



EXIT PLANNING

“Do You Know What Your Business is Really Worth?”



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*Fellow of the IBBA
Certified Business Intermediary
Merger & Acquisition Master Intermediary
Certified Machinery & Equipment Appraiser*

“BUYING OR SELLING A BUSINESS?”

“Do you know what your business is really worth?”

Professional Services

- Business Sales
- Mergers/Acquisitions
- Business Appraisals
- Natural Gas Well Appraisals
- Buyer Search & Representation
- Certified Machinery & Equipment Appraisals & Brokerage
- Consulting Services

*“If the thought of buying or selling a business, now or in the future, has crossed your mind and you would like to explore your options, I invite you to find out about CK Business Consultants, Inc. We have been buying and selling businesses in the **Petroleum and Propane Industries for over 33 years**. Please visit our web site at www.ckbc.net or feel free to contact me directly @ 570-584-6488. **You can be assured that your inquiry will be kept strictly confidential and it does not obligate you or us in any way.**”*

Sincerely,



Gary Papay CBI, M&AMI, CMEA
President, CK Business Consultants, Inc.



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EXIT PLAN SELF-ASSESSMENT

	<u>YES</u>	<u>NO</u>	<u>WILL DO BY</u>
1. Do we have written goals for? <i>The Business?</i> <i>The Owners?</i> <i>The Family?</i>	____	____	_____
2. Have we had our business appraised lately?	____	____	_____
3. Have we developed ways to increase the value of our business through? <i>Internal Growth?</i> (new products or services) or <i>External Growth?</i> (acquiring another business)	____	____	_____
4. Have we decided whether to transfer ownership in the business? <i>Internally?</i> (family, co-owners, employees) or <i>Externally?</i> (to a third party)	____	____	_____
5. Have we been advised regarding the advantages and risks of various ownership transfers?	____	____	_____
6. Have we established our departure date?	____	____	_____
7. After exiting the business, have we calculated what we will need to maintain our present lifestyle?	____	____	_____
8. Have we planned for “Uncle Sam – The Unwanted Partner” to <i>eliminate, reduce or postpone taxes?</i>	____	____	_____
9. Do we have a contingency exit plan for “The Dismal D’s”? <i>Death, Disability, Divorce, Dissenting Owner(s), Declining Markets, Debt Overload</i>	____	____	_____
10. Is it time to have these important issues discussed with our: <i>Inside Stakeholders?</i> (spouse, family, co-owners, key employees) <i>Outside Advisor?</i> Contact Gary Papay, CBI, M&AMI, CMEA	____	____	_____

FINANCIAL INDEPENDENCE QUIZ

1. If you received your “ideal” purchase price offer from your “ideal” buyer, would you sell today?
2. If the answer is no, why not?
3. How much do you spend annually to support your style of living?
4. How much more would you like to spend to support your “ideal” lifestyle?
5. Do you know the Fair Market Value of your business?
6. If you received \$0.00 for your business today, have you accumulated enough income-producing assets in your personal name, outside the business, to support your current lifestyle?
7. Is it your goal to sell your business to key employees or family members?
8. Can you envision a meaningful and personally fulfilling life if you no longer own your own business?
9. Do you routinely discuss the exiting of your business with your spouse?
10. List the first 5 things you will do after the sale of your business.

MARKET RISK FACTORS – NOW OR LATER

Date: _____

BETTER

NOW

OR

LATER

Business Value

Business Growth

Interest Rates

Inflation

Taxes

Legislation

Health Costs

Unemployment Comp

Cost of Product

Competition

Technology

Working Capital

Environmental Issues

Other Factors

FACTORS INFLUENCING THE VALUE OF A COMPANY

Stephen J. Goldberg

Sun Mergers & Acquisitions, Hasbrouck Heights, New Jersey

Although every business has its own unique set of circumstances, buyers typically evaluate potential acquisitions in a similar manner. Based upon our experience in the marketplace, the following are the major factors considered by prospective acquirers when determining a company's worth:

Recast Earnings. With rare exception, a company's recast pre-tax earnings influence valuation more than any other factor. Viewed in the simplest manner, buyers are looking to purchase a stream of income that will provide a desired return on investment and justify the purchase price. Consequently, most commonly accepted valuation methods primarily rely on multiples of earnings. It follows that the stronger the earnings the greater the value. All other factors remaining equal and given this reality, it is critical that a seller present the financial statements in a format that will maximize the earnings in the eyes of the acquirer.

