Exit Planning Institute

UNDERSTANDING YOUR BUSINESS VALUE

Utilizing the Five Stages of Value Maturity to Ready Businesses (and Business Owners) for an Exit

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LETTER FROM EXIT PLANNING INSTITUTE PRESIDENT, SCOTT SNIDER

The Five Stages of Value Maturity is one of the core concepts of the Value Acceleration Methodology. In its simplest form, it shows the five stages a business owner must take to successfully grow and harvest the value in their company so they can manage it for a lifetime. Following these five stages will allow a business owner to embrace and integrate the Value Acceleration Methodology into their company. Thus, taking their company from annual year over year success to a significant company that is attractive and ready to be sold.

The stages relate directly to the three gates inside of the Value Acceleration Methodology and speak to the actions that the business owner, their leadership team, and their professional advisory team must take. The first stage is Identify. In this stage, conducted annually, we identify and assess business value by measuring and analyzing both tangible and intangible factors. We do this in the Discover Gate through an assessment called an Enterprise Value Assessment. Once we have completed this, we know where to begin to better our company and drive happier people, customers, and stronger profits annually. This also directly builds value for the future.

Next, we move into the Prepare Gate of the Methodology where we Protect and Build value. Protecting value includes the simple things we do in our company to build a stronger foundation and mitigate some of the risks to ultimately begin driving more value into the company. These actions items could be upgrading a system or equipment, auditing inventory, securing intellectual property, documenting strategies, or writing standard operating procedures. Actions to Build value become more strategic. These include diversifying the customer base, expanding into new markets, changing culture, or strengthening the management team and making personnel changes. The Protect and Build stages run in 90-day cycles. Constantly reevaluate and select new actions to work on in your 90-day sprints until you harvest the value from the company.

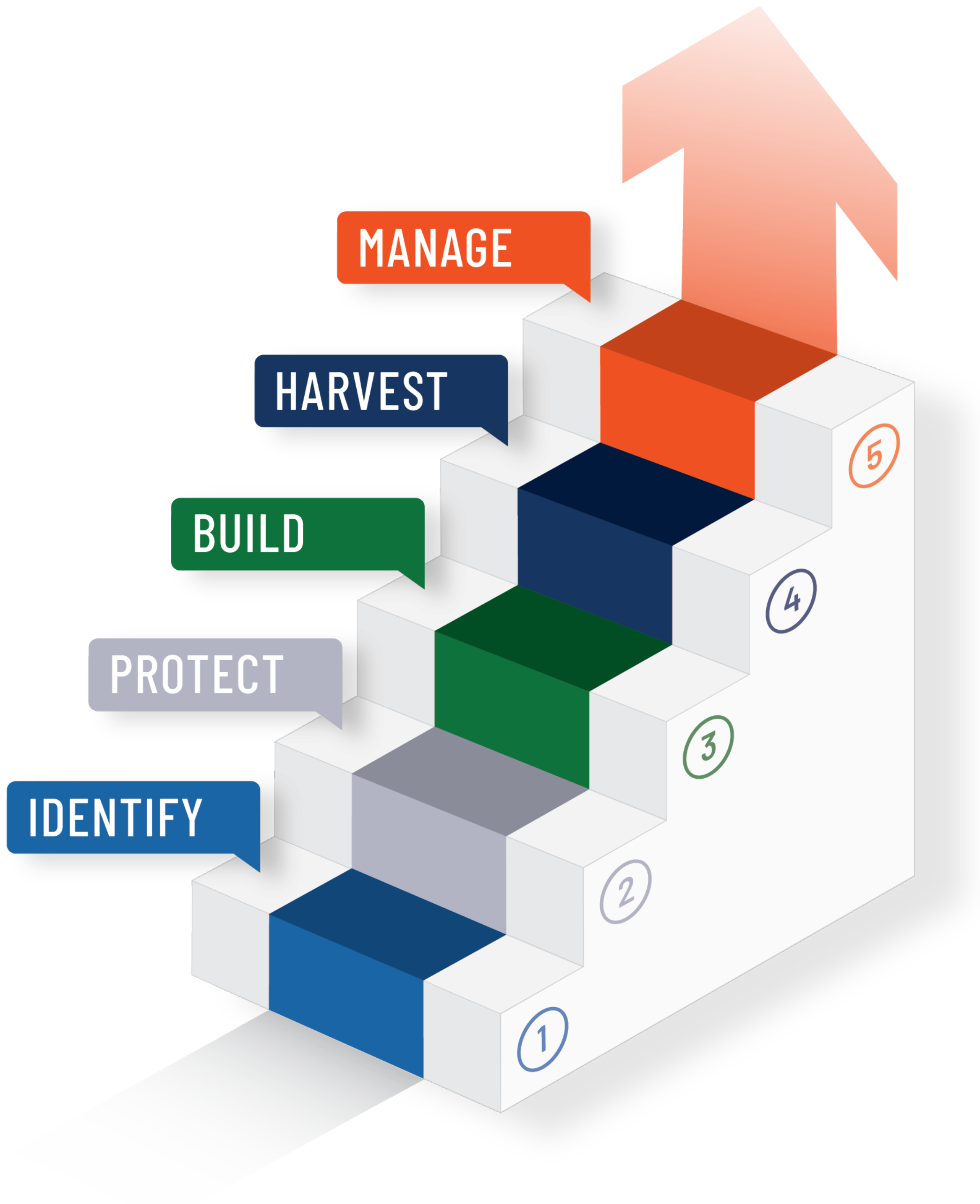
The Harvest stage is in the Decide Gate. This stage is where we are executing an exit option. This option could be internal to employees, management, or family or could be externally selling to private equity or corporate strategic buyers.

Once the owner has successfully done this, they move into the last stage: Manage value. The ultimate stage for any owner. You spend years, sometimes decades, growing your company. At some point, we will want to harvest the value and manage that value for a lifetime to come. Here the net proceeds from the sale of the company are managed and invested to provide for the owner and their family in the next or phases of their life. Typically, this process is managed with a wealth manager or financial advisor.

These are the Five Stages of Value Maturity. The critical element to note is that these stages come to life through implementing the Value Acceleration Methodology. An effective exit strategy is a business strategy. A business owner does things in their company every day that impact their value. Implementing these five stages and the methodology will give the owner a better company today with more value tomorrow.

