

Assessing Business Exit Options with Special Guest Jeffrey Kates

TOM DICKSON

tom@financialexpertsnetwork.com

Website:

www.financialexpertsnetwork.com

FINANCIAL EXPERTS

NETWORK



Jeffrey Kates, MBA, CEPA

- Business Succession Planning and Value Enhancement
- Jeffrey@foundersgroup.biz
- 908-692-0065
- Partner with The Founders Group
- CFO/turnaround/operations background
- Jeffrey works with businesses to increase EBITDA/Business Value
- MBA,CEPA



THE PROCESS

Review and Enhancement Design

- Business Attractiveness & Readiness Assessments
- Personal & Financial Assessment
- Calculated Business Valuation
- Prioritized Enhancement Initiative Plan

Enhancement Initiatives

- The Five Transition Goals
- 90-day Sprints
- Team & Owner Update Meetings

The Decision

- Keep and Grow
- Ownership Transition



Leading business owners through all phases of transition where increased clarity, net cash flow, and market value expands and solidifies choices for business transition: if, when, how, how much and to whom.

www.foundersgroup.biz • 858-200-1915

VALUE ACCELERATION & TRANSITION PREPARATION

FIVE TRANSITION GOALS

Increase Profitability and Net Cash Flow

Comprehensive Review of Financial Statements
Financial Statements Clean-up
Crisis Management (Turnarounds)
Cash Flow Analysis and Management
Detailed Cash Flows and Projections
Operational Reviews and Process Improvement
CFO Support
Improving Standardization of Process and Reporting
Customer and Vendor Relationship Management
Bank Negotiations
Advanced Tax Planning

Increase Enterprise Value

Calculated Business Valuations (Pre-Due Diligence)
Intellectual Property Valuations
Quality of Earnings Analysis
Attractiveness and Readiness Assessments (Business & Personal)
Risk Management Assessments
Business De-Risking and Contingency Plans
Assessment of Advisor Team
Management Team Development
Business Development
Marketing and Brand Development
Strategic Introductions
Culture Improvements
Buy Side Acquisitions and Due Diligence Support

Solidify Choices for Your Business Transition

Certified Business Valuations (Benchmark)
Analysis of Transition/Exit Options
Creation of the Sales Deck
Exit/Transition Plan Development, Advisory Services & Implementation
Due Diligence Preparation & Implementation (Checklists and Documentation)

Align Personal and Business Goals

Business and Personal Contingency Planning
Assure the Continuance of Your Lifestyle and Protection of Your Assets
Tax and Estate Planning
Charitable Gift Planning
Succession Plans
Life after Transition Planning