Hard Assets. Tangible assets have a positive influence on value. Generally the greater the asset value included as part of a transaction, the greater the overall company value. However, since earnings typically have a greater impact on valuation than assets, increases and decreases in asset values rarely have a dollar-for-dollar impact on company valuations. For example: assuming there is equipment valued at \$300,000 included in a transaction, increasing the amount of equipment to \$400,000 may slightly elevate the company's value but considerably less than the \$100,000 difference. Large sums of required capital assets may actually be viewed as a "liability" to certain buyers as they generally require larger future investment to replace or maintain these assets, diminishing future available cash flow.

Risk Factors. To clearly determine a company's value, buyers must weigh the future opportunities against the perceived business and economic risk. Elements of the business that increase risk decrease the value of the business. Conversely, elements that decrease risk increase value. Examples of risk factors that influence valuation include: industry life cycle, industry stability, customer base concentrations or dependencies, supplier dependencies, product or service differentiation, strength and size of market, management quality and depth, employee dependencies, impending regulation, new technology and many others. Although each of these risks is unique, they all have one common trait – an ability to either reassure or cast doubt on the predictability of future cash flow. As a result, the better a business can control, offset or properly present these potential risks, the more positive the impact on valuation.

Acquirer Identity. A company can have a significantly greater value to one acquirer than another. Much of the perceived value derives from the company's strategic fit with a potential buyer. Strategic value can be achieved through cost synergies (i.e. elimination

of duplicate expenses and reduction in cost of goods) or sales and marketing of complimentary products and services that afford new markets and customers to each company. The key is to identify potential acquirers that should have the most to gain from a business combination.

Terms. Price and terms tend to have a negative correlation. For example, an all cash transaction will generally yield a lower price when compared to a transaction that includes owner financing. The better the terms offered to a buyer, the higher the price that can be paid to the seller. This primarily relates to cash flow, the cost and availability of outside debt capital and the risk associated with completely “cashing out” the business owner at closing. The key is to identify the right combination of price and terms that creates a “win-win” for both buyer and seller.

Transaction Structure. Will the transaction be an asset sale or a stock sale? Will the seller receive continuing perks and fringe benefits? Will the seller retain certain assets (i.e. receivables, cash, deposits, etc.) rather than include them as part of the transaction? Will the seller be willing to structure an earn-out for a portion of the transaction? These and many other alternative transaction allocations and structures will have a direct impact on tax implications and total yield to the seller.

Presentation and Packaging. When buyers evaluate a business opportunity, they expect the records and facts to be properly organized and documented. A professionally packaged business will greatly increase a buyer’s confidence and comfort level thereby increasing the likelihood of a successful sale. Most buyers enlist their CPA, lawyer or business partners to provide feedback. These educational presentation packages keep everyone on the “same page”. You have spent years establishing name recognition, market niche, vendor relationships, operation and production systems, management, personnel, distribution channels, customer loyalty, expansion opportunities, synergies and numerous other intangible business assets. This story needs to be properly presented to potential buyers. A professional intermediary can present the best possible picture of the entire business thus maximizing the attractiveness and perceived value of the firm in the eyes of potential acquirers.

GROWING A BUSINESS: THE “SIX M” REALITY CHECK

For every goal to grow a business to maximize business value, management should consider the goal’s impact on all areas of the business. In other words, the goal should be achievable in light of the Company’s particular Strengths, Weaknesses, Opportunities and Threats (i.e. a SWOT analysis).

Prior to management developing implementation steps, here’s a “Six M” Reality Check:

1. Men (people)

- How will the goal impact the present work force?
- Are more employees needed and can they be found?
- Do we have the management expertise to implement the goal?
- Should the organization be restructured?