Scott Snider
President, Exit Planning Institute

THE FIVE STAGES OF VALUE MATURITY



OWNING A BUSINESS COMES WITH MORE THAN ITS FAIR SHARE OF RISKS.

To increase value and minimize risks in your business, you should follow the 5 Stages of Value Maturity as detailed in Christopher Snider's book, Walking to Destiny.

IDENTIFY

Roughly 80-90% of a business owner's net worth is locked in their business.

IDENTIFY

Roughly 80-90% of a business owner's net worth is locked in their business. In order to maximize your value, you must set up a system to determine the value hidden in your business. According to Walking to Destiny, “the ability to unlock that value at some point in the future will make a significant difference to your lifestyle and, at exit, will fund your next act.” It is difficult to plan out your next act without having a professional business valuation.

Introducing the Enterprise Value Assessment

The first stage for any privately held company to begin value acceleration is “Identify.” This critically important stage begins the process of Value Acceleration and allows an owner and advisors to understand a company’s benchmarks, range of value, profit gap, and value gap. From a personal perspective, it allows advisors to understand how prepared the owner is personally and financially while understanding the business owner’s wealth gap. This Identify stage of The Five Stages of Value Maturity should be performed annually, setting the company and the owner for success each year. This first stage puts an owner on the pathway to a higher valuation and makes them more personally prepared for exit.

To have a full understanding of the business, personal, and financial aspects, the business owner must conduct an Enterprise Value Assessment (EVA). Formally, the EVA is a business valuation correlated to a personal, financial, and business attractiveness and readiness assessment to determine where the company lands within the range of value.

This EVA will consider the tangible and intangible elements of the company as well as the personal elements of the owner themselves. It will highlight areas of risk, show what improvements must be made, and most importantly, helps ensure the business owner’s goals are being met. Hence why this should be conducted annually, not just once at the beginning of the process. The EVA will allow the business owner to understand the company’s current value and their potential value. Provide a full assessment of the four intangible capitals to understand the more immediate Protect Value Stage and the longer term more strategic value actions that must be conducted in Stage Three, Build Value.

CRAIG WEST, CEO and Founder of Succession Plus and Co-Founder of Capitaliz, shares, “We always prepare a full Business Insights Report for all of our clients – a comprehensive review and evaluation – which includes a valuation number and more importantly the value potential – what should the business be worth?”

The EVA is more than a showcase of the company’s current value and potential value. It can be utilized in daily operations to make significant improvements to people, revenue, efficiencies, cost reductions, and even culture.

ROCHELLE CLARKE, the Managing Director of Succession Strength, shares, “If a business is considering a change in leadership, conducting a valuation is even more important.”

IDENTIFY

What Risks are Lurking in Your Business?

Before a business owner can begin to protect and build value in their company, they must understand what risks are lurking in their business and any personal risks associated with it. By understanding these risks, they can prioritize what gets worked on each year and in each 90-day sprint.

KEVIN MINTON, Owner and CEO of Chief Executive Boards International, shares, “The best strategy for understanding your business is to proactively perform regular analysis of identifying potential risks to your business, prioritizing the risks based upon potential impact, and then instilling the best mitigation strategy available at the time. Areas to consider when performing this exercise might include: financial, competitive, business disruption, cyber security, employee, liability as well as others. The key is to be thinking ahead, prioritize the biggest risks, implement strategies and communicate them with your team."

Before moving out of the Identify Stage, the business owner must prioritize actions to mitigate risks that have come forth by conducting the Enterprise Value Assessment. These risks will be placed into two categories, business and personal, and then prioritized accordingly as you move into Stages Two and Three. In order to prioritize these risk we must understand the business owner’s wealth, value, and profit gaps and their overall goals and objectives.

MICHAEL STIER, Area President and Director of Market Development for FocusCFO, agrees that identifying risks is the key step towards building business value. “We find the best way to help the owner and management teams to recognize the risks in their business is using valuation analysis. This helps to enumerate the impact of various risks on the current and potential value of the business and to galvanize conviction to take action. Needless to say, the set of risks and associated mitigation actions and priorities will vary per client. With all clients, we seek first to understand their unique profile and goals and then strive to customize our approach to help them build value over time.”

Planning For an Eventual Exit

Even if a business owner is not planning on exiting their business anytime soon, a business valuation to identify key risks in their company is still a crucial step to take.

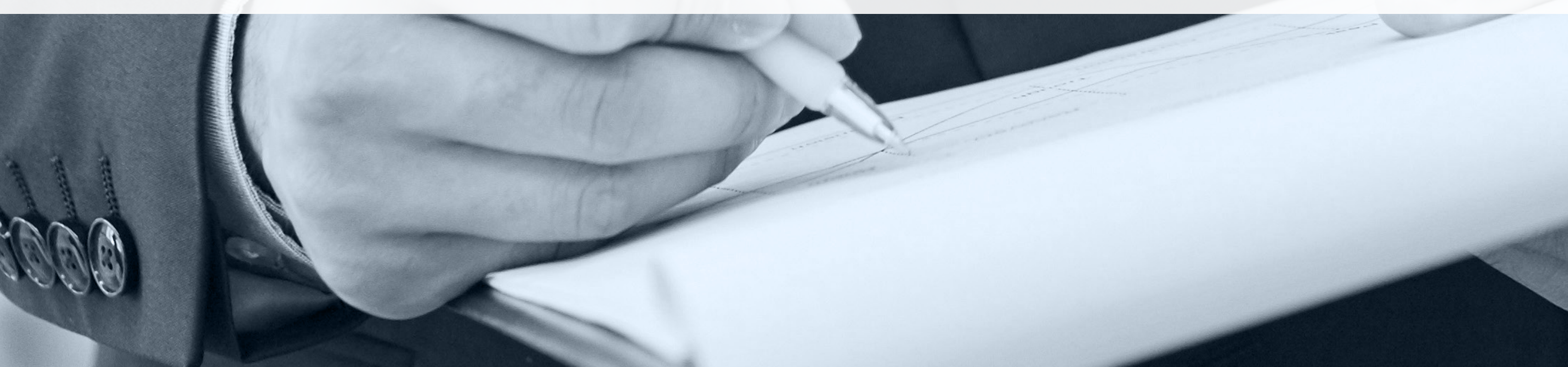
Without first identifying your baseline business value, you have no understanding of what metrics need improving, the strength of your intangible capitals, or if your business is as valuable as you might think it is. In this stage of the Five Stages of Value Maturity, owners are provided with the knowledge to enact changes that will impact both short-term operations and protect long-term business value.