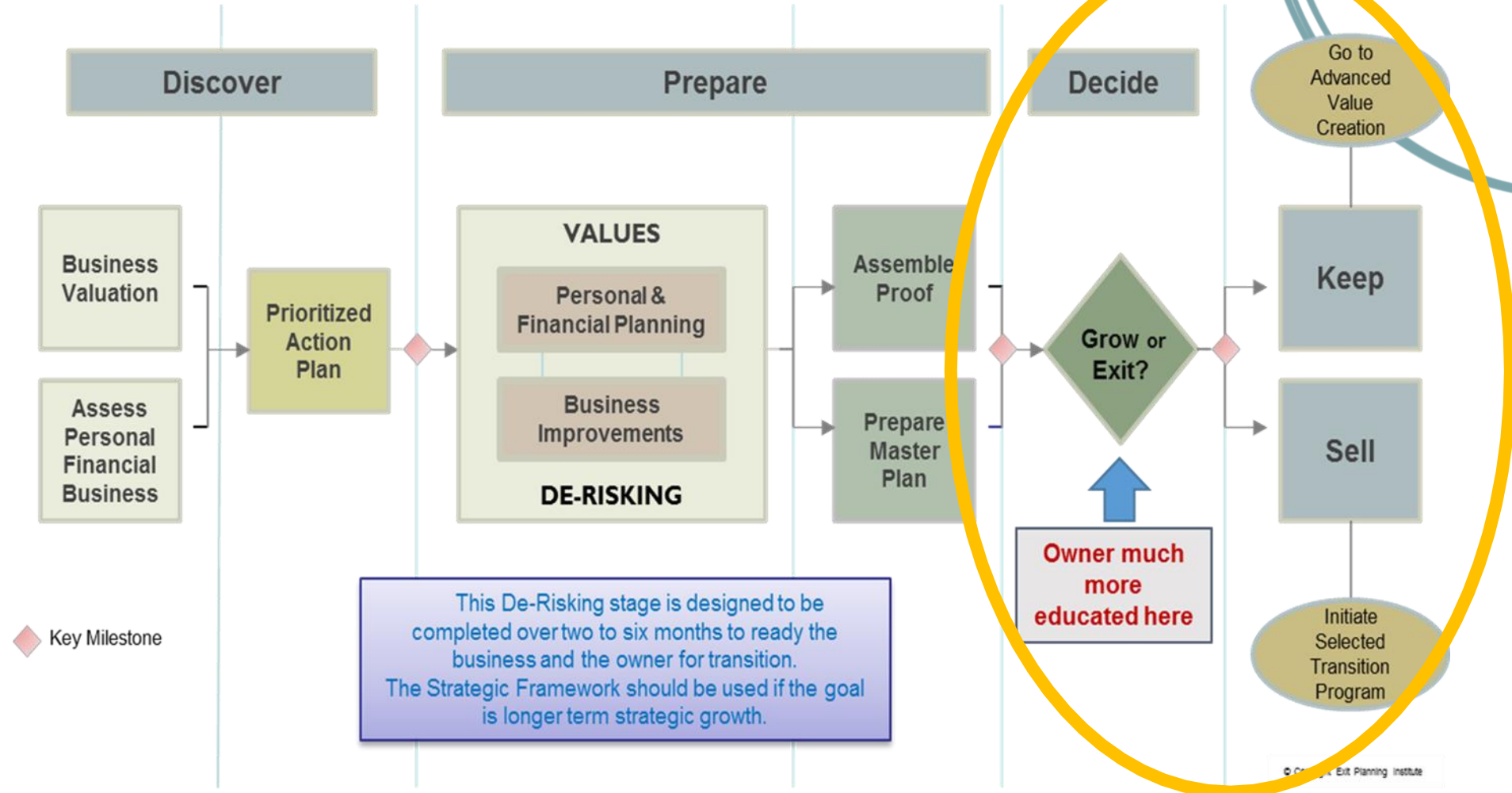
Align Owner, Team and Family

Tactical and Strategic Planning (Nine Key Business Questions)
Obstacles and Opportunities (Card Deck Discussion)
Business and Family Conflict Resolution
Business Performance Roundtables

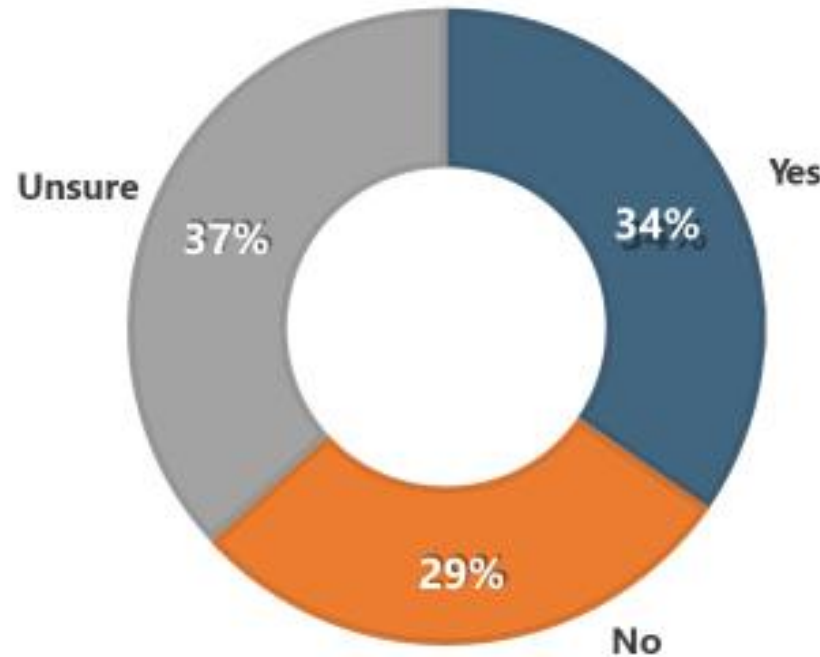
We often partner with other advisors and professionals in these areas:

- *Financial Planning*
- *Investment Banking*
- *Accounting*
- *Legal Services*
- *Business Brokerage*
- *Insurance Services*
- *Banking/Financing*
- *Tax and Estate Planning*
- *Executive Coaching*

EPI Value Acceleration Process

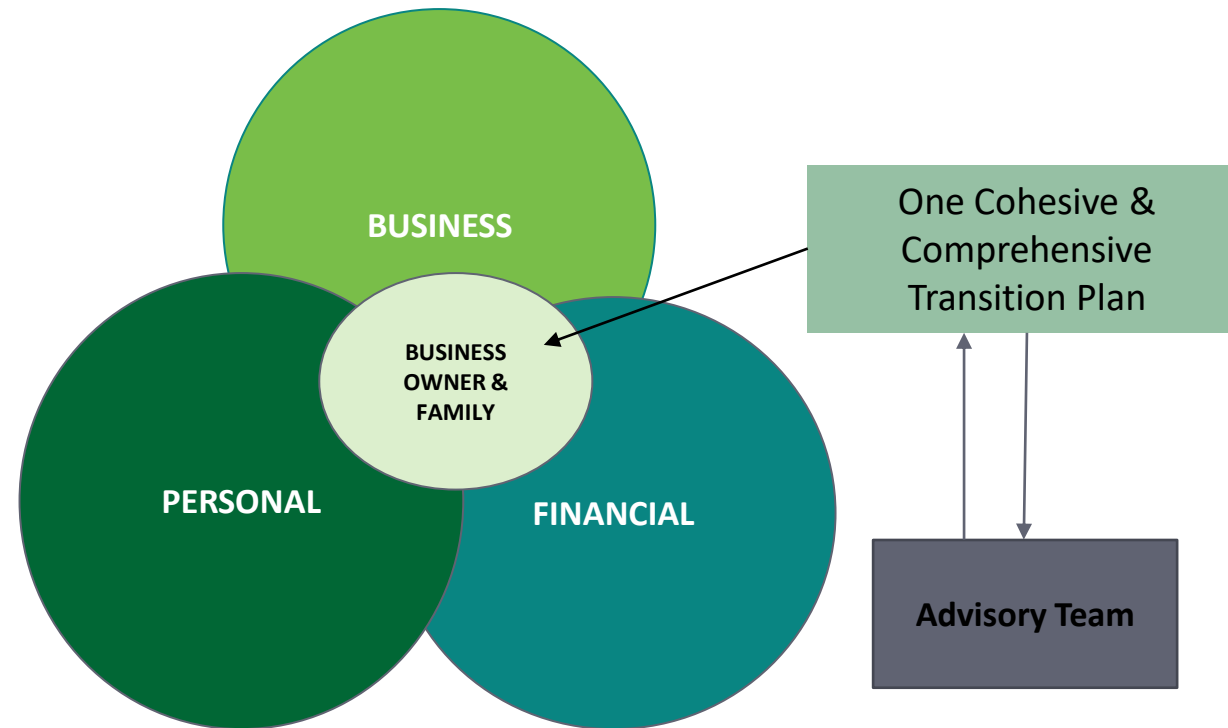


Commonly Business Owners are unfamiliar with their exit options

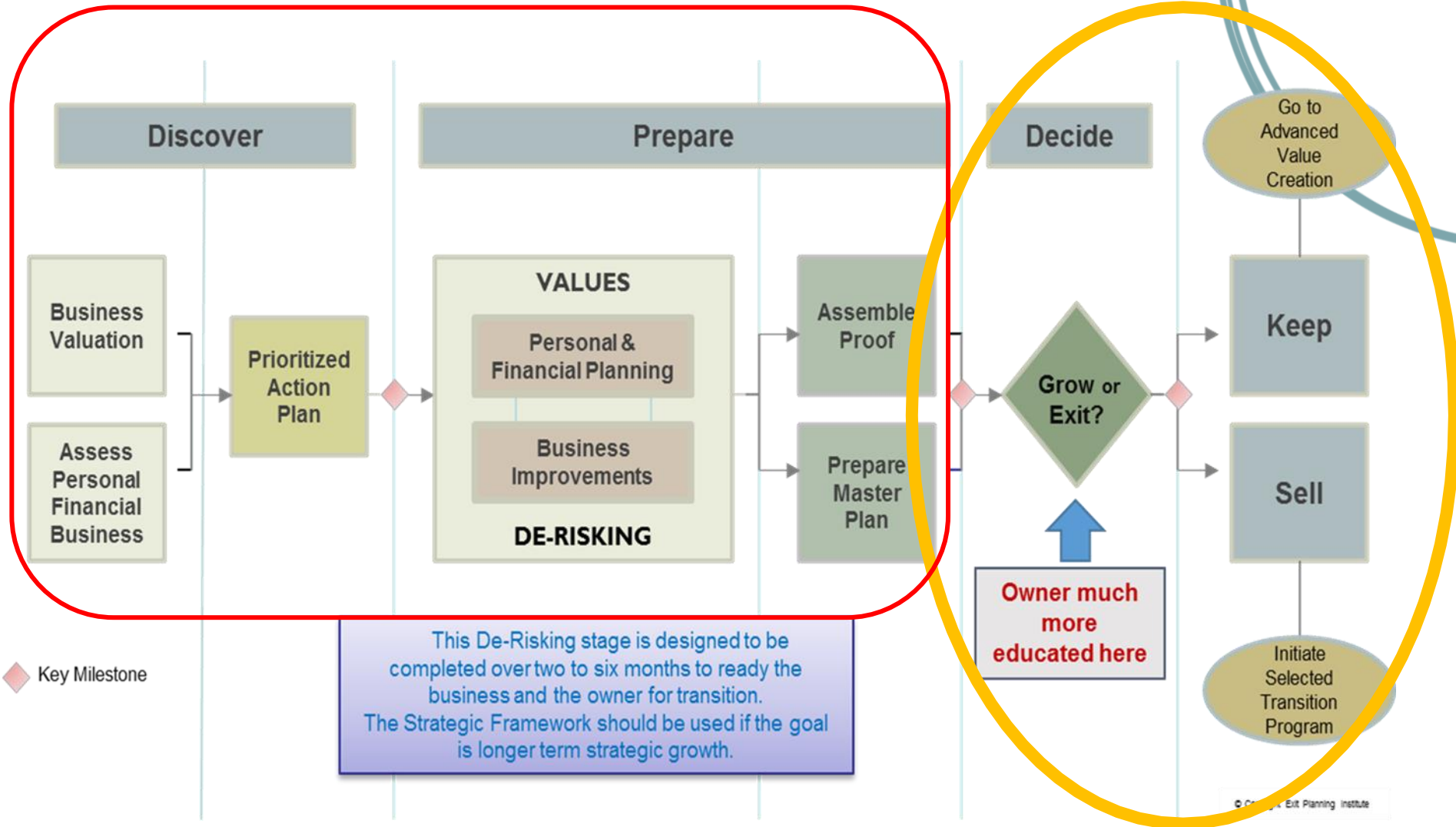


***State of
Owner
Readiness***

Holistic & Collaborative Approach



EPI Value Acceleration Process



Prior to the Decision



- Robust Discovery Process
 - Assessments (Business & Personal/Financial)
 - Valuation (IP, Real Estate) – Implications
 - SWOT (9 key business questions)
- Value Acceleration (Enhancement Initiatives)
 - *Brand Development/Messaging*
 - *Human Capital Issues (Management/Employees)*
 - *Operational Issues (Infrastructure)*
 - *Succession/Contingency Plan*
 - *EBITDA & Multiple Growth*

Polling Question

What percentage of family businesses have a formal succession plan?

- A. 10-24%
- B. 25-39%
- C. 40-54%
- D. 55-70%

The Decision



- Does the business owner keep the business and its cash flow?
- Transition it to their family/internal team or to an external group?
- Do they transition it in whole or in part?

The Decision

- Keep and Grow the Business
 - Enhancement Initiatives
 - Maintenance Program
 - Proactive and Nimble!
- **Ownership Transition**
