

BUSINESS EXIT PLANNING

STRATEGIES FOR A SUCCESSFUL TRANSITION

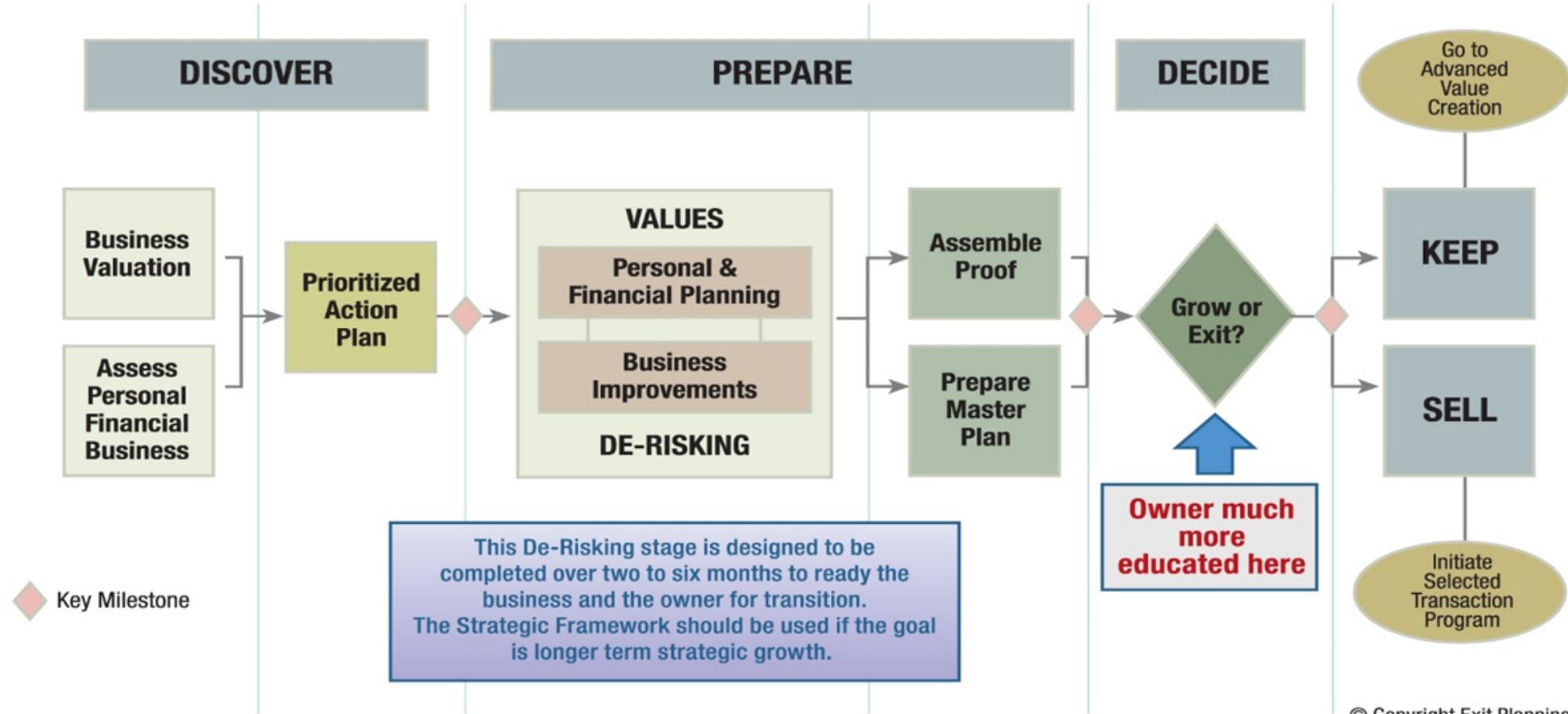
DUNN LUMBER CUSTOMER BREAKFAST MEETING

JANUARY 26, 2017

EPI Value Acceleration Process



Exit
Planning
Institute™



ATTRIBUTES OF A TRANSITION

- Why time, assistance, and patience are critical!
 - Complexity
 - Once in a lifetime event
 - Influences of many perspectives
 - Financial issues are in the center
 - Value enhancement strategies are critical - and take time
 - High volume of negotiable issues
 - Variety of successful outcomes for various stakeholders

IMPORTANCE OF STRONG FINANCIALS

- Cash flow drives the valuation
 - “Free Cash Flow” determines Return On Investment and possible Payment Plans
- Key components increase sellability
 - Positive sales trends
 - customers, markets, product lines
 - Healthy gross profit margins
 - cost reductions and price increases possible
 - Low concentration of major accounts
 - Selling and administrative costs that can be diluted with growth

