

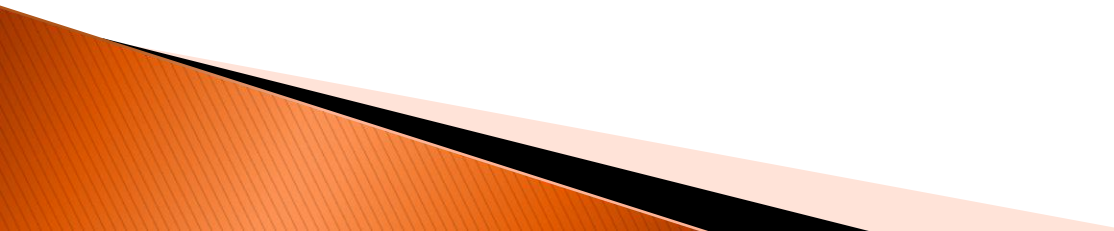


How can you Prepare to Exit Your Business?

Led by:

*Chris Blee, CPA, CM&AA &
Austin Buckett, ACA, CM&AA*

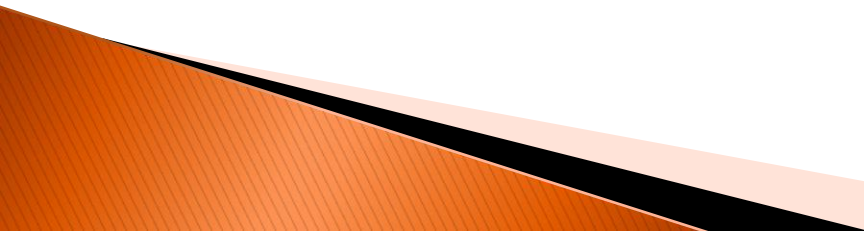
What does “Get your Company Ready for Sale” mean?

- Understand your **Options**
 - **Gear** your business towards the **Best Exit** for you
 - Maximize the **Value** from **Your Company**, and
 - Leave on your **Terms!**
- 

