

WHEN IS THE RIGHT TIME TO EXIT YOUR BUSINESS?

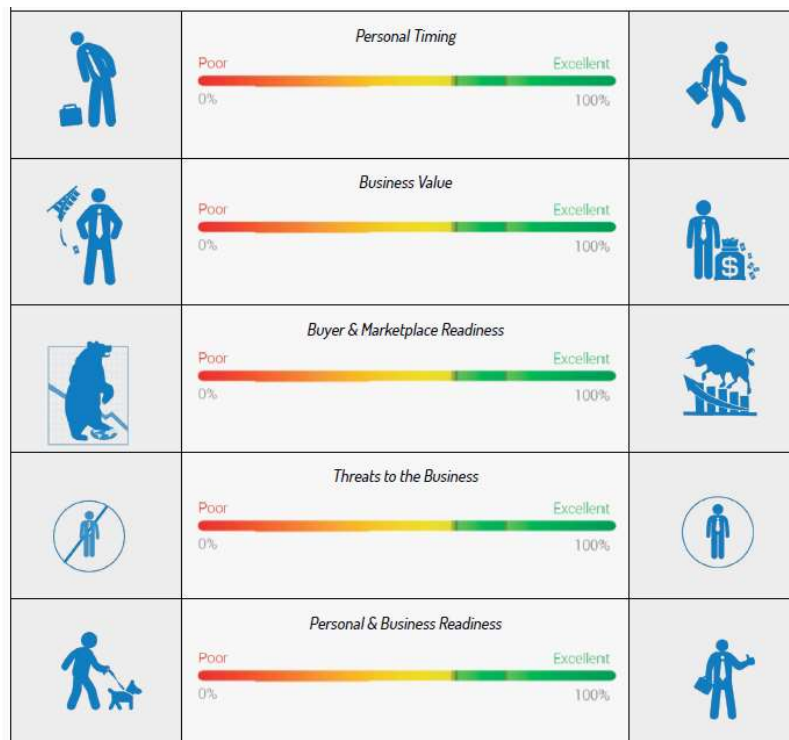
Timing

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Timing is Everything and Nothing!

WHAT FACTORS EFFECT TIMING?

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- The value of the business now/future
- The stage of the business lifecycle
- Competitors or threats
- Industry Cycle
- Business Readiness
- The timing of the markets and opportunities
- Family or management succession
- The type of exit you wish to implement.
- Developing a post exit transition plan and options
- Your personal motivations, energy and health
- Your personal financial situation
- Your personal reasons for wishing to exit the business
- ***Your personal health or that of your family***
- Your personal commitment to the industry
- Tax implications
- Wealth management strategies

Having an Exit Plan...

Timing is irrelevant

BE PREPARED



**Develop an Exit &
Succession Plan?**
...but it is not just about value?

STEP 1: Exit Options

WHAT ARE YOUR EXIT OPTIONS?