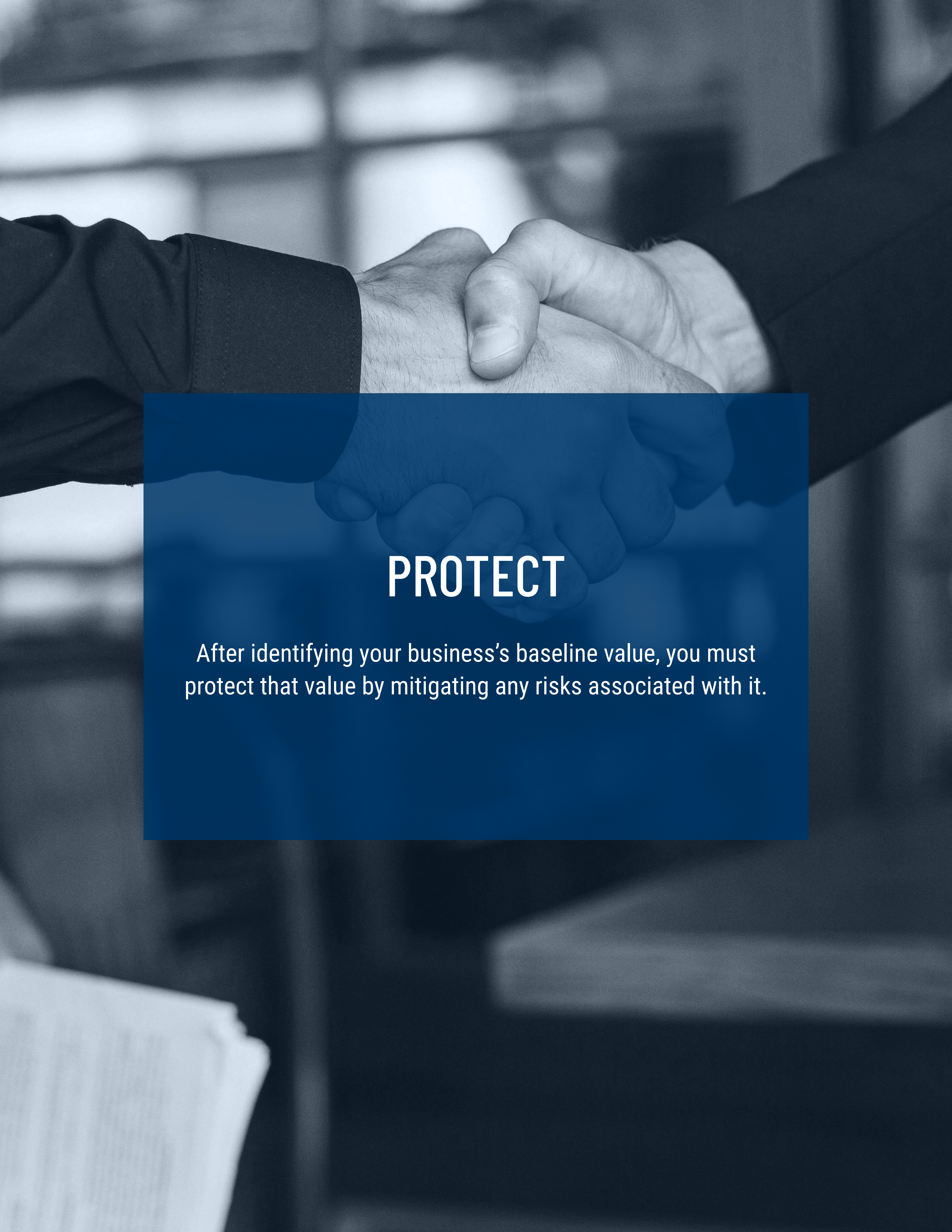
“It is very hard to plan anything, let alone a large scale business transaction, without knowing the starting point. In a business, this should be the valuation. We do not work with clients who are not prepared to undertake this step.”

Craig West
CEO and Founder, Succession Plus
Co-Founder, Capitaliz

KEY ELEMENTS OF THE IDENTIFY STAGE

- [ ] Annually score and understand the value of the intangible capitals: Human, Structural, Social, and Customer
- [ ] Annually value your business and Identify the Range of Value
- [ ] Understand your Profit Gap, Wealth Gap, and Value Gap
- [ ] Understand how your company compares to companies in your industry
- [ ] Understand your company’s Real Number vs. Tax Number
- [ ] Annually score and understand how personally prepared you are for a transition





PROTECT

After identifying your business's baseline value, you must protect that value by mitigating any risks associated with it.

PROTECT

After identifying your business's baseline value, you must protect that value by mitigating any risks associated with it. It is in this stage of the Five Stages of Value Maturity in which business owners and advisors create a prioritized action plan to organize risks.

Risks are divided into three categories: personal, financial, and business. **CHRISTOPHER SNIDER** writes in Walking to Destiny, "protecting value is the first step in building value."

The Five D's

To best protect your value, you must consider the 5D's: Death, Disability, Divorce, Distress, and Disagreement. Even if you do not think you will be affected by one of the 5D's, without preparing for the worst, your value will be negatively impacted.

Rochelle Clarke states, "The first area that I look at when a client walks in the door, is whether the business is protected from unplanned risks. Clients usually agree that it would be a waste to invest in long-term planning if an unplanned event could quickly derail the business and render those plans useless. The most comprehensive way to protect a business' value is via a thorough, well-structured contingency plan that's officially known as a Business Continuity Plan."

Kevin Minton suggests that all businesses involving partnerships must create a Separation Agreement. He continues, "If you don't have a partner and you have to go it alone, you can protect yourself from some of these, such as death and disability, with insurance. Divorce is a little tougher unless you have sufficient means to capital sources to cover a 50% buyout or may be willing to sacrifice more on the personal side to protect from spousal interest. Distress can come in many forms such as personal, mental, partner, business deterioration, financial or other."