2. Money

- Bottom Line. Will the goal create positive earnings and cash flow?
- Will Company earnings finance the goal?
- Will third party debt or equity capital be required?
- Does the Company have the ability to obtain the financing?

3. Machines

- Does the Company have the facilities to support the goal?
- Will the Company have to add or change locations?
- Is the current equipment adequate to meet the goal?
- Will the Company have to purchase or lease additional capital equipment?

4. Methods

- What internal or external information support choosing the goal?
- What additional market or industry research should be done?
- Will goals require regulatory approvals?
- For control purposes, are management information systems adequate?

5. Materials

- Does this goal involve a new or complementary product or service?
- Are the materials (product) and talent (service) available?
- Should there be more R&D performed prior to introduction?
- Is a significant customer problem or need satisfied by the new product or service?

6. Markets

- Does the goal involve a new marketing strategy?
- Will distribution channels be impacted?
- Will the price of the product or service be impacted?
- How will promotional strategies be affected?



WHETHER OR NOT TO USE AN ADVISOR

Below are six questions to help you decide if an M&A advisor will add value to your private sale or divestiture plans.

Do you know what your company is worth?

Most business owners do not have a good understanding as to the worth of their company. By not knowing, owners accept offers that are far less than what the company is worth or they price the company too high. An unrealistically high price discourages acquirers and can create a perception that you are not serious about selling.

Do you know a substantial number of potential acquirers?

One of the key objectives in the selling process is to attract the highest number of qualified buyers. These may be companies in or out of your industry, foreign buyers, strategic buyers, or private investors. Having several interested acquirers helps to maximize the selling price.

Have you previously sold a company?

The sales process is very complicated. You need to know how to market your business and how to interact with acquirers who are very experienced at buying businesses. If you are unfamiliar with private sales you will find yourself at a severe disadvantage at the negotiating table. And this will show up in the final terms of the transaction.

Do you have the time to run your business and sell it?

Private sales can take six months to a year, or longer. And there is no guarantee that the transaction will ever be consummated. Less than 30% of all businesses up for sale actually sell. It is important therefore that you continue to manage the business effectively throughout the sales process. While the operations should not be sacrificed neither should the sales process.

Can you prepare all the necessary documents?

There are many documents that need to be prepared, reviewed, signed and filed throughout the sales process. Included are the Confidentiality Agreement, Letter Of Intent, Purchase Agreement, and regulatory documents. You will need someone familiar with the sales documents to ensure they are all written and executed correctly.

Can you do a better job of selling your business than anyone else?

For most owners, a business represents years of work and their single most valuable asset. When the time comes to sell for whatever the reason the primary goal is to realize the maximum selling price. You will generally have one opportunity to do it.

STAGES OF PLANNING

Stages of Planning

- Most Successful Clients Start Here!
- Long-term planning 3 -10 years
- Intermediate planning 6 months - 3 years
- Short-term planning Up to 6 months

A. Long Term Planning

1. Develop Management Depth
2. Advance Tax Planning
3. Improve Financial Statements – Monthly P & L’s – How many do this?
4. Formalize Partnership – Buy/Sell Agreements ie H&H; Paraco
5. Purchase Minority Interests
6. Negotiate Lease Transferability – Waybrant BP Store – Landlord Issue
7. Begin to form your Advisory Team: Intermediary – Quarterback, CPA, M&A Attorney, Financial Planner, Appraisers, etc.

B. Intermediate Planning

1. Clean up Books
2. Invest in taxes – it’s a good problem to have....profits to pay taxes/build value.
3. Computerize
4. Have Equipment/Real Estate Appraised
5. Obtain a Business Appraisal

C. Short Term Planning:

1. Clean up the premises – curb appeal; address any environmental issues now
2. Sell or Replace obsolete equipment; updated business valuation
3. Clean up receivables and inventory
4. Trim/Prune your payroll
5. Negotiate any Contractual agreements
6. Be careful on pre-buys and commitments