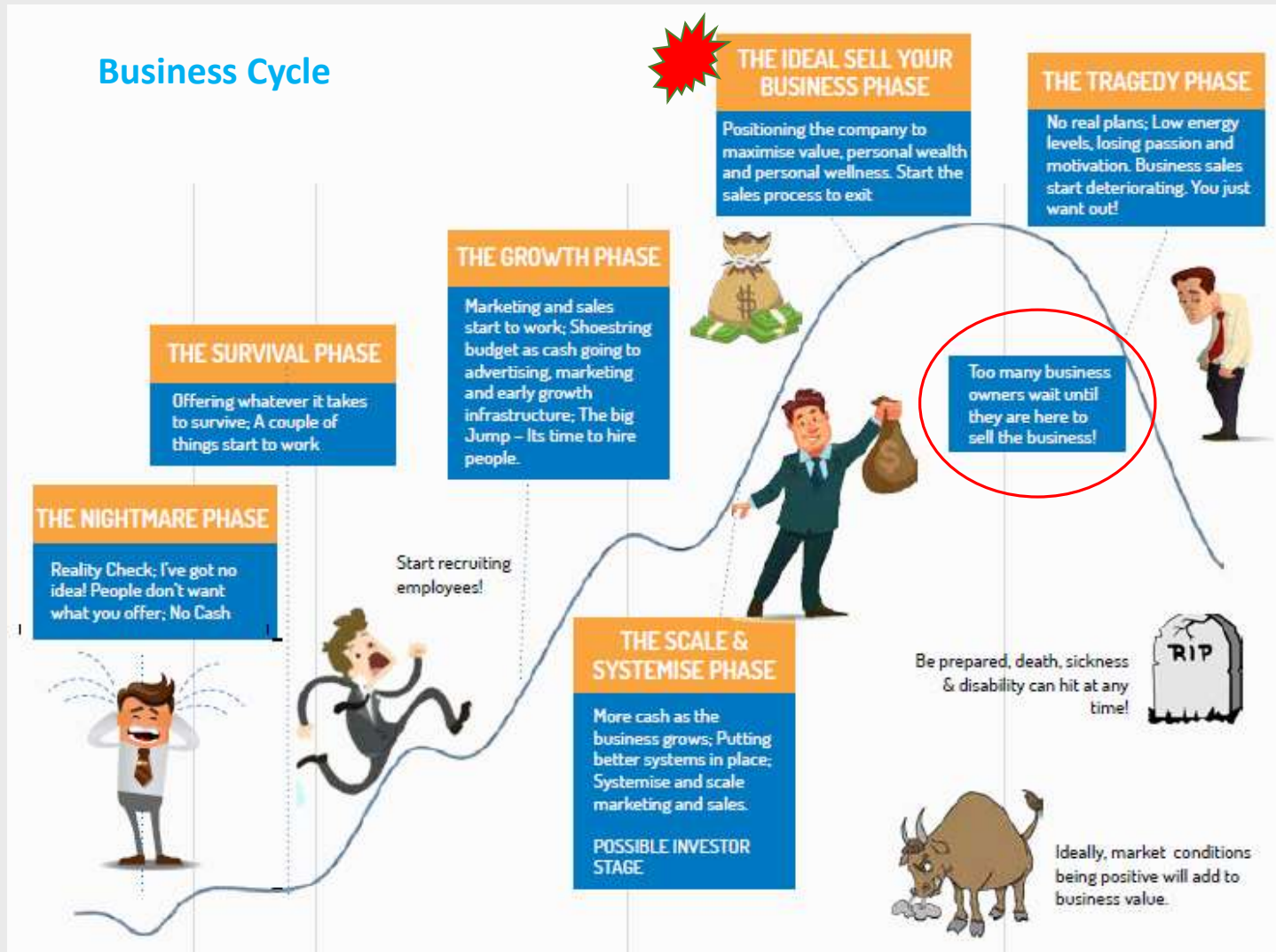
Decide what is your preferred exit option?

EXTERNAL OPTIONS		INTERNAL OPTIONS	
Third Party Tick, if this is an option <input type="checkbox"/>	Strategic Tick, if this is an option <input type="checkbox"/>	Family Tick, if this is an option <input type="checkbox"/>	Employees Tick, if this is an option <input type="checkbox"/>
Investors Tick, if this is an option <input type="checkbox"/>	IPO Tick, if this is an option <input type="checkbox"/>	Management MBO Tick, if this is an option <input type="checkbox"/>	Co-owner/ Partner Tick, if this is an option <input type="checkbox"/>
Liquidation Tick, if this is an option <input type="checkbox"/>			

STEP 2: PERSONAL READINESS

UNDERSTAND YOUR BUSINESS CYCLE AND PROFILE

Business Cycle



WHY WOULD YOU LIKE TO EXIT THE BUSINESS



Why would you like to exit the business and what would you like to do?

