really interesting. I mean, since you've been in this industry, you've probably seen the EBITDA multiples grow quite a bit. I mean, I think that 5, 10 years ago, a typical EBITDA multiple was something like three to four for a smaller company. And I've seen them take off quite a bit since that. Has that been your experience with it as well?

Patrick Lange: Yeah, absolutely. You know, depending on what part of the country it was in, really four years ago when I got started a company where their net income or seller discretionary earnings was 100,000 to say 200,000 they were averaging only a two time multiple. And so at the lower end of the market, it's come up. And certainly not nearly as much as bigger companies have because of the private equity push and influence. But it's helped everybody across the board looking at selling.

David Heimer: Yeah, I think it's great. I always thought that the three to four multiple was too low for what the businesses were worth. So I'm really happy to see that increase. Is there anything that we should know that you haven't covered already about Business Modification Group?

Patrick Lange: You know, we're here to help people and I try to be a resource for those who haven't already. I have a YouTube channel where I do videos about buying and selling in the space, and I write articles obviously for a lot of industry publications. I'm on this podcast with you and I've recently become a member of the Service Roundtable. And so I try to give as much information as I can and I really try to be a resource for people. When I sold my first company, you know, I didn't know where to go. And so most people don't know who to talk to or who to ask questions of or where to get unbiased information. So I really try to put that out there as much as I can. I try to participate in podcasts like these, where I could answer people's questions, other coaching organizations, and other things that we do. We try to do it with the mentality of giving as much information as we can so that people know what their options are because most people, the reality is they work for 20 or 30 years and they picked their head up and now it's time to sell and they don't know where to go or who to talk to.

David Heimer: Exactly. That's a great observation. Let's talk about that. What should HVAC business owners consider when they want to sell their business, or if they're thinking sometime in the future that they wanna sell their business?

Patrick Lange: Well, I think the reality is putting yourself in a buyer's shoes. You know, if you were a buyer, what would you be looking for? I have a lot of people who've been

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incredible technicians and have never hired staff because they either couldn't find staff or didn't trust people working alongside them or for them. And so no buyer calls me and says, "Hey, I wanna work 16 hours a day and then go home at night and do paperwork for five hours." And so if you put yourself in the mind of a buyer, would you wanna buy your business? And I tell buyers to do the same thing, you know, put yourself in a seller's shoes, what they're doing, what they're looking at.

But really if you're looking at selling, buyers are looking at consistency of income. They're not looking to buy a job. They're not looking to work as hard as most people work in the trades. And so position your business to that point that you wouldn't wanna sell, it is really the best advice I can give. If you had staff in place and had systems in place and charged what you shouldn't be charging and had recurring revenue and had all these things that obviously a lot of great coaches in the industry to preach about, then you wouldn't necessarily wanna sell. But if you work seven days a week, 20 hours a day, well, you may not have a business. You probably have a high paying job.

David Heimer: Yeah. That's exactly right and nobody wants to buy your job.

Patrick Lange: Right. And you wouldn't either, that's why so many people are wanting to sell, I think. It's a lot of work and so kind of solving the problems that are happening in the industry as best you can, will make your business more attractive.

David Heimer: So what are some common mistakes business owners make when they sell their businesses?

Patrick Lange: I think a lot of it's leading up to the sale. Like you had just mentioned, you know, what should you be planning for? You know, I see a lot of people who are, how do I say it politely? Creative on their accounting. You know, they do the best they can to minimize their taxes. And I tell people jokingly, but you can't get paid to steal twice. You can't take money from the federal government, not pay your taxes and expect somebody to write a check for it. And so a lot of people treat their business checking account, like it's their personal checkbook. And so they take a lot of personal expenses out of it, or maybe all the cash doesn't make it on the books, those types of things. And buyers certainly don't feel comfortable just like you wouldn't pay you for it. So really planning it.

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And once again, a lot of people, when they call me, you know, they're kind of done. They've already made the decision they're gonna retire and sometimes it's too late. Meaning they were doing 2 million, 3 million, whatever two years before and now, as they've started to slow down, their business is doing a million or 800,000 or 500,000 in sales. And then they call me and they want me to sell it based on the 3 million sales they were doing three years ago. Well, unfortunately, a buyer's not gonna pay you for what it used to do. They're paying you for what it is now. So having that plan of, Hey, I'm gonna retire in a few years and I'm gonna make sure my books are clean and I'm gonna make sure that business is either growing or at least remaining consistent and having a plan to do it because for most people, it's the biggest sale of their life. And they don't spend much time thinking about it besides from, I don't know what to do instead of putting a plan in place. And so my suggestion is, you know, if you can start planning a year or two or three or five years ahead of time, so you make sure all your ducks are in a row.