PERSONAL

- Death
- Disability
- Divorce
- Health
- Accidents
- Family Tragedies

FINANCIAL

- Market Risks
- Diversification
- Personal Loans/Debt
- Personal Lawsuits
- Loss of Earning Power
- Long-Term Care

BUSINESS

- Customers
- Key People
- Business Interruption
- Economy
- Distress
- Partner Disagreements
- Environmental/Safety
- Technology/Machinery
- Owner Dependence
- Data/Information
- Compliance/Legal
- Loans/Debt

PROTECT

In addition to the 5 Ds, **ERIK OWEN**, President of Oak Hill Business Partners, categorizes risks into three buckets. He says, “These buckets help us have a discussion with the client regarding risk and strategies to minimize it.”

THE THREE RISK BUCKETS

THINGS OUTSIDE OF YOUR CONTROL	THINGS SOMEWHAT UNDER YOUR CONTROL	THINGS UNDER YOUR CONTROL
FIRE	UNDERPERFORMANCE	LEADERSHIP
ECONOMY	PRODUCT ISSUES	INDEBTEDNESS
PANDEMIC	BAD PRESS	STRATEGY
	BAD EMPLOYEES	

Do You Have a Prioritized Action Plan?

A prioritized plan helps focus an owner’s resources on the most impactful items to protect, and ultimately, build value in their business. Creating a prioritized action plan also provides peace of mind for owners.

Craig West classifies risks into two categories. He shares, “Risks should be classified according to likelihood and impact - those with the highest likelihood of occurring and the highest impact on the business should be addressed first. In many businesses, there are literally hundreds of different risks and the process of prioritizing them ensures we work on those most likely to have the largest impact on value first.”

Rochelle Clarke typically starts with the most comprehensive action first: creating a business continuity plan. She shares, “This serves as an operational contingency and it delivers the most impact across the organization quickly. Additionally, it helps uncover information about the company’s operations that may be valuable during the engagement.”

Erik Owen believes the prioritized action plan helps focus owners on what is truly important in their business. He continues, “Often, simply building a plan creates focus. Forcing the management team to put down in black and white what they understand (and showing them what they aren’t thinking about) can be very powerful and help separate the important tasks from the urgent ones.”

PROTECT

There is Such a Thing as a "Good Risk"

How much would you risk in order to grow your business? No improvements to your business can be made without some amount of associated risk.

Kevin Minton shares, "During the protection phase, I would be willing to take on debt if I believed that I could recapture it with a profit or protect my investment. I would hire more employees and continue to invest in machinery or facilities provided it would protect the ability to generate an acceptable financial return either during my projected tenure as an owner or during a transition to another owner."

Erik Owen, states, "Taking on risk depends on the risk profile of the client and the advisors, economic conditions, industry, resources, and time frame available. Usually, the owner is more comfortable with risk than their team or advisors. However, the advisors often have a broader view and can bring solutions for more balanced risks than the owner."

Protecting Personal Value

While protecting your business from risk is a crucial component towards building value, owners often forget to consider their personal and personal financial risks.

Michael Stier shares, "In addition to focusing on risks to the value of the business, we strive to also engage with the owner regarding the personal side of exit planning. If the owner is receptive, we will take on the role of "coach" or "quarterback" for the owner. To educate and encourage the owner(s) to be more proactive with their own personal planning – both with financial and estate planning, but also with their "life after exit" considerations."

Are You Protecting Short-Term Value, or Investing in Long-Term Returns?

Protecting the value in your business is an important task regardless of your timeline for an exit. Most risk mitigating measures impact both short-term value and long-term value in a business.

Rochelle Clarke shares, "Savvy business owners give themselves the best chance to maximize growth and value by incorporating risk mitigation in their overall business strategy."

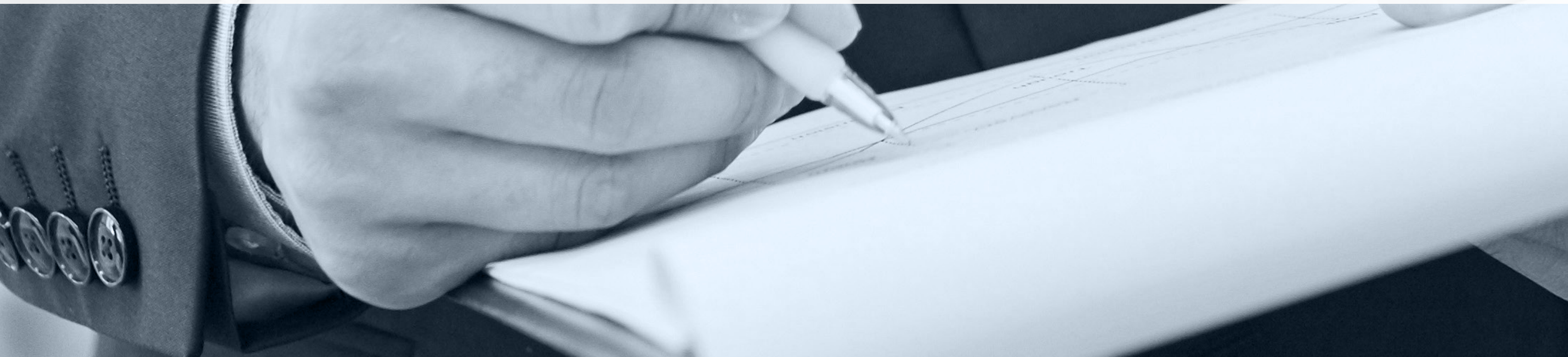
One of the most effective ways to protect the short-term and long-term value of a business is to ensure that it can be run effectively without the owner. Decentralizing the business owner prepares the business for the owner's eventual exit in the present. Thus, the business would have written procedures, detailed financials, and a customer base that is not solely the owner's responsibility.

Kevin Minton states, "The investment strategy might typically change a year or two into the final phase when you're looking to exit. Short-term investments to sustain the value and maintain a growth trajectory may continue during an exit phase if there's an anticipated appropriate ROI upon exit. During the value protection phase, it's important to continue to invest in growth and sustainability, continuing education, and the development of the staff."