IMPORTANCE OF STRONG FINANCIALS

- Clean Balance Sheet – see it with “Bankers Eyes”
 - Current Accounts Receivable and Accounts Payable
 - Fixed Assets reconciled and clean
 - No shareholder receivables or loans
 - Operating Expenses properly accrued
 - Warranties, commissions, inventory/accts receivable reserves
 - Long term debt coverage reasonable with cash flow
 - Debt to Equity in acceptable range – 2.0 or less

RESTATING FINANCIALS

- Normalize financials for presentation to buyers
- Purpose is to give the true cash flow and equity positions of the company for valuation purposes
 - Remove personal expenses
 - Building rent at market rates
 - Salaries for owners at market rates for equal responsibilities
 - Personal assets removed from balance sheet
 - Off balance sheet or fully depreciated assets are identified
 - Interest on shareholder loans at market rates

CREATING A FINANCIAL SCORECARD

- Understanding your valuation impacts your business planning
 - Gross margins by customer and product line
 - Break Even Point – level of variable and fixed costs
 - Days Sales in Accounts Receivable – improve terms and collection processes
 - Inventory Turnover – reduce excesses and improve liquidity
 - Debt to Equity Ratio – manage the balance sheet to get healthy
 - Normalized EBITDA – know the valuation driver

HOW BUSINESSES ARE VALUED

- Income Approach
 - Multiple times EBITDA
- Market Approach
 - Similar businesses, similar market
- Asset Approach
 - Net book value, market value
- Valuation Discounts
 - Minority, restrictions
- Value Ranges: Fire Sale vs. Strategic Sale

PERSONAL FINANCIAL PLANNING

- Key next step in the exit planning process
 - How long do you need to work?
 - What salary and distributions do you need prior to the sale?
 - What value do you need to receive for the company?
 - What tax planning is needed to receive needed after tax proceeds?

PERSONAL FINANCIAL PLANNING

- Project Your Goals – where you want to be
- Evaluate Assets – what you have
- Perform Gap Analysis – what you need
- Provide Options – how to get there
- Implement Strategies – activate the plan
- Monitor Plan – optimize toward achieving goals
- Back to Revising and Projecting Your Goals!

VALUE DRIVERS OF A BUSINESS - MARKET

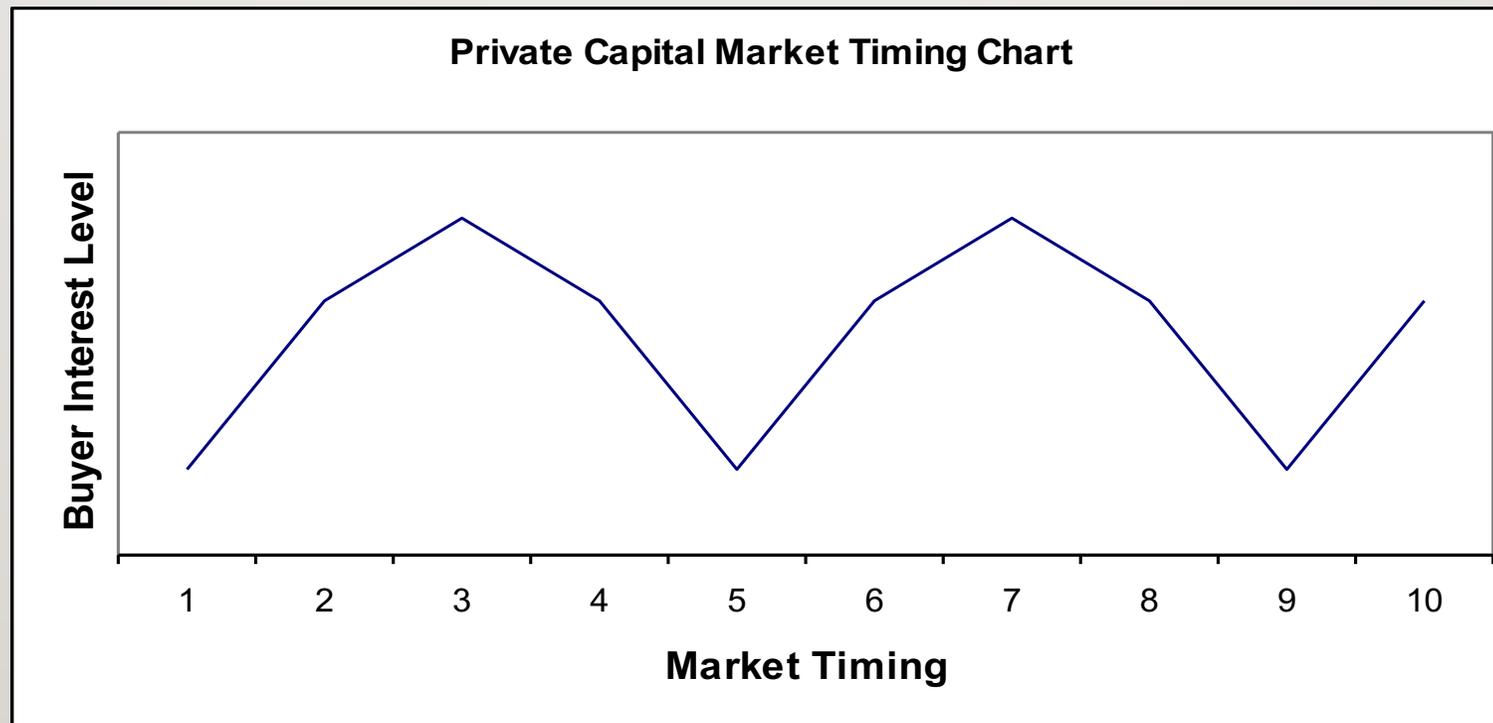
- Growth
- Large Market Potential
- Recurring Revenue
- Barriers to Entry
- Product Differentiation
- Brand
- Margin Advantage
- Customer Diversification