David Heimer: So set sort of a time. I mean, it's hard for people to think about this stuff, but it feels like they should be saying something like five years from now or at this date, I want to sell the company and I would like it to be this size. I would like it to be making this much profit. And therefore I should probably be able to generate this much in the sale price. Is that sort of how you would recommend people think about it?

Patrick Lange: Absolutely. And knowing what the figure needs to be for you. I think that's a great place to start, is how big does a check have to be? You know, what are you gonna need to do to achieve your retirement goals? If retirement is what the ultimate plan is. And so then working backwards from there, I have a lot of people call me and say, "here's where my business is at. I want to retire in five years. What do I need to do to get to X amount of dollars?" And we quickly design a little plan for them and then I say, touch base with me next year and the year after and let's make sure you're on pace. So, I'm happy to do that and work with people and help them plan that. But really it's starting off, what does it need to be? Because we hear all these talks about multiples.

David Heimer: Yeah.

Patrick Lange: And everybody hears at all the conventions, somebody stands on stage and says, oh, you know, they got a 15 time, multiple. Well, that's not everybody, you know, I mean, that's a very specific company that is getting these huge, often ridiculous I would say multiples that some people are paying. So they're sitting back thinking that's

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them. And I would absolutely start looking at where the company your size is really gonna sell at in today's market. Now that's gonna change in the next three to five years, obviously, but at least it'll give you an idea and then get your ducks in a row, making sure your books and records are clean. Making sure you understand what a buyer's looking for doing that planning really can translate not only to a bigger cheque, but a bigger comfort level, I think when you cross the finish line.

David Heimer: Yeah. When people sell their businesses. In my personal experience with two separate companies, the companies were sold very profitably because there were multiple buyers that were interested. In one case, there was a bidding war. Essentially, they drove this sale up of the company significantly. In our industry are you able to attract multiple buyers for the same company?

Patrick Lange: Absolutely. You know, a lot of it depends on the company itself and its location and the makeup of the business. Do they focus on new construction or is it all service and repair? Do they have clean books and records? Do they have management in place and the size of the company? So all of those things go into it, but absolutely it's an opportunity in today's market. And I tell people the beauty of today's market being so strong is you don't have to sell to a jerk. For many people this is their legacy. This is what they've raised their kids in. This is all they've known and because of the competition from the market, you don't have to sell it to somebody who you don't think is gonna be a good steward of your legacy.

David Heimer: Yeah. That's a great point. So tell me how you would position your company. You told me the factors a little bit, where you're located, friendliness of the books, the size of the company. Those are the things that attract multiple buyers, but can you be more specific? Like what sort of geographic locations are most attractive? Is it cities, rural, etcetera. And then something about the size of the company that attracts multiple buyers.

Patrick Lange: Yeah. Absolutely buyers, especially bigger buyers with all the PE interests that's taken place lately. They love places with people. So bigger cities and areas that are growing, that you can service more people than you're currently serving. You know, many people dominate a smaller area and they'll have, you know, 20% of the market share. Well, many buyers look at that and think, well, there's not much room for growth. So they like bigger areas with more people to get to. That doesn't mean that they're not interested in smaller areas. I sold one in the Florida panhandle, which really is not that big of an area, but it's a wealthy and growing area. And so it created a

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tremendous amount of buyer interest. Buyers Love, service and repair. They feel warm and fuzzy about maintenance agreements, knowing that you're going back and developing a deeper relationship with that customer in the home more often and it's truly a relationship business.

They're scared to death of new construction, obviously for many reasons. But the reality is most contractors are not loyal and anybody who's been around the industry for any length of time knows either themselves or other people who've been crushed by market downturns therefore focusing on new construction, so that scares them. Clean books and records and then the size part is not necessarily a size. So it doesn't need to be 10 million in sales or 5 million in sales, but a company that's big enough where there's people in place where it's not just the owner where it's not just the owner's name and the owner's not out turning wrenches. Because many of the buyers today don't have heating and air experience. They're great business people, but they can't fix an air conditioner. And so they're looking to acquire businesses where they don't have to be a technician that can be a manager or supervisor or put somebody in place to do it.