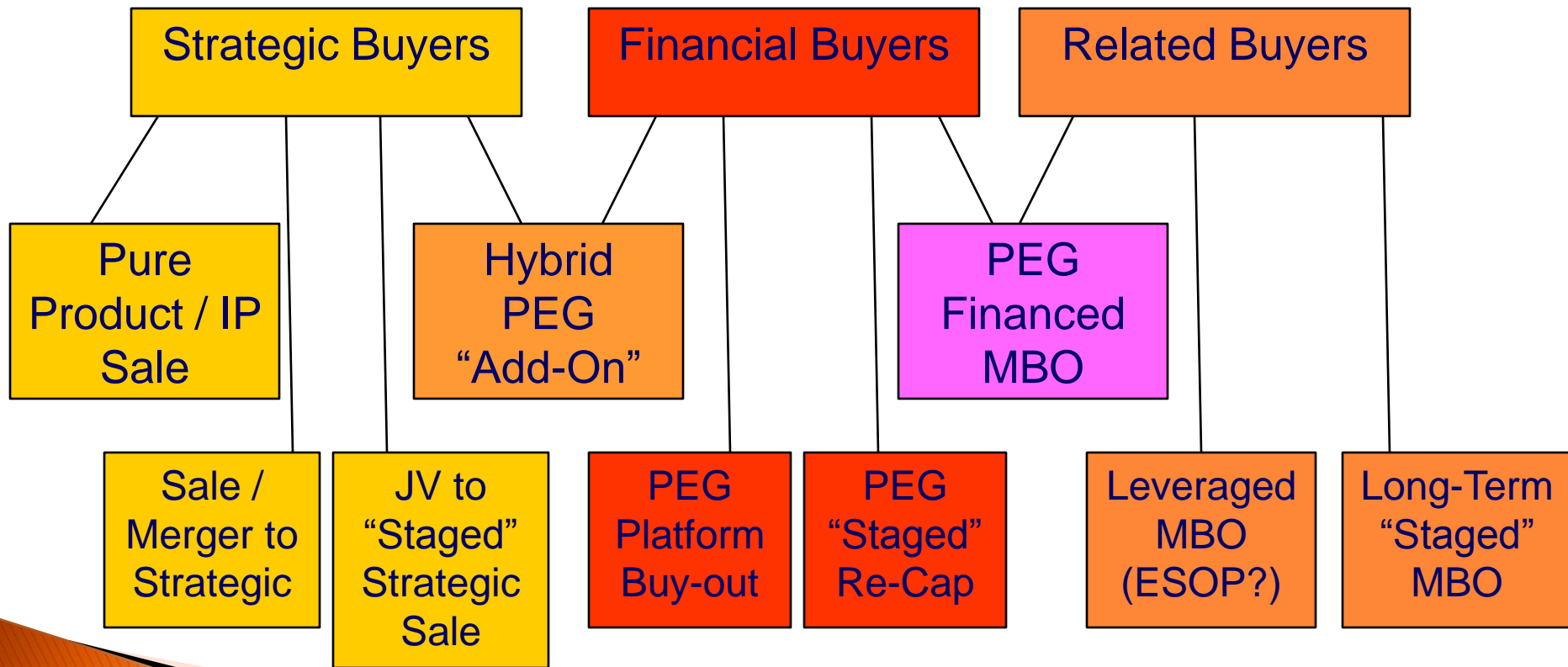
The Exit Process Outlined



The Exit Planning Process

- ▶ Understand what's important to you?
 - ▶ Identify types of Exit Options likely to work for you (Maximizing your Values).
 - ▶ Determine your time-line.
 - ▶ Gear your business for your chosen Exit.
 - ▶ Select your team.
 - ▶ Execute.
 - ▶ Monitor and Re-Evaluate.
- 

Exit Channels



Strategic – Product / IP Sale

Who: Competitors, Customers, Industry Complements.

Pros: Possible good value, Easy “walk-away” exit, See product / IP get leveraged by larger company.

Cons: No Enterprise Value, End of your legacy, Loss of employees, Limited Buyers with funds (large public companies).

Value Builders: Product R&D, Unique Products & Processes, Brand Building.

Gearing: Less focus on company management, Less focus on profits. More focus on R&D, Market Share, Customer Care, & Market Recognition.

Strategic – Sale / Merger

Who: Competitors, Customers, Industry Complements, Roll-ups.

Pros: Often best value, and terms. May be short transition time.

Cons: End of your legacy, Loss to some employees, “Corporate” dilution. Limited Buyers with funds (large public companies).

Value Builders: Sales Growth, Market Share, Profitability, Unique Products & Processes, Key employees, Product R&D.

Gearing: Still less focus on back-office, More focus on Sales, Products, Market Share, Customer Care, Market Presence, Profits, Key “Technical” Employee Development.

Strategic – JV to Staged Sale

Who: Competitors, Customers, Industry Complements. (With additional sales channels & market access or resources for growth).

Pros: May provide good value – long term. Retain employees and control. Added resources for building value. Secured exit in advance.

Cons: Lose competitive bidding for full value, Longer transition time. Give up partial ownership and value early. Allow someone else to profit from your growth. Risks of bad partner experience. Difficult to negotiate protective terms.

Value Builders: Sales Growth Potential, Unique Products & Processes, Key employees, Product R&D.

Gearing: Early identification of partner, Little more focus on back-office, Focus on Sales Potentials, Products with expansion potential, Proven Customer Adoption – with scalable future, Profits, Key “Technical” Employee Development.

Hybrid – PEG Add-On

Who: Private Equity owned ... Competitors, Customers, Industry Complements, Roll-ups.

Pros: Similar value to strategic. May be short transition time. PLUS... More choices with multiple PEG platforms looking for add-ons.

Cons: Similar to Strategic... End of your legacy, Loss to some employees, PLUS... Financial owner demands post-closing, Company on a time-line for re-sale. More pressured environment for employees.

Value Builders: Sales Growth, Market Share, Profitability, Unique Products & Processes, Key employees, Product R&D. PLUS... Presentation.

Gearing: Less focus on back-office, More focus on Sales, Products, Market Share, Customer Care, Market Presence, Profits, Key “Technical” Employee Development. PLUS... documented systems and measures, clean records.

Financial Buyer – Platform Sale

Who: Private Equity Groups.

Pros: Good Value, Tons of buyers, Reasonable timing to transition (12–24 months), Ability to remain in management – if desired.

Cons: Need size and profitability to attract, Financial buyer demands post-closing, Company on a time-line for re-sale. More pressured environment for employees.

Value Builders: Historical cash-flow, Growth, Seasoned management, Good systems in place, Diversified risk, Presentation.

Gearing: Growth to required size, Maximize profits, groom management, documented systems and measures, clean records.

Financial Buyer – Staged Recap

Who: Private Equity Groups.

Pros: Good Value, Tons of buyers, Ability to remain in management – generally expected / required. Added resources for building value. Possibly secure 2nd exit terms in advance.