- I would like to retire
- I would like to grow my wealth
- I would like to start a new business
- I would like to semi-retire and work a few days a week
- I would like to retire and work for charity
- I would like to exit the business, spend more time with my family and then look around in 3 years at my next phase of life
- I would like to leave a legacy for the children/family
- I would like to change as many people's lives as possible before I retire and have people remember me
- I would like to fund the next business venture
- I am burnt out and need a change of life
- I would like to get out whilst the going is good
- The business stresses me and I am not enjoying life

STEP 2: BUSINESS VALUE

3 DRIVERS OF VALUE

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Revenue



BEST EXIT

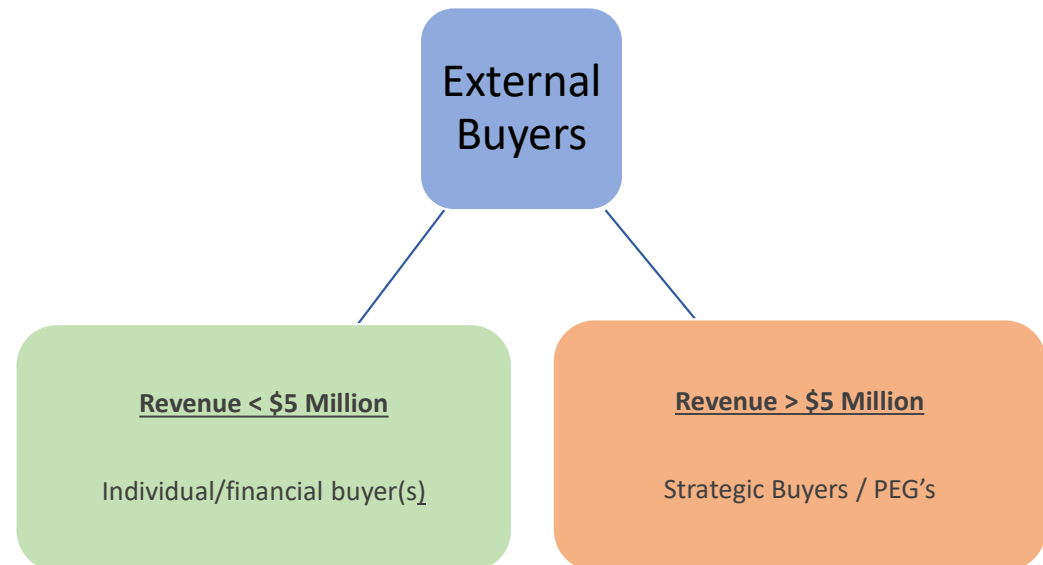
BUSINESS VALUATION Driver

“Revenue”



Different Buyers = Different Revenue Expectations

Internal Buyers = Revenue is not priority but relevant to valuation



BUSINESS VALUATION Driver

“Profit”



Who wants to have a business with no profit???

How do you determine the profit in a valuation?

1. It all starts with the “Net Income and EBITDA” based either on
 - Internal income statements (P&L and Balance Sheet, i.e. QuickBooks)
 - Tax returns prepared by CPA
 - Audited financial statements (Earnings Quality prepared by third party)
2. Net Income and EBITDA need to be normalized/adjusted.
 - Real Income vs. Tax Income
3. Normalized EBITDA or SDE is used for valuation of the business!
 - EBITDA -> Earnings before Interest, Tax, Depreciation and Amortization
 - SDE -> Seller’s Discretionary Earnings