Every business has its associated risks. By effectively understanding the personal, business, and financial risks in an owner's business, an owner and their advisory team can mitigate those risks, protect existing business value, and ultimately build value in their business.

KEY ELEMENTS OF THE PROTECT STAGE

- ☐ Taker a shorter-term point of view and mitigate risks
- ☐ Define the risks as business, personal, or financially based
- ☐ Develop 90-day action plans on 2 concurrent paths: Business and Personal/Personal Financial
- ☐ Create contingency plans around the 5 Ds
- ☐ Formalize your exit planning advisory team
- ☐ Ask yourself, “How much am I willing to risk in order to grow?”



BUILD

Once you have protected your existing value,
your focus can expand to building value.

BUILD

According to Chris Snider in Walking to Destiny, there are two ways to build value: increase your cash flow (EBITDA) and improve your multiple. Your multiple is the number assigned by the private capital market to the value of your tangible and intangible assets and their associated risks. Intangible assets include Human, Structural, Customer, and Social capital. Improving your intangible capital is critical to building business value.

How Risk Mitigation Builds Value

GORDON BELL, Owner of the Midland Group, notes the importance of a detailed SWOT analysis in risk mitigation. He comments, "Midland first conducts a SWOT analysis utilizing the four categories of Intangibles, Investments, Operations, and Financial tactics. There are over 60 tactics that can be utilized. I work with the owner and management team to pick the top eight or 10 that will improve the EBITDA or multiple in a three to five year window. We have done this successfully with over 55 companies since 2009."

Rochelle Clarke shares, "Mitigating risk builds value by insulating the company's growth from unplanned resource diversions. A business that is able to maximize its growth, can increase its value. Depending on the type of risk mitigation efforts employed, a business could also increase its value by becoming more transferable. This is usually accomplished with activities centered around contingency planning and documentation to reduce the reliance on individuals."

Strengthening Your Intangible Capitals

The strength of the intangible capital in your business is one of the key drivers of value.

Erik Owen says, "Buyers will pay more for businesses with strong intangibles. If you have a strong brand, excellent customer relationships, and a high-performing management team, you will also get higher earnings which ultimately drives your business value higher."

HUMAN CAPITAL

According to Walking to Destiny, "62% of owners indicated that finding and retaining top talent is the biggest challenge they face." When working on your employee development plans, follow a series of steps that encourage growth in your employees and your business.

Recruit: Consider why top talent would want to join your company. Is your business an attractive place to work? Can you clearly articulate your business values to your recruits? What characteristics are you looking for in a key employee?

Motivate: What are you doing to motivate the talent you already have in place? Employees want more than just a "job." They want to be a part of something bigger. Are you a passionate leader who provides inspiration for your team? And mainly, do you have the right incentive programs in place to motivate top talent and keep them motivated?

Retain: You might have top talent in your company, but what are the rates of turnover for high performers in your business? Are you providing a path for professional growth as well as retention incentives for your top talent?

Evolve: How does your team need to evolve to grow your business? Are you promoting talent from within your organization? Can your leadership team evolve as your business evolves? If not, what are the barriers to their evolution?

BUILD

SOCIAL CAPITAL

The Social Capital in your business incorporates this purpose, reflects your organization's vision, and is ever-present in the day-to-day operations of your business. In a business, the strength of the social capital also begins with strong foundational elements; the organization's vision and purpose. Your purpose guides every aspect of your business.

Christopher Snider writes, "Purpose expresses personal values, inspires and unifies the team, focuses action, and disciplines you to think strategically."

The strength of your Social Capital is tied to your operations, your brand, the way your team works, and daily communications among employees and customers.

Chris Snider writes in Walking to Destiny, "Customers place a high value on the experience of doing business with you, not just your products and services. The way you do business is a reflection of your culture. If your team is connected to your vision, they will be more passionate, more creative, and more committed."

CUSTOMER CAPITAL

JUDY BODENHAMER, Founder and Managing Director of Client Experience Group, shares, "When building value for a business, gaining specific insights into the Client Experience is a savvy way to increase your organization's customer capital, and so much more. We align with the Exit Planning Institute's Value Acceleration Methodology and encourage owners to continue to focus on building value from strategies that increase cash flow, accelerate human capital performance, and now add velocity to the pursuit of building customer capital. Customer capital has become more than goodwill, it translates into the lifetime value of a customer, which has ongoing financial value to the business."

Building your Customer Capital is one way to improve the overall value of your business.

Judy Bodenhamer highlights five key components to build customer capital through an enhanced client experience.

- ☐ Incorporate client experience into your strategic plan
- ☐ Establish a steering committee focused on customer engagement
- ☐ Calibrate your client experience based on customer feedback and needs
- ☐ Encourage leaders on your team to take initiative in the customer journey
- ☐ Establish clear metrics to measure the success of your strategy

BUILD

STRUCTURAL CAPITAL

The most robust of all intangible capitals is Structural Capital. It encompasses everything that makes your company work efficiently. The process, documentation, training programs, technology, tools, equipment, and real estate.

Exit Planning Institute President, **SCOTT SNIDER** says, "Bottom line, I don't think there is a more robust intangible capital than the processes that make your business." This capital captures the knowledge assets within your company, converting that mental process into company property and, therefore making it transferable.

Erik Owen says, "By implementing industry-aligned project management software and some manufacturing automation business owners can reduce errors, increase visibility and communication, provide better data, and improve quoting and job acquisition."

Improving Your Multiple

Erik Owen shares, "Regarding the multiple, growth and profitability factor in here also, but our primary focus is on intangibles Social Capital, Human Capital, Customer Capital, Structural Capital. We assess the organization's 4 Cs and help them enhance each which results in enhancements to the intrinsic value and translates into growth and profitability."

Michael Stier, Area President and Director of Market Development of FocusCFO, states, "There are analogous sets of tactical and strategic steps to improve the multiple through a focus on the intangible capitals. This includes employee retention and development, enhancing the management team, and risk mitigation and enhancing partnership agreements."

Increasing EBITDA

Gordon Bell emphasizes the importance of proper planning to increase EBITDA. He shares, "When the exit is imminent, we only work on those tactics that can clean up any messes the company has to derisk the company for the sale process and attempt to enhance the EBITDA with no more than 3-4 tactics that can be done in one year or less."