Cons: Need size and profitability to attract, Financial buyer demands post-closing, More pressured environment for employees. Longer transition time. Give up partial ownership and value early. Allow someone else to profit from your growth. Risks of bad partner experience.

Value Builders: Historical cash-flow, Growth, Seasoned management, Good systems in place, Diversified risk, Presentation.

Gearing: Growth to required size, Maximize profits, Identify projects with growth potential – needing capital resources, groom management, documented systems and measures, clean records.

PEG Funded MBO

Who: Management with Private Equity Group.

Pros: Good Value, Easier transition, Better likelihood of business success, Lots of PEGs for funding, More likely to get cash terms than LBO. Company with added resources post-closing.

Cons: Need size and profitability to attract, More pressured environment for employees. Company on a time-line for re-sale. Seller won't control value or process.

Value Builders: Seasoned management, Historical cash-flow, Growth, Good systems in place, Diversified risk, Presentation.

Gearing: Growth to required size, Maximize profits, groom management, documented systems and measures, clean records.

Leveraged Management Buy-Out (LBO / MBO / ESOP)

Who: Manager(s) / Employees.

Pros: Easier transition, friendlier, better likelihood of business success, tax benefits with ESOP, Seller controls process.

Cons: Lower value, not entrepreneurs, right people in place, lending challenges, Potential for deferred risk separation.

Value Builders: Profitability, Eliminate external owner reliance, Don't give it away, Separate ownership from employment.

Gearing: Hiring well, Groom management, Documented systems and measures, Build lender capacity, Advanced buy-out planning, "Ownership" training,

Seller Funded Management Buy-Out (MBO / ESOP)

Who: Manager(s) / Employees.

Pros: Easier transition, friendlier, better likelihood of business success, Possibly better value – long term, Still can do ESOP for tax benefits, Seller controls process, Less lender challenges.

Cons: Generally Lower value, No risk transfer, Not entrepreneurs, right people in place, lending challenges, Potential for deferred risk separation.

Value Builders: Profitability, Eliminate external owner reliance, Don't give it away, Separate ownership from employment.

Gearing: Hiring well, Groom management, Documented systems and measures, Advanced buy-out planning, "Ownership" training, Mentor wealth building.

IPO

Yes – Really...

Who: International / Euro–Presence (AIM)

Pros: Excellent Valuation.

Cons: Very difficult, Very expensive, Time consuming, Limited to larger companies with International and Euro Presence.

Value Builders: National / International market, solid executive management, Euro–Presence (for the AIM).

Gearing: Obtain executive management team, achieve size & market exposure, engage experienced Investment Bankers.

Family Transfer

Who: Sons & Daughters (Nieces & Nephews)

Pros: Easier transition, friendlier, better likelihood of business success, expected by the outside world.

Cons: Lowest value, worst terms, family dynamics, nepotism, really exiting?, training, estate & gift tax problems.

Value Builders: Estate planning, Honesty with ability, Training, Viable structure and terms, Family member involvement long term.

Gearing: Hiring others well, Communication with non-family employees, Estate Plan, Family planning for other kids.