NORMALIZING PROFIT

Real Number
vs.
Tax Number



Recasting Net Income

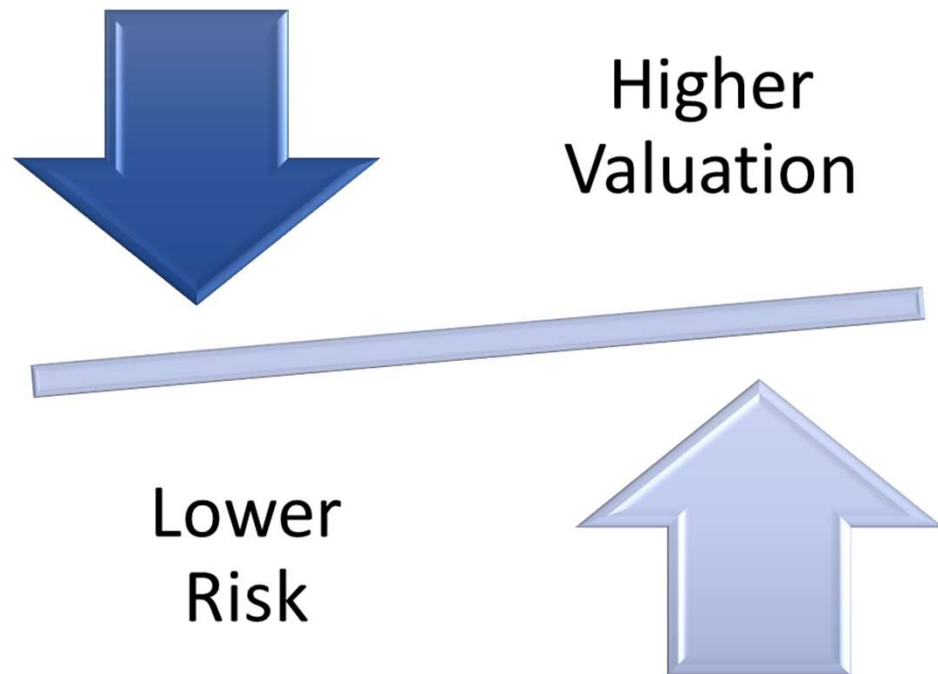
		History			Current	Projections/Forecast		
	Example	-3	-2	-1		+1	+2	+3
Net Income as per tax return	\$ 250,000							
Depreciation / Amortization	\$ 50,000							
Interest	\$ 10,000							
Tax	\$ 5,000							
EBITDA	\$ 315,000							
<u>Addbacks/Adjustments</u>								
Business Owner Salary	\$ 300,000							
Market Salary for GM	\$ (150,000)							
Bad Debts	\$ 20,000							
One-Time Marketing Event	\$ 15,000							
Owner Benefits	\$ 10,000							
Personal Travel	\$ 18,000							
Owners Auto Expense	\$ 23,000							
Litigation Expense	\$ 15,000							
Market Rent Adjustment	\$ (20,000)							
Total Adjustments	\$ 231,000							
Adjusted EBITDA	\$ 546,000							

BUSINESS VALUATION Driver

“Risk”



How “Risk” effects the valuation?

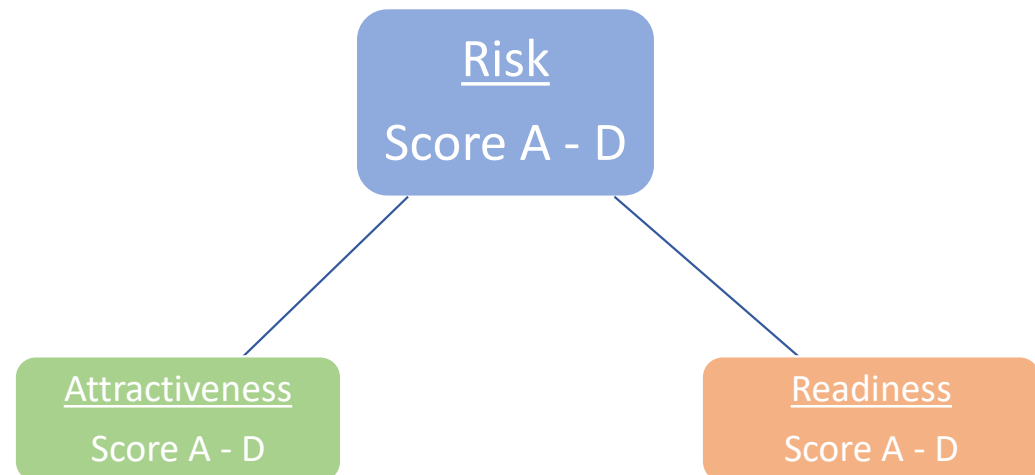


BUSINESS VALUATION Driver

“Risk”



How to determine the risk?