Michael Stier discusses the importance of the need for both **tactical** and **strategic** actions to improve EBITDA.

TACTICAL ACTIONS

- [ ] Improving expense controls and management
- [ ] Identifying opportunities for improved operational efficiencies
- [ ] Determining the more profitable subsets of clients and services with the objective to either enhance profitability from those subsets and or to begin to eliminate less or unprofitable subsets
- [ ] Improving working capital needs

STRATEGIC ACTIONS

- [ ] Looking at appropriate growth strategies - both organic and inorganic
- [ ] Improving budgeting and forecasting processes
- [ ] More guided decision making for capital investments

BUILD

Erik Owen follows a similar method. He says, “For EBITDA, we focus on two broad areas: growth of gross margin and a focus on productivity. We want to grow the profit margin of products, services, and jobs and reduce less profitable ones. Productivity comes by looking at people, processes, and systems through a lens like Lean Six Sigma to reduce waste and enhance efficiency and effectiveness in the organization.”

Owner Exit Timeframe

The timeframe of an owner's exit impacts the amount of value-building initiatives that can be undertaken.

ALI NASSER, CEO of AltruVista, says, “I like to think of the timeframe for an exit like landing a plane. If you have a long runway, the landing is smoother. There is plenty of time to adjust and course-correct. However, with a shorter runway, you only have time to fix a few small errors or issues.”

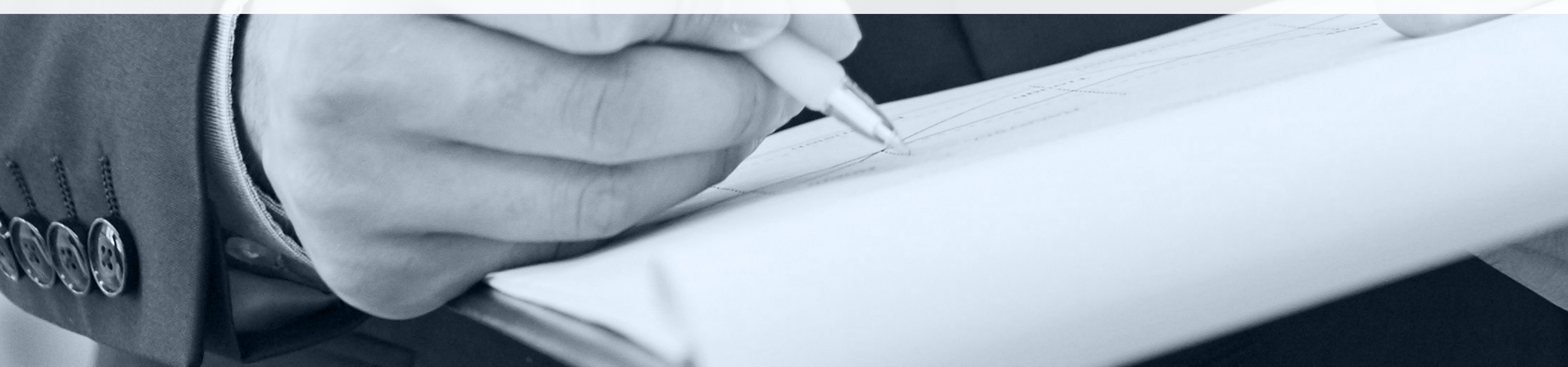
Michael Stier shares, “For those owners actively seeking to exit their business soon, there is limited ability to effect meaningful change to the value of the business; short of addressing some tactical deficiencies such as improved financial reporting processes or some mitigation in client concentration risks.”

Gordon Bell shares that his ideal timeframe for exit is between three to five years. He says, “With at least 3 years of sell-side preparedness before the final year conducting the actual sale process, we have a greater opportunity to improve upon the weaknesses and take advantage of the opportunities from the SWOT Analysis.”

Building value in a business should be every business owner's goal. By strengthening intangible capitals, an owner mitigates risks lurking in their business, increases EBIDTA, and improves their multiple. Ultimately, this leads to a higher valued business that is not only more likely to sell, but for a higher margin.

KEY ELEMENTS OF THE BUILD STAGE

- ☐ View the business value from a long term strategy and identify strategic actions to increase significant value
- ☐ How do we strategically increase cash flow (EBITDA)?
- ☐ What strategic actions must be taken to increase intangible capital: Human, Structural, Social, and Customer?
- ☐ What strategic actions need to be taken to drive efficiency, drive growth, and drive culture?
- ☐ Continue to operate on 90-day sprints



HARVEST

After building your business value,
it is time to harvest the fruits of your labor.

HARVEST

There are numerous paths your business exit can take. You should invest in an investment banker and business advisor to get the most value out of your exit. You might discover that after reviewing your options, you decide not to sell your business and instead transition the company to a son or daughter, sell the real estate and keep the company, or continue to build value.
Ali Nasser highlights business owners' desire for control over their company. It is important to determine at the beginning of the exit planning process, whether the owner would like to retain some control in the business or if they are comfortable relinquishing all control in a sale.

What Are The Exit Options?

A business owner can exit their company in either an internal or external fashion.

JEFF DIEDENHOFEN, Vice President of Mavrek, shares that he starts the client engagement by explaining to the client their options. He continues, "Depending on their type of business and their situation, there are typically two main options: an external sale or an internal sale. Sometimes business owners have already been approached by a competitor, supplier, family member, friend, employee, etc, with interest in acquiring the business. This is a great place to start and can help determine whether the sale should be an external sale to a third party, or an internal sale to an employee, business partner, etc. It is important to discuss these options at the beginning of the engagement to determine the best exit options."

Gordon Bell shares, "We review the traditional exit option categories with the client and narrow it down to two or three that best fits their situation. We then conduct a pro/con analysis along with net proceeds proforma. If the seller is going to stay, we take one path. If they are going to leave at the close, then we go down a different path. We explore the traditional seven transfer and exit options which have multiple variations."

Ali Nasser believes the most successful exits begin with the goals in mind and work backward to determine which exit option meets those goals. He says, "Every business owner and advisor pair has the opportunity to not start with the options. Start with the owner's goals, vision, and what they want in their next act. That is a much better fit. Ask the owner, 'What does success look like for you?'"