VALUE DRIVERS OF A BUSINESS - OPERATIONS

- Business Planning
- Financial Processes
- Sales & Marketing
- Operations Management
- Customer Satisfaction
- Senior Management
- Human Resources
- Legal
- Innovation

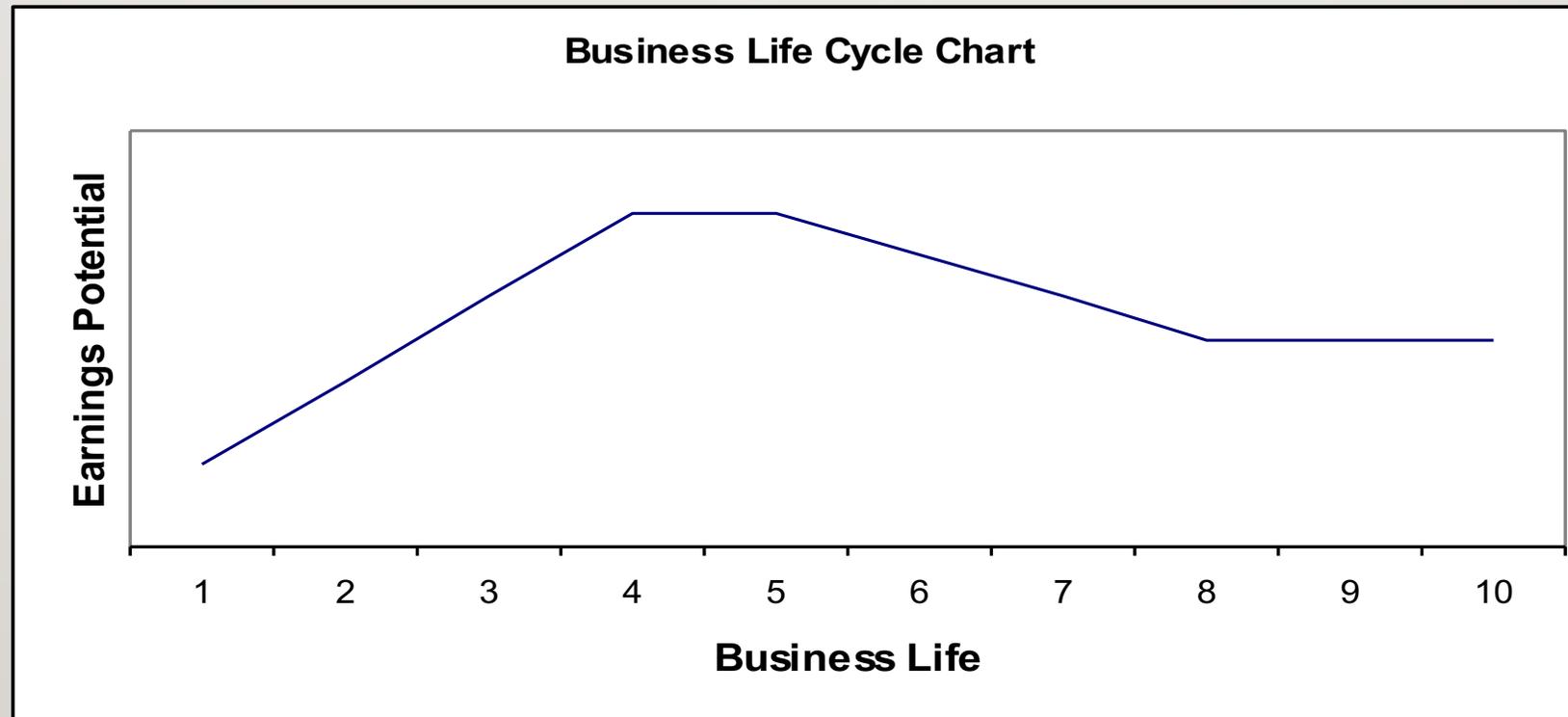
WHAT DRIVES VALUE – MARKET TIMING

- Strength of the economy, capital gains tax rates
