EXIT PLANNING

"Do You Know What Your Business is Really Worth?"

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Fellow of the IBBA & M&A Source
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, Acquisitions, and Appraisals
- Company Size: $10 - $100 million in Revenues
- 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 assisting buyers and sellers of privately held mid-market companies since 1976. 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

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

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EXIT PLAN SELF-ASSESSMENT

	YES	NO	WILL DO BY
1. Do we have written goals for?			
The Business?	____	____	______________
The Owners?	____	____	______________
The Family?	____	____	______________
2. Have we had our business appraised lately?	____	____	______________
3. Have we developed ways to increase the value of our business through?			
Internal Growth? (new products or services)	____	____	______________
or			
*External Growth? (*acquiring another business)	____	____	______________
4. Have we decided whether to transfer ownership in the business?			
*Internally? (*family, co-owners, employees)	____	____	______________
or			
*Externally? (*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 *eliminate, reduce or postpone taxes?*	____	____	______________
9. Do we have a contingency exit plan for "The Dismal D's"? *Death, Disability, Divorce, Dissenting Owner(s), Declining Markets, Debt Overload*	____	____	______________
10. Is it time to have these important issued discussed with our:	____	____	______________
*Inside Stakeholders? (*spouse, family, co-owners, key employees)			
Outside Advisor? 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 <u>do you spend</u> annually to support your style of living?

4. How much more would you <u>like to spend</u> 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 <u>current</u> 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.

THE "BEN FRANKLIN" DECISION METHOD

Will the value of my business be more or will it be less in a few years from today?

(+) Factors that maintain or improve values	(-) Factors that drive values lower
Steadily Growing Profitability	Interruptions in profitability growth trends Cycles Recessions Bust economies
Steadily Growing Revenues	Declines in sales or profitability
Strong vendor relationships	Diminished vendor relationships
Decreasing debt	Increasing debt
Stability of owner group	Instability within owner group Aging Illness Death Probate Shareholder Dissention
No litigation or regulatory problems	Active/threatened litigation or regulatory issues
Competition becomes less	Competition becomes more
Interest rates go down	Interest rates go up
Income tax rates go down	Income tax rates go up
Capital gains rates go down	Capital gains rates go up
Money availability improves	Money availability constricts
Consumer confidence increases	Consumer confidence decreases
Robust world economy	Shaky world economy
Economic expansion – national	Economic contraction – national
Economic expansion in regional markets	Economic contraction in regional markets
Economic stability	Economic instability
Lowering rates of inflation	Increasing rates of inflation
Decreased regulatory environment	Increased regulatory environment
Owner's health/stamina/attention improve	Owner's health/stamina/attention degrade
Acquirers become more aggressive	Acquirers become more selective

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?

PART I: *PERSONAL AND EMOTIONAL ISSUES*

Question 5:

Should I Transfer My Business to a Family Member?

Simple answer: "When it comes to family, the answer is never simple."

Various business surveys have reported that as many as eighty percent of family business owners anticipate transferring the company to a family member to carry on the business. Ultimately, the majority of those polled sold their businesses to a third party. Why? Because Junior could not afford to buy Dad out.

Many business owners dream of transferring their lives' work to their children. Clearly, this dream has worked successfully on many occasions, but dealing with family members in a business relationship is one of the thorniest challenges I have watched my clients undertake. First, family members encounter all of the inherent tensions that exist between co-owners. Stir in a lifetime of intra-family dynamics and top it all off with the day-to-day pressures of running a business and you have a recipe for disaster.

If you are already in a family-owned business, you are well aware of the volatility of these ingredients. If you are not in a family-owned business, you have probably witnessed the trials and tribulations of friends who are.

The same logic used in selling your company to key employees (Question 4) should be employed here. If Junior can afford to buy you out for top dollar without using your money and you are convinced that after the closing, you can detach yourself from the fear of Junior ruining your company, then sell to Junior. If, on the other hand (and you truly need to be honest with yourself), you know that you are going to worry constantly about whether Junior will be successful or not, then do yourself, Junior, and the rest of the family a favor: Sell to a non-related third party.

Excerpt from "Deciding to Sell Your Business: The Key to Wealth and Freedom" by Ned Minor.

Founder of Minor & Brown, PC, Ned Minor is a nationally recognized transaction attorney in the field of mergers and acquisitions.

Please contact CK Business Consultants, Inc. for a copy of this book.

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

A. Long Term Planning (3-10 years)

1. Obtain a Business Appraisal or Market Analysis
2. Develop Management Depth
3. Complete Estate Plan (Will; Living Will; Power of Attorney; Tax Planning/Trusts; Life Insurance; etc.)
4. Improve Financial Statements – Monthly P & L's; YTD
5. Formalize Partnership – Buy/Sell Agreements
6. Purchase Minority Interests
7. Negotiate Lease Transferability
8. Begin to form your Advisory Team: Intermediary – Quarterback, CPA, M&A Attorney, Financial Planner, Appraisers, etc.