HARVEST

DO OWNERS KNOW THEIR EXIT OPTIONS?

Gordon Bell continues to say that while owners are very comfortable with the day-to-day operations of their company, the exit options are a bit unfamiliar to them. He says, “They sometimes get fixated on a transfer or selling option. Rarely do they know that there are a myriad of combinations that can be applied to their situation. First, you really need to understand their personal, financial, and business goals and do they have a plan for life after the transaction. More times than not, we end up with a different option to transfer or sell their company stock.”

Jeff Diedenhofen echoes these sentiments. He comments, “It is important to be able to paint a clear picture and design a path for success for the business owner. Many times the business owner may be introduced to ideas that they never thought were options, or even possible.”

Additionally, some owners feel quite strongly about one option over others.

Michael Stier shares, “Consistent with the FocusCFO mission of building transferrable value, we seek to engage with owners early on regarding the goals for the business. As well as their awareness, or lack of, for the full spectrum of exit options available that may achieve their business, personal, and financial goals. For example, a new client I just engaged had learned of ESOPs through an educational event he had attended. He latched on to that option for his business. I call this the ‘shiny object’ effect. The knowledge gap we are now working to close regards the appropriateness of ESOPs for different types of businesses, and the range of other options available that may be better for achieving his goals.”

HARVEST

The Difference between Enterprise Value and Net Proceeds

The problem owners face when it comes to harvesting the value in their business is their inability to differentiate between enterprise value and net proceeds. Net proceeds is what an owner nets after paying taxes, fees, debts, and any other costs associated with selling their business. So while their business value might be high, they will almost never end up with the full value of the business.

Ali Nasser highlights this in a story about his former clients. He shares, "I used to advise professional football players. In their head, they thought "I got a $5 million contract." But in reality that worked out to $700 thousand a year for three years. There are taxes, fees, and charges associated with it. This reminds me of business owners who say 'I have a $50 million company.' But they are $25 million in debt, they have a partner who gets half the profits, and they have various taxes to pay on that wealth. Ultimately, they end up with less than $10 million. The difference between net proceeds and your business enterprise value is huge!"

Gordon Bell says, "Net proceeds analysis is just one characteristic that we utilize in determining whether we should harvest or not. The company may not be prepared to be sold after our analysis and the seller may not have a life plan post-sale. Net proceeds give us an indicator that if everything is right, we may want to proceed."

Net proceeds play a huge role in determining if and when an owner will sell.

Craig West says, "As part of retirement planning and wealth creation for the owner, net proceeds is the number that really matters. Calculating the correct result is an important part of the plan. Several of our clients have elected to continue for several more years to maximize the value of the business so that the net proceeds actually do fund the retirement they are planning."

What Makes for a Swift Exit?

What steps can an owner take to ensure a swift and manageable exit process? While every exit will have its own unique challenges, working with the correct team of advisors, strong communication, and a proper due diligence process positively impact the owner.

Ali Nasser recommends owners "write down what they want and share that with the entire team of advisors to get everyone on the same page" at the beginning of the exit engagement.

Jeff Diedenhofen shares, "Notifying your deal team that an exit is imminent, gathering all documentation, historical and year-to-date financials, asset lists, real estate information, and following a linear, step-by-step process will ensure a swift exit process."

Jeff Diedenhofen educates owners on six steps to selling a business.

- [ ] Prepare the business for sale / Gather due diligence documentation
- [ ] Find a buyer
- [ ] Negotiate terms
- [ ] Final due diligence
- [ ] Transactional documents
- [ ] Transition to the new owner

HARVEST

Gordon Bell approaches the exit process in three questions for the owner.

- [ ] Are you healthy and do you have a plan for life after the deal?
- [ ] Is your company growing and is the EBITDA improving?
- [ ] Are the capital markets strong at the time of potential exit so we can maximize the value utilizing the proper amount of equity and debt?

Gordon also shares, “If a client has utilized an experienced CEPA to assist in the buy or sell analysis and then takes advantage of most of the value enhancement tactics, then you have a better chance for a swift exit process.”

There are a variety of exit options an owner can utilize. However, without proper consideration of their personal and business goals, a business owner may fail to realize which option best suits their needs. With the help of their dedicated team of advisors, a business owner can harvest the full value of their business, maximize net proceeds, and have a swift exit process.

KEY ELEMENTS OF THE HARVEST STAGE

- [ ] Consider all exit options
- [ ] Consider partial options, taking some chips off the table over a longer exit strategy
- [ ] Consider deal terms and deals structure
- [ ] Prepare a detailed strategy to exit

MANAGE

Once you have protected your existing value,
your focus can expand to building value.

MANAGE

According to Chris Snider in Walking to Destiny, there are two ways to build value: increase your cash flow (EBITDA) and improve your multiple. Your multiple is the number assigned by the private capital market to the value of your tangible and intangible assets and their associated risks. Intangible assets include Human, Structural, Customer, and Social capital. Improving your intangible capital is critical to building business value.

Craig West shares, "The key to this stage is the word 'manage'. It is not a single transaction, but an ongoing role. Whether managing the business itself or the proceeds from the sale of that business, managing the value really never ends. It is a significant change for most business owners when they no longer earn income from business assets. Their only income going forward will be from investments, so a significant amount of planning is required to make sure this adequately funds retirement, protects assets, and delivers estate planning outcomes."

Managing Value Before the Exit

An advisor works to manage an owner's business value before they even think to exit.

Ali Nasser reflects, "Managing value involves more than the exit, investment planning, and personal life planning. An owner must know what they want their wealth to provide. Holistic planning is critical to begin years before an exit.

Gordon Bell begins each engagement with a baseline understanding of the owner's value, their goals, and what their journey has looked like thus far. He says, "Once we have established the baseline, we need to help them envision what their next phase of life looks like and what they will be doing. This process has many parallels to getting married or having children, in that the more informed and aware of the changes that will take place, the more likely you are to adapt quickly and have success. Often the biggest obstacle is the client's willingness to change. This is an area where dedicated professionals play a big role.

Managing During the Transition

Managing the owner's wealth during their business transition is a crucial component to ensure they have intentional plans for their post-business life.