Risk effects the multiple!

YOUR RISK PROFILE

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Attractiveness

How attractive is your business compared to all other businesses in your industry to a potential buyer/investor?



Readiness

If we had a team of lawyers, accountants and managers examine everything from your policies, tax returns to marketing. Would you still look as good?



BEST EXIT

ATTRACTIVENESS

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How attractive is your business from the outside?

Business Factors

Years of business operation

Management strength

Customer loyalty

Brand awareness

Customer base

Packaged IP & Technology

Key staff longevity

Location

Non reliance on key manager(s)

Replicable business model

Business systems and process

Score Weight

0	5%
0	5%
0	5%
0	10%
0	10%
0	10%
0	5%
0	5%
0	15%
0	20%
0	10%

0%

Forecast factors

Profitability past/present

Profitability growth forecast

Revenue growth

High certainty in budget

Recurring revenue model

Market factors

Market growth & potential

Industry barriers to entry

Competitive activity/advantage

Dominant market position

Economic prosperity

0	20%
0	20%
0	10%
0	20%
0	30%

0%

0	25%
0	25%
0	10%
0	30%
0	10%

Investor consideration

Reason for selling

Synergy and value add of buyer

Degree of risk

Market for business sale

0	5%
0	50%
0	30%
0	15%

0%

Free Business Attractiveness Quiz on our website www.best-exit.com/business-valuation

READINESS

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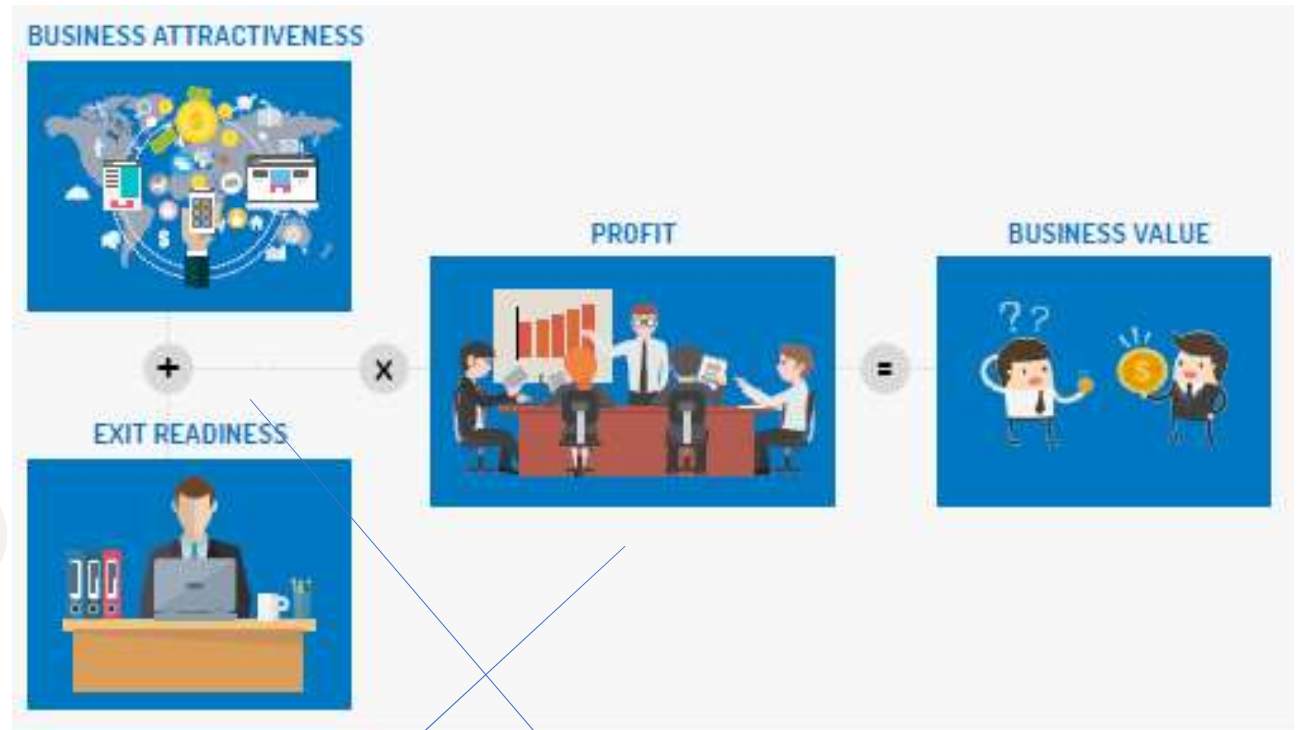
How ready is
your business
internally?