And really in order to do that, you have to be doing some volume in order to have different levels of management, whether it's a service manager or an install manager or operations manager or GM, something like that. Obviously you have to be doing the volume in order to support the staff members. And so that's why typically a bigger company has more buyer interest because it opens it up to a bigger pool of buyers. It's not just one of your competitors in the next town over, that's looking at expanding into your area. It could be somebody from New York or LA or Atlanta or some other town across the country that doesn't need to be a great technician and doesn't need to be the face of the company. Does that make sense?

David Heimer: Yeah, that makes total sense. It's great information. You know, I know a lot of people that have sold their businesses and I would say that a lot of them have really only entertained offers from one company. One company came in and said to them, "Hey, we're interested in buying your business." And so they talk with them and they come to an agreement and I mean, agreements can be really good, but I always think that they should have contacted somebody like you and should have tried to see if they can get other companies interested in it because you know, it's just gonna drive the cost up. It should.

Patrick Lange: Yeah. I think competition is a good thing. And once again, as I said earlier, for most people, this is the biggest sale of their life. So at least have somebody

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looking over your shoulders, seeing if that offer that they're presenting to you is a good offer. You know, if I sell an average of 20 heating and air companies a year, I'd look at a lot of deals.

David Heimer: Yeah.

Patrick Lange: So even if they're not my deal, I can look over somebody's shoulder and say, you don't have to like me and you don't have to hire me, but you could get a much better deal than you're getting. Or, Hey, that seems like a good deal. At least knowing that because you're the accept to the rule, David, but most people only do it one time. You know, they get one chance and they have one sale and oftentimes they do it when they're, you know, in their fifties or sixties or seventies, and don't want to go back and rebuild another company. And so this is cashing in their chips. And so if you haven't done it before, once again, whether it's me or somebody else, and I'm not here to stand on my soapbox and say, you need to call me. Call somebody else who has experience in the heating and air space and looks at a lot of deals because the market's changing all the time and making sure your number is a good number is important.

David Heimer: Yep. That's good. So do you do any classes or coaching for people that are thinking about selling their business?

David Heimer: So I do a lot of speaking engagements where we talk about stuff and kind of have one on one interaction where people ask questions. I don't really do any coaching. Obviously there's an incredible amount of excellent coaches out there. And so I'm not the guy to tell somebody how to grow their business and what they should be focusing on. So I can tell you what a buyer's looking for. I can tell you what'll help make the transaction better. So I find that I leave the coaching to the experts like you and I come into a lot of coaching organizations and a lot of speaking opportunities and a lot of conventions and kind of give a state of the market. And here's what you should be focusing on. And here's the things I can look at and kind of Q and A, you know, as I mentioned, I do a lot of YouTube videos and my biggest problem with them is I do this all day every day.

And so to me, something that seems second nature, I don't know that somebody's sitting in their office right now thinking, wow, I wonder how this works or I wonder what that is. Somebody will call me and ask me a question and I'll think, wow, I bet you other people have that question. So let me do a video on that. And so my biggest problem with it, aside from I don't like staring at myself at a camera the whole time I'm doing the

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video. Aside from that part is, you know, kinda what do I talk about? So, I always tell people my cell phone number's plastered everywhere. Call me, email me, text me. I'm more than happy to answer questions, to point people in the right direction. And if I'm not the guy for them, I understand that. I'm not right for everybody, I'll point them to other people. I work with other brokers in the industry who are very good at what they do, and I'm happy to help introduce them to them. So I don't necessarily sit down and say, here's what you should do with your business, because I'm not that person. But I do try to speak and say, here's some things to look at.

David Heimer: So, when a company is sold, what is the most common scenario for the business owner, the person who just sold the business do they, stay on for a while? What are non competes typically look like? Give me a little information about that.