Gordon Bell shares that this stage depends on the preparation of the owner more so than the business. He continues, "Since we all accept change differently, it really depends on the individual and their willingness to work through the process."

At the transition of the company, whether that be through a third party sale or an internal option, the owner will have prepared for a while.

Ali Nasser explains to his owner clients that the exit of their business is simply their plan unfolding.
He shares, "With a comprehensive plan, the exit is not a huge leap, because they have been planning for this transition for a while and are well prepared."

MANAGE

Managing Your Life After Business

One of the most essential components in the Manage stage is the management of an owner's business value and the wealth acquired from the sale of their business in their next act. Defining a path for the owner's wealth to take in advance of selling their business is paramount.

Gordon Bell shares, "It is important that the client sees success in life after business ownership. Success will look different for each person, but the key is that they can envision and articulate their vision of success. They still have to put in the work to achieve that success, but without a vision, it will be more difficult for them to transition and find that success."

Ali Nasser recalls the story of an owner he met. The owner shared that they had sold their business a year ago for $30 million and they had it sitting in a checking account with no further plans for it. Ali says, "The owner was hyper-focused on protecting that current wealth that they had no investments or action in place to grow that wealth."

He calls this "analysis paralysis", in which an owner is so bogged down by the numerous options to invest their wealth that they ultimately choose to do nothing with it. This can be mitigated by talking about investment strategies, personal purpose, and third act goals prior to exiting the business.

Ali notes, "I am not going to wait until your exit to talk about your investment strategy."

A business owner should continuously manage their business, personal, and financial goals. 80% of an owner's wealth is locked in their business. Without properly managing that wealth prior to an exit, they will be less likely to successfully manage it in their next act.

"It's not just the value of your business you need to manage. You need to manage your personal value and personal financial net worth as well. If you actively manage value through the entire process, you emerge financially independent of your business, with lots of options when the time comes to exit, making the timing of that exit irrelevant."

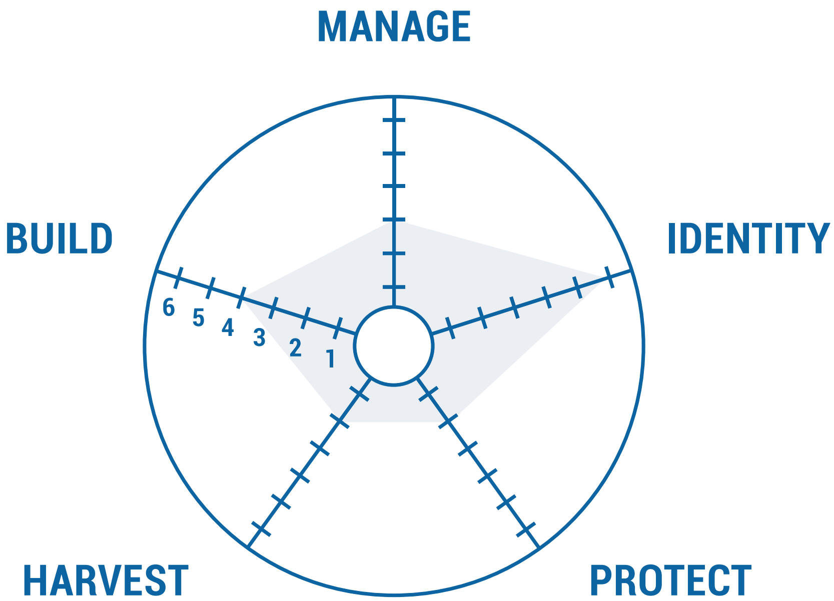
Chris Snider
CEO, Exit Planning Institute
Walking to Destiny

KEY ELEMENTS OF THE MANAGE STAGE

- ☐ Continue to work with your financial advisor or wealth manager
- ☐ This stage is where we are living our personal plans and vision
- ☐ Are you actively managing your business value prior to exiting?
- ☐ How are you effectively managing your life after your business?

THE VALUE MATURITY INDEX

Learn where you score in each segment of value maturity by completing the Value Maturity Index. Give yourself a score of six if you have fulfilled everything in a category and a score of one if you have done nothing at all in the segment. This one to six scale is referred to as “Common Sense Scoring.” It eliminates the option to rate your business as “average” by removing a middle option. Draw a line connecting each segment and shade in the area. The non-shaded area represents your area for improvement. Every 90 days complete this simple index to highlight how your value has grown.



VALUE MATURITY INDEX

THE VALUE ACCELERATION METHODOLOGY

Meet the Creator

In 2016, Chris Snider, CEO of EPI, wrote the first book on the Value Acceleration Methodology called *Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value & Unlock Wealth*. This book helped bridge the gap between owners and advisors. *Walking to Destiny* empowers business owners and provides them with the correct tools, knowledge, and path to effectively position their business and themselves for not only exit options down the road, but more importantly, rapid business growth today. Chris's book expands on the core concepts that are introduced in this whitepaper and highlights businesses that embody the methodology.

Change your outcome and read Chris's book at **WalkingToDestiny.com**

Meet the Community:

The advisors who incorporate the Value Acceleration Methodology into their practice are called Certified Exit Planning Advisors (CEPAs). EPI is powered by our elite and diverse community of top advisors focused on creating a valuable, transferable future for the business marketplace. CEPAs are able to have deeper and more holistic conversations with business owners as members of their advisory team and are often called the most trusted advisor. Included in this whitepaper are insights from just a few of the over 3,000 CEPAs in the exit planning community.

Meet the Trusted Advisors and explore the Exit Planning community at **BuildSignificantCompanies.com**

Understand the Owners:

Exit Planning Institute has spent over ten years researching business owner exit readiness and analyzing the mind of an owner. **Through this research, EPI has found that owners profoundly regret selling their business if they do not prepare for the personal side of the transition.** An owner with a profitable business might seem ready to transition their business. However, simply because a business is successful, does not necessarily make it significant to its customers, employees, or potential buyers. Highlighted in this whitepaper are some of the key findings from the 2021 New York City State of Owner Readiness Report that continue to support significance over success.

See how ready your business is for a transition and access all State of Owner Readiness Research at **OwnerReadiness.com**

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Colleen is responsible for creating engaging and unique content for Exit Planning Institute. She generates organic communication between EPI and the Exit Planning community and conducts targeted market research.

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