	Score		Recommendation
Valuation Expectations	67%	😞	
Personal Expectations	47%	😞	
Shareholder Goals	86%	😬	
Payment Considerations	39%	😞	
Value Readiness	53%	😞	
Credibility and Justification	23%	😞	
Brand Issues	70%	😞	
Marketing Documentation & Systems	21%	😞	
Employee and Management Issues	42%	😞	
Financials	58%	😞	
Management Systems and Forecasts	17%	😞	
Company Documentation	88%	😬	
Intellectual Property	88%	😬	
Customer Contracts	19%	😞	
Expense Contracts	60%	😞	
Personal Knowledge	25%	😞	
Systems Processes	36%	😞	
Compliance Issues	100%	😄	
Profit Improvement	53%	😞	
Government Grants	44%	😞	
Revenue Drivers	20%	😞	
Product Strategies	21%	😞	

Free Business Owner Readiness Quiz on our website www.best-exit.com/business-valuation

ESTIMATE YOUR BUSINESS VALUE

“Formula”



Formula

Adjusted
EBITDA or SDE



Industry
Multiple

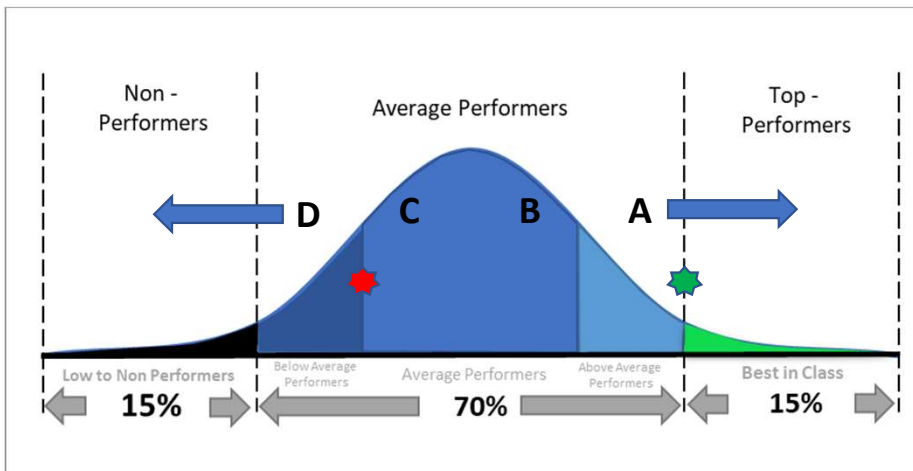


“Business
Value”*

*Business Value does not represent the achievable value/price on the market!