Patrick Lange: Absolutely. So let's talk about the non-compete first. I mean, that's obviously up for negotiation. Typically I see is three years, 50 miles, three years, a hundred miles, something along those lines. I've heard different stories from attorneys that much more than that becomes unenforceable. And keep in mind, many of my sellers, you know, are done. So they're retiring. You could give them a 20 year, 2000 noncompete and they're okay with it because they're never gonna pick up a set of gauges again. So for them, it doesn't matter. Now for the others who are building something to sell and planning on doing it again somewhere else then it becomes important. But that's typically not the bulk of my sellers. They're more of people who've been in business for 20 or 30 years and are ready to take their chips off the table and go home.

So that's negotiable, obviously everything in the transaction is. But three year {inaudible 17:44} a hundred miles is pretty real onto the sticking around in timeframe. It's kind of weird. I spoke at an event earlier this year and there's another great company who does a lot of heating and air companies. And they spoke in the room before I did, and then I spoke after them and they told everybody how you need to plan on sticking around for a year or two. And I got up and spoke and I told them the exact opposite. So I think it depends on who you're selling it to and it depends on what's important to you. Once again, right now, specifically the upper end of the market, there is so much competition, you know, a company doing 5 million in sales and above, there's almost a waiting list of buyers.

So you can dictate more what that transition looks like. In The last 12 months I sold 20 companies. Five of them were big companies doing over, let's call it 8 million in sales, 8

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to 10 million in sales. Five of them were over that and were sold to private equity. None of those buyers stayed. They were gone in under 30 days. The other 15, I think the average stick around time was probably 30 days as well. Typically you see more on the private equity side, they want the seller to stay because many of the private equity firms either don't have heating and air experience or don't have direct heating and air experience. So they need somebody to kind of help run the company and guide the ship. Some of them are doing that also they're calling it the second bite of the apple, getting people to stick around and leaving some money on the table.

My sellers this last year didn't want to do that. And so when we go to the market, we say, here's our price. It's all cash and 30 days later, we won't be here and that's what's happened. But I know a lot of companies, a lot of sellers who've agreed to a year or two that they weren't done. They just recognized the market's pretty high right now, and they didn't want to miss out on it and they wanted to sell in the next year or two. I thought, well, I can take my chips off the table and stick around and still have a job that pays pretty well. And the potential for another home run on another sale. I'm kind of the contrarian when it comes to that. I look at a lot of the private equity, and hopefully I don't offend people by saying this, but you know, a lot of these private equity firms have no heating and air experience whatsoever and many of them don't have any business experiences whatsoever. It's a Harvard graduate who got his MBA and is great at business, smart, sharp guy and is great at raising money.

But I really believe specifically in heating and air, it's a people business and you have to know how to deal with people and doing that from a boardroom 10 states away, I think can be challenging. And my crystal ball works as well as anybody else's, but obviously the market goes up and the market goes down. We've had some pretty good years in the heating and air space the last couple years and at some point they won't be as good. And my fear is that a 25 year old kid, who's never run a company, is gonna be the person to navigate through some challenging times and still be profitable. So if I'm betting my retirement, I don't know that I'm betting on that guy. Does that make sense?

David Heimer: Yeah. No, that's a perfect explanation. I appreciate that. This has been terrific. If somebody wanted to contact you and learn more about your services, what would be the best way for them to contact you?

Patrick Lange: Multiple ways, I'm on all social media, Facebook, LinkedIn. I've got a YouTube channel as I mentioned, Google search me, Patrick Lang L A N G E. And obviously my company's Business Modification Group. And my phone number is 352-

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440-4604. They can call me, they can email me, they can visit my website, they can watch my videos. They can ask me questions, anything that I can do to help. The reality, it helps me, you know, so it's kind of selfish. If I help your company do better and you wanna sell in five years from now and you come to me, then it's gonna help me as well. So it's double serving in that. I've sold my own company. It was the hardest decision I ever made. The first company that I ever sold. It was the scariest thing. So I've kind of been there and I know how scary it is. And so I'm happy to answer any question that I can for anybody if I can help out in any way.

David Heimer: Great. So would you give us your phone number one more time?

Patrick Lange: Absolutely. 352-440-4604.

David Heimer: Well, Patrick, thank you so much. This has been so informative and so interesting. And I'm looking forward to talking with you more in the future. And I know our members and the people that are listening to this podcast will get great value out of this. So thank you so much for doing this with us.

Patrick Lange: Thanks so much for the opportunity. I really appreciate it.

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