 - Update Business Valuation
 - **Understand the Options and Develop the Plan**
- **Once the Plan is in Place (if External):**
 - *Business & Legal Due Diligence Prep*
 - *Create the book & slide deck sales package*
 - *Advisory support throughout the transaction*
 - *Hand Off to M&A if applicable*

10 Business Transition Options

Internal Options	External Options
Transfer to Family Members	Sell to Third Party (Strategic or Financial)
Transfer to Management (“MBO” or “LBO”)	Refinance or Recapitalize the Business
Transfer to Shareholders	IPO (Go Public)
Transfer to ESOP (Employee Stock Ownership Plan)	Liquidate the Business
Do nothing and wait for the market to change	
Keep and Grow through Enhancement Initiatives for a period of time	

Sell All or In Part

Internal - Transfer to a Family Member

Pros

- Keeps business in the family
- Maintains Continuity
- Planned for and less disruptive
- Can be combination of Gift and Loans
- Leverage prior owner experience for difficult decisions

Cons

- Management experience / expertise
- Family members do not want business
- Personality issues with key employees
- Usually lower price - may not receive enough for retirement
- Family members may be illiquid

CHANGE OF CONTROL!?



Q: Transfer to a Family Member

- If an owner wanted/could transition their business to their child/children today, is the business ready to be transitioned? Would their children be inheriting a strong business or a business with issues?
- Has the business owner had conversations with their children to gauge their level of interest in taking over? Is their interest genuine or a sense of duty? Are there other children outside of the business and how does this transition impact them?
- Can the business support an income level for the child in addition to servicing any debt needed for the buyout?
- Will management support the generational transfer?
- Has the owner done any estate and tax planning?

Management Buy Out

Pros

- Highly Motivated Buyers
- Maintains Continuity
- Preserves Human Capital/Knowledge
- Planned
- Can be combined with Outside Funds
 - Access capital for growth
 - P/E

Cons

- Lower price and worse deal terms
- Probably heavy seller financing
- Management “Sand-Bagging”
- Threat of Flight to coerce owner
- Buyers usually illiquid
- Management may not be good owners/entrepreneurs



Q: Management Buy Out

- Is management ready and capable of taking over leadership?
- Is the current management team strong and capable of leading the business in a strategic direction?
- Can the business support the debt on financing the deal?
- Is the owner willing to take a potentially lower amount for the business than if transitioned externally?
- How does the owner maintain confidentiality/retention during the process?

