



EXIT PLANNING

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



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USA and Canada

*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 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.

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 Strong vendor relationships Decreasing debt Stability of owner group	Declines in sales or profitability Diminished vendor relationships Increasing debt Instability within owner group Aging Illness Death Probate Shareholder Dissention
No litigation or regulatory problems	Active/threatened litigation or regulatory issues
Competition becomes less Interest rates go down Income tax rates go down Capital gains rates go down Money availability improves Consumer confidence increases Robust world economy Economic expansion – national Economic expansion in regional markets Economic stability Lowering rates of inflation Decreased regulatory environment Owner’s health/stamina/attention improve Acquirers become more aggressive	Competition becomes more Interest rates go up Income tax rates go up Capital gains rates go up Money availability constricts Consumer confidence decreases Shaky world economy Economic contraction – national Economic contraction in regional markets Economic instability Increasing rates of inflation Increased regulatory environment Owner’s health/stamina/attention degrade Acquirers become more selective

FACTORS INFLUENCING THE VALUE OF A COMPANY

Stephen J. Goldberg

Sun Mergers & Acquisitions, Hasbrouck Heights, New Jersey

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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 productions 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



A. Long Term Planning (3-10 years)

1. Obtain a Business Appraisal
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 BUSINESS INTERMEDIARY

Many sellers think the sole role of the business intermediary is to find a buyer for their company. Business intermediaries 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 intermediary 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 intermediary are comfortable with. Terms and structure will also be agreed upon or discussed based upon the current market. Compared to other advisors, intermediaries 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 intermediary 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. A business intermediary 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 of 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 intermediary 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 intermediary will create marketing strategies to reach the most probable buyers. Methods based on the intermediary'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 intermediary.

7. Begin the purchase proposal process

An intermediary 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 intermediary will help in offering suggestions about the timing and processes to help maintain confidentiality during this critical stage in the sale process. An intermediary 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 business intermediary 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 business intermediary 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 intermediary to both buyers and sellers.

INTERMEDIARY QUALIFICATIONS



GARY PAPAY, CBI, M&AMI

President

gpapay@ckbc.net

- Professional Intermediary and Business Appraiser specializing in the sale and transfer of oil and gas related mid-market 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 IBBA Chairman's Award, and the Tom West award presented by the IBBA in recognition and appreciation of years of communicating and promoting the goals and ethics of the IBBA and the business brokering 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, PA Propane Gas Association, the M&A Source, IBBA and the Pennsylvania Business Brokers Association.

Active member in numerous industry and professional associations: www.ckbc.net

- 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