Value Acceleration

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Business Value Goals		
Your Goals	Now	At Exit
Revenue	2,500,000	4,000,000
Profit (adjusted)	375,000	800,000
Percentage of Revenue	15%	20%
Industry Range Multiple	1 - 6	1 - 6
Business Score	40% (D-Grade)	85% (A-Grade)
Applied Industry Multiple	2	5
Business Value Goals	750,000	4,000,000

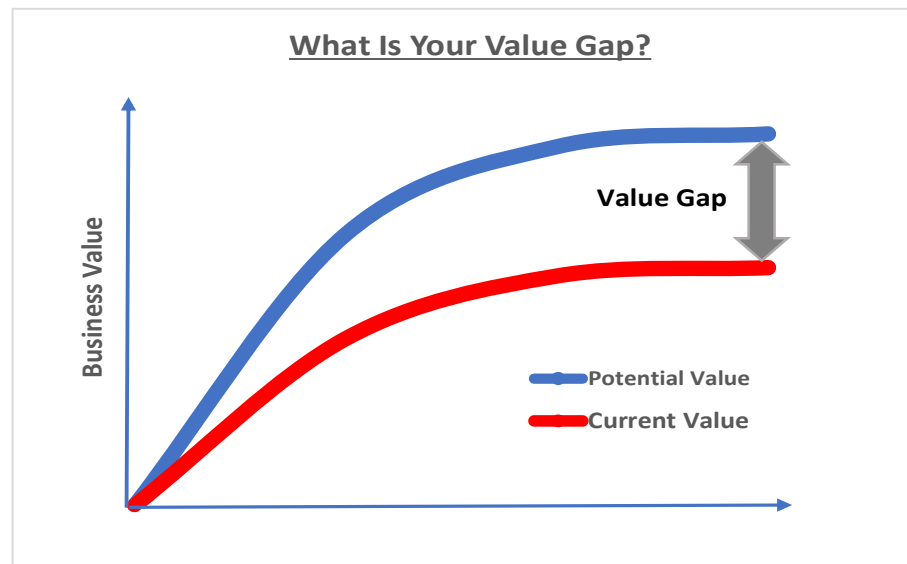
Value Gap

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Value Gap of Example

\$3,250,000

Start closing your Value Gap!
Work with an Advisor!



WHAT MAKES OUR BUSINESS MORE VALUABLE?

IMMEDIATE VALUE READINESS



The top 7 value drivers

- Good profit & Sales history
(includes size of your business)
- Non-Reliance on business owner
- Recurring Revenue
- Scalable business model
- Strategic buyer potential
- Readiness of the systems
- Customer Value Proposition & brand

MARKETING SYSTEMS



Examples

- CRM System
- Systemized marketing
- List of past advertising and success
- Past sales letters
- Success of campaigns
- Customer satisfaction survey

EXPENSE REDUCTION



Excerpt

- Telephones
- Insurance
- Banking / overdraft
- Inventory management
- Collection/payment management (A/R and A/P)
- Payroll
- Cost of goods
- Commission payment
- Human resources

CONTRACTS AND DOCUMENTATION



Customer Contracts

- Strategic alliance contracts
- Product documentation
- Support/maintenance contracts
- Warranties
- Other customer related contracts

Supplier Contracts

- Leases
- Vendor contracts (prices & terms)
- Insurance
- Web hosting
- IT - Security
- Other suppliers (utilities, telephone, internet)

CREDIBILITY AND JUSTIFICATION



- Customer testimonial list
- Case studies
- Credible customer list
- Awards and recognition
- Community involvement
- Company culture

BENEFITS OF EXIT PLANNING



Conclusion

- RETIRE HAPPILY
- IMPROVE BUSINESS VALUE
- PAY LESS TAX
- IMPROVE PROFITS
- LESS STRESSFUL BUSINESS
- LESS POST EXIT REGRETS
- HAPPIER FAMILY & STAKEHOLDERS
- PROTECT FAMILY WEALTH in the case of an unexpected event like death or disability.
- IMPROVED PERSONAL WELLNESS



Thank You!

More Information

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