Transfer To Shareholder(s) / Partner(s)

Pros

- Well informed buyer
- Process is controlled
- Preserves Human Capital / Knowledge
- Planned and less disruptive
- If a Buy-Sell is in place and properly funded
- Lower cost to complete the transaction

Cons

- Lower sale price
- Buy-Sell may restrict selling options
- Longer Financing Terms (realization of proceeds takes longer)
- Competency Gaps
- Potential Discord between Shareholders



Q: Transfer To Shareholder(s) / Partner(s)

- ❑ Are the partners/shareholders interested in buying the owner out of the business? If yes, do they have the support of key stakeholders?
- ❑ Do the partners/shareholders have the funds to buy the business owner out of the business? (who is the company figurehead/banking relationships)
- ❑ Are the partners/shareholders able to finance a buyout of the business owner's interest?
- ❑ Do the partners/shareholders have the same vision and growth plans or plan to take the Company in a different direction? Does this matter to the business owner?

Sale to Employees (ESOP)

Pros

- Business stays in the “Extended Family”
- Shares purchased with pre-tax dollars by the ESOP
- May cause employees to think and act like owners
- Provides Legacy in the business and community
- Taxable Gain on the Shares sold to the ESOP may sometimes be deferred
- ESOP is an employee benefit

Cons

- Very Complex
- Expensive to implement and maintain
- Generally suitable only for a gradual exit over time
- Company required to buy back shares from departing employees
- Transactions must be at market value not for a premium



Q: Sale to Employees (ESOP)

- ❑ Is it more important to the owner to receive the maximum price for their business or to take care of their management team and employees?
- ❑ Are there key employees that are critical to the success of the business or are all employees important to the future of the business?
- ❑ Does the owner have any children that are or will take over the business?
- ❑ Is it important to have the flexibility to liquidate the owner's shares in the Company all at once or over a period of years in small chunks?
- ❑ Is it important to the owner to reduce the corporate taxes and increase the Company's cash flow?

Polling Question

How far in advance should you and/or your business owner clients plan for your/their eventual transition?

- A. 0-1 year
- B. 1-3 years
- C. 3-5 years
- D. More than 5 years

Sale to 3rd Party - Strategic or Financial Buyer

Pros

- Higher Price
- More cash up front (usually)
- Can exit sooner post transition
- Stronger deal terms
- Cost Effective
- Can break a deadlock between management and family

Cons

- Long Process (6-12 months)
- Emotional for Owner
- Can be difficult to close
- Complex and relatively expensive (involves professional hours)
- Distraction and loss of focus on business
- Privacy issues
- Post close tie downs (time and remuneration)

Q: Sale to 3rd Party - Strategic or Financial Buyer

- ❑ Is the business bankable (financing)?
- ❑ Has the owner had an independent valuation done? Do they have realistic expectations of what proceeds they might receive for the business? And over what time frame?
- ❑ Does the owner have all the necessary documentation readily available and reviewed for a due diligence?
- ❑ Are there any lawsuits or issues or with employees that could impact a sale of the business?
- ❑ Are there any customer concentration issues?
- ❑ Is the business reliant on the owner? If so, how much?

Refinance/Recapitalization

Pros

- Allows for a partial exit
- Takes “chips off the table”
- Reduces owner risk and diversifies asset concentration
- Provides growth capital
- Allows for a “second bite at the apple”
- Works well with other exit options

Cons

- Loss of Control
- Culture Shift
- Can be a slow transaction
- Can be expensive relative to the benefit
- Continuing accountability to partners
- Potential increased debt levels

Q: Refinance / Recapitalization

- ❑ Is financing/capital injection or an investor important to the future growth of the business?
- ❑ Is the owner interested in a partial sale to bring in investment but not yet ready to exit completely out of the business?
- ❑ Is it important to the owner to maintain control? Would the owner be interested in keeping a minority interest in the Company?
- ❑ Is the Company bankable (financing)?

Orderly Liquidation

Pros

- Good option when asset value exceeds the value of the business as a going concern
- Asset division may be greater than the whole
- Efficient way to exit
- Can be less expensive

Cons

- Uncertain proceeds
- No guarantees
- Loss of any goodwill
- Emotional / Legacy / Stigma?
- Hard to predict the costs of liquidation
- Loss of employee jobs

Q: Orderly Liquidation

- Are the Company's assets (M&E, etc.) worth more than the operating business?
- Has the owner considered an alternative to bankruptcy (if the business is insolvent)?
 - Assignment for the benefit of the creditors
 - Receiverships
 - Article 9 Foreclosure
 - Out of Court Work Outs
- Is the owner able to turn the business around to be able to sell the business or keep it and grow? Or is an immediate liquidation the only solution?