B. Intermediate Planning (6 months – 3 years)

1. Update Business Appraisal
2. Clean up Books
3. Invest in taxes – it's a good problem to have….profits to pay taxes/build value
4. Update Computer & Business Process Systems
5. Have Equipment/Real Estate Appraised

C. Short Term Planning (up to 6 months)

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

THE ROLE OF A PROFESSIONAL M&A ADVISOR

Many sellers think the sole role of the M&A Advisor is to find a buyer for their company. M&A Advisors do a lot more than just finding buyers, as the following will demonstrate. Here are just a few of the valuable services they provide to a seller:

1. Work with the seller to arrive at a value for the company

An M&A Advisor will work with the owner and/or financial officer of the company to look at the historical numbers and assist in the recasting of the statements. Realistic projections may also be prepared. A firm valuation number may not be settled upon, but rather a range which the owner (or management) and the M&A Advisor are comfortable with. Terms and structure will also be agreed upon or discussed based upon the current market. Compared to other advisors, M&A Advisors usually have more current statistics regarding the value ranges of small to mid-sized businesses in any given market or industry. This is especially true when an M&A Advisor specializes in a particular field or industry.

2. Assist in selecting other members of the sales transaction team

A seller may have legal and accounting advisors. However, it is important that these advisors have the requisite experience in deal making. An M&A Advisor can often supply the names of advisors with the necessary experience to avoid the mistakes less experienced advisors often make.

3. Prepare the necessary documentation to market the company

It is critical that the marketing documentation do two things: create interest in the company, and then provide all the background information necessary for a prospective buyer to determine whether this company is worthy of his or her continued interest.

4. Identify prospective buyers

It is important to determine what an appropriate buyer would look like financially, strategically, individually, etc. This determination requires honest dialogue between the M&A Advisor and the seller regarding the seller's specific goals and objectives as well as the seller's opinions on the best type of buyer for his or her company.

5. Develop a marketing plan

An M&A Advisor will create marketing strategies to reach the most probable buyers. Methods based on the M&A Advisor's databases will include direct mail, print and web-based advertising, emails, and phone calls.

6. Interview, qualify, and inform prospective buyers

This includes obtaining Confidentiality Agreements, setting up site visits with qualified and interested prospects, handling buyer questions and requests for more information, and discussing financing details with prospects. This happens to be the most time-consuming step in the sale process – a step the seller never sees, as it is performed in-house by the M&A Advisor .

7. Begin the purchase proposal process
An M&A Advisor will work with prospects on Letters of Intent (LOI), review proposals, and coordinate and attend buyer/seller meetings and Purchase and Sale discussions.

8. Negotiate details
Once a LOI has been drafted, sale details are negotiated. These details include price, terms, structure of the deal, and how the due diligence process will be handled.

9. Manage the due diligence process
Much of what is included in this process should have already been identified. This includes review of leases, contracts, agreements, etc. An experienced M&A Advisor will help in offering suggestions about the timing and processes to help maintain confidentiality during this critical stage in the sale process. An M&A Advisor should review drafts of the final purchase agreement, make sure they are in line with what was discussed and agreed on between the buyer and the seller, and offer suggestions if anything appears out of line.

10. Coordinate closing activities
This includes completion of documents, assignment of documents, and working out how the actual change of ownership will transpire.

This is just a brief overview of all that a Professional M&A Advisor manages in the sale of a company. He or she attends to all the essential tasks from beginning to end, minding the big and small details. Through the entire process, the M&A Advisor also monitors those situations threatening to spring up that could cause the sale to "crater," such as misunderstandings or the unexpected surprises almost guaranteed to occur in the sale of any business. Keeping the deal together from beginning to end is a valuable service provided by an M&A Advisor to both buyers and sellers.

INTERMEDIARY QUALIFICATIONS

GARY PAPAY, CBI, M&AMI

President

gpapay@ckbc.net

- Professional M&A Advisor and Business Appraiser specializing in the sale and transfer of mid- market petroleum and propane related companies since 1976.
- Attained the professional designations of Certified Business Intermediary, (CBI) and Merger and Acquisition Master Intermediary, (M&AMI), with the International Business Brokers Association (IBBA) and M&A Source, the world's largest international organization of experienced, dedicated Merger and Acquisition Intermediaries representing the middle market.
- Received the prestigious Fellow of the IBBA and M&A Source, the M&A Source Champions Award, the Tom West Award, and the Darrell Fouts Award, presented by the M&A Source for exceptional leadership and personal contributions to expanding the vision of the M&A profession.
- Attained the professional designation of Senior Business Analyst (SBA) with the Society of Business Analysts.
- Attained the professional designation Certified Machinery and Equipment Appraiser/Broker (CMEA) with the National Equipment & Business Brokers Institute.
- Published contributor for industry publications.
- Guest speaker at industry conferences and events throughout the country.
- Designated an "Industry Expert" by Business Brokerage Press.
- Eighteen years with Agway Petroleum Corporation including positions as Plant Manager, Corporate Propane Operations Manager, District Manager, and Division Operations Manager.

  Responsible for acquisitions and divestiture activity including business valuations.
- Academic:

  Bachelor of Arts in Applied Economics, Albright College, Reading, PA
- Professional Associations:

  Board member, officer, and leadership positions in the National Propane Gas Association, International Business Brokers Association, the M&A Source, and the Pennsylvania Business Brokers Association.

  Active member in numerous industry and professional associations and community organizations.
- Personal:

  Married with 3 daughters
  Church of Resurrection – Lector, Finance Committee Chairperson, Planning Committee Chairperson
  Rotary – Club President 2004 -'05, Board, District Youth Exchange Chairperson
  Wolf Township Planning Commission – Chairperson; Hughesville Youth Commission
  Enjoys traveling to warmer climates during the winter months