Liquidate / Close

Who: Fire Sale / Auction / Classified Ads

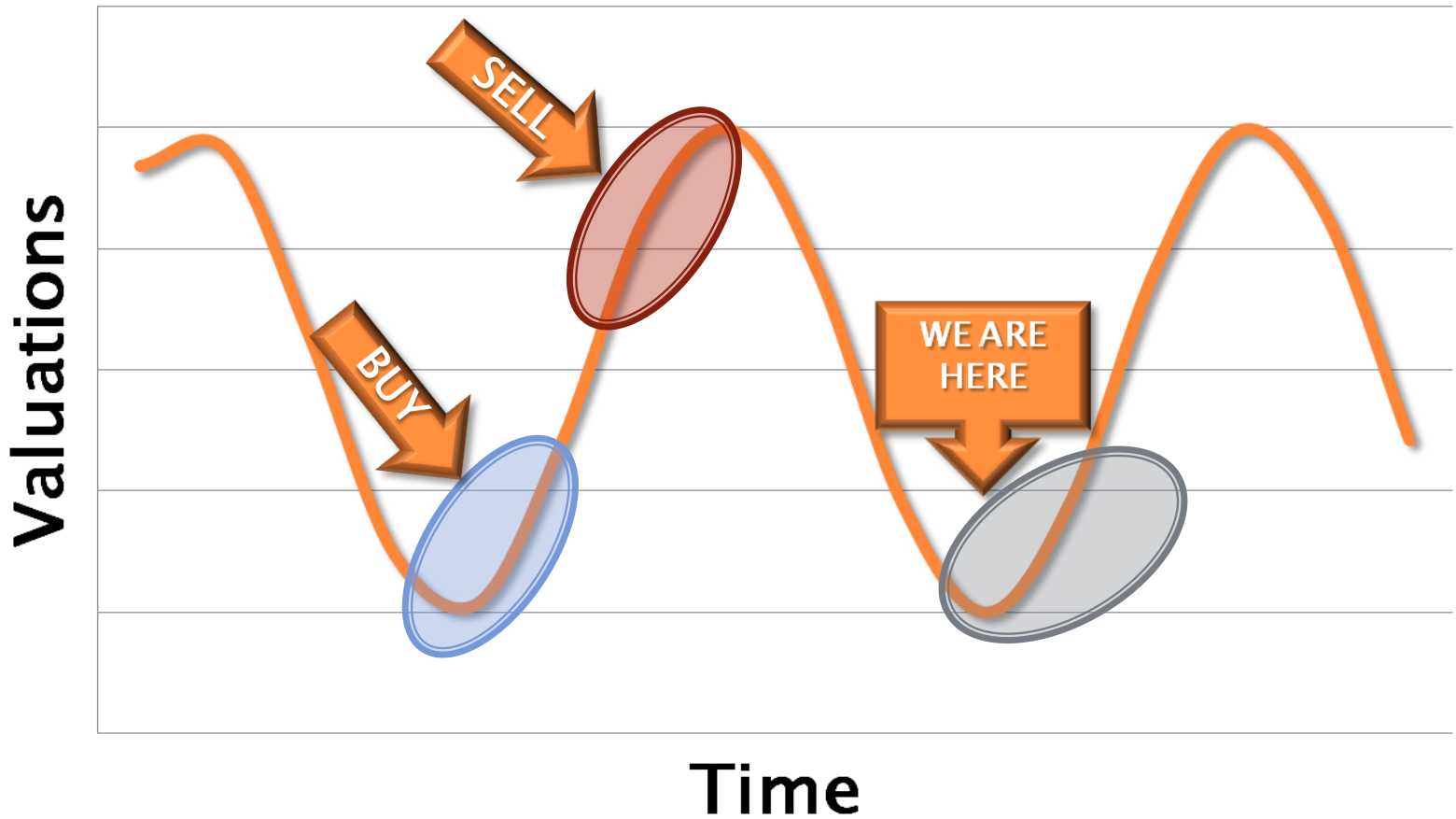
Pros: Fast. Easy. No strings.

Cons: Employees, Legacy, No intangible value, Image, Perceived failure.


Value Builders: Assets worth more than profits justify.

Gearing: Well planned closing, Clean cut-off to avoid continued bleeding.

How Timing Impacts Value

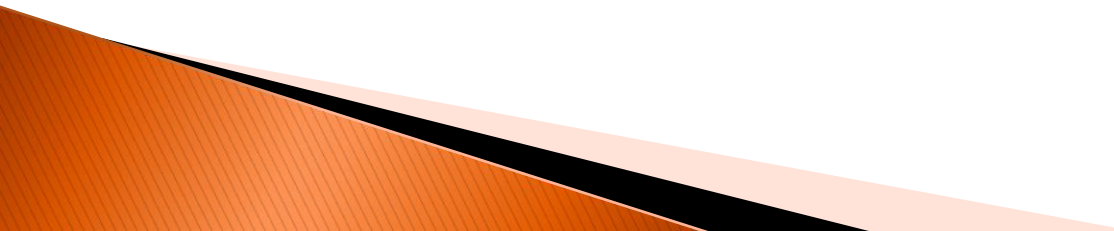


Be Ready to Exit at Any Time

- ▶ Focus your efforts on the things you can control
 - ▶ Know your financial needs
 - ▶ Run your business so you can leave it tomorrow
 - ▶ Know your buyer choices and gear your business to them
- 

Maximize Value

External Forces (no control):

- ▶ Economy
 - ▶ Market for your goods / services
 - ▶ Industry forces
 - ▶ Competition
 - ▶ Barrier to entry
- 

Maximize Value

Internal Forces (control):

- ▶ Profitability / Cash flow
 - ▶ Growth
 - ▶ Size
 - ▶ Intellectual Property
 - ▶ Management Strength
 - ▶ Systems & procedures
 - ▶ Diversification of risk (customers & products)
 - ▶ Reputation / Location
 - ▶ Presentation
- 