The Decision

- Keep and Grow the Business
 - Enhancement Initiatives
 - Maintenance Program
 - Proactive and Nimble!
- Ownership Transition
 - Update Business Valuation
 - Understand the Options and Develop the Plan
- **Once the Plan is in Place (if External):**
 - *Business & Legal Due Diligence Prep*
 - *Create the book & slide deck sales package*
 - *Advisory support throughout the transaction*
 - *Hand Off to M&A if applicable*

Business Transition Services Once the Plan is in Place



-
- Business & Legal Due Diligence
 - Help the Company compile and organize information for a potential buyer
 - Creation of Book and Slide Deck Sales Package
 - Assist with the marketing and sale/auction process
 - Work with financial groups (Private Equity / Investment Bankers)
 - Maintain Confidentiality
 - Transaction Advisory Support
 - Work with the advisory team to ensure as smooth a transition process as possible

Polling Question

How prepared are you for your business transition?

A 0-15 I have not thought of it at all and there's serious exposure.

B 16-30 I have thought about it but still haven't done too much and there is exposure.

C 31-45 I have considered some things and have implemented parts of a plan

D 46-60 I have instituted a transition plan and I am confident my business would succeed post transition



Panel #4 Assess Your Business Exit Options

The following are 10 Statements for you to consider regarding the exit / transition options available to you and your Company. Rank your level of action/understanding from 1 to 6 (6 being most prepared and 1 being least prepared).

1. I have a written exit or transition plan in place for my business.	1	2	3	4	5	6
2. I am aware of all the potential exit / transition strategies available to me and my Company.	1	2	3	4	5	6
3. I have explored charitable options with my advisors to support charities or non-profits that are important to me.	1	2	3	4	5	6
4. I have worked with a financial advisor to determine potential risks associated with the exit or transition strategies.	1	2	3	4	5	6
5. I have started taking more time off from the business in anticipation of a potential exit / transition from the Company.	1	2	3	4	5	6
6. I have thought through what I will do and have a plan in place for life post exit / transition.	1	2	3	4	5	6
7. I have incentive plans in place for key employees in the Company to prevent them from leaving prior to the exit or transition.	1	2	3	4	5	6
8. I have worked with tax professionals to explore ways to mitigate the taxes I will incur upon an exit or transition?	1	2	3	4	5	6
9. I have thought through with a value advisor potential circumstances that could cause the exit or transition strategy to fail and ways to mitigate against such a result.	1	2	3	4	5	6
10. I have the right team of advisors in place to help me plan for and execute a successful exit or transition of my Company.	1	2	3	4	5	6
<i>Add together all your rankings and enter your Total Score:</i>						

Care to Know™



Thought Leader Community providing resources, education, and advice via collaborative think tanks, events, programs, online content, and introductions.

www.SCInstitute.org



Helping affluent families get to the heart of highly relevant matters and resolve messes in the areas of integrated tax and estate planning, business succession, and family governance counseling.

www.StrazzeriMancini.com



Leading business owners through all phases of transition where increased clarity, net cash flow, and market value expands and solidifies choices for business transition: if, when, how, how much, and to whom.

[www.FoundersGroup.biz](http://wwwFOUNDERSGroup.biz)

Learn more at caretoknow.info

10251 Vista Sorrento Pkwy., Suite 250 • San Diego, CA 92121 • (858) 200-1900

9870 Research Drive • Irvine, CA 92618

Questions?

Jeffrey Kates, MBA, CEPA

(908)-692-0065

Jeffrey@foundersgroup.biz

www.foundersgroup.biz