- Availability of debt/financing, legal/regulatory, market/industry



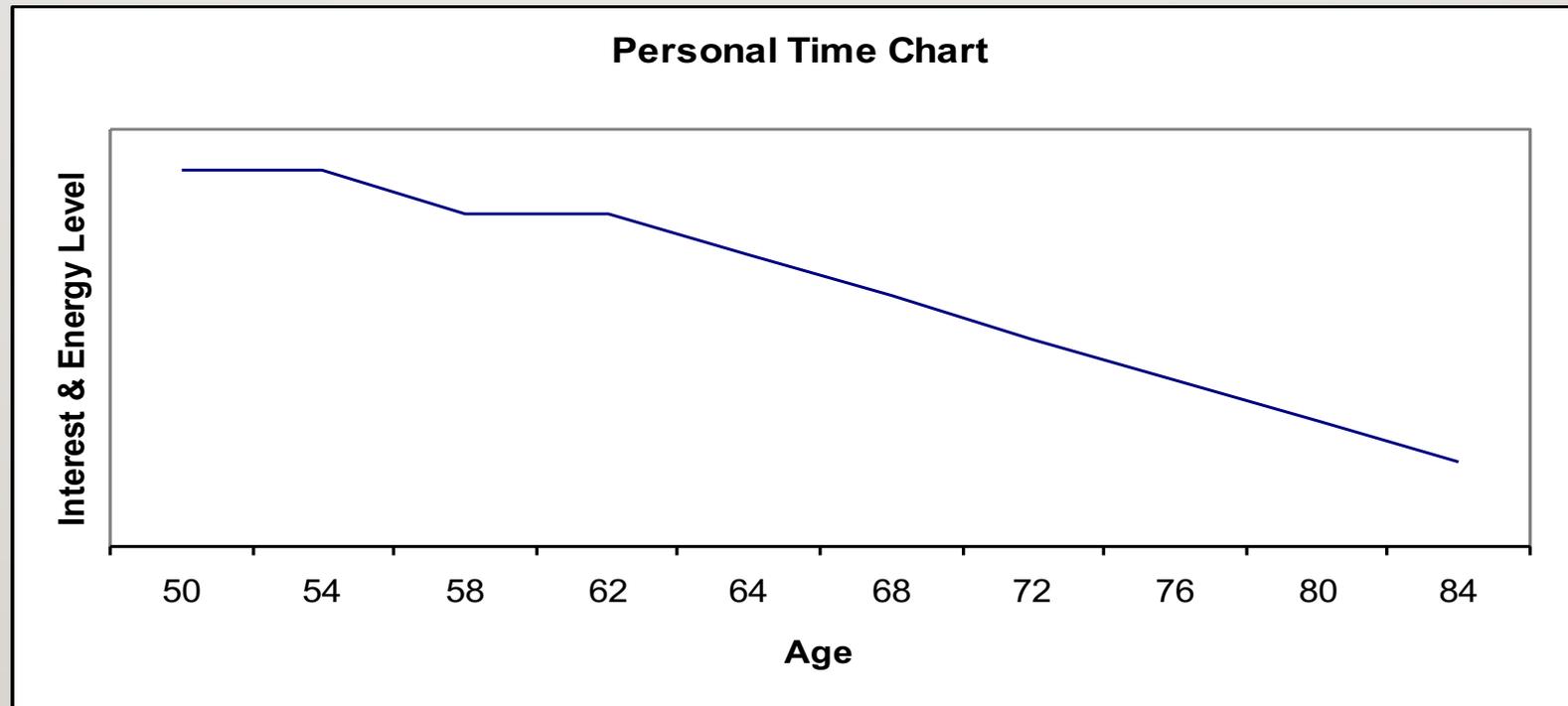
WHAT DRIVES VALUE – BUSINESS TIMING

- Growth Stage, Historic Trends, Future Prospects



WHAT DRIVES VALUE – PERSONAL TIMING

- Owner's energy level, age, health
- Owner's personal involvement, passion, transition assistance



KNOW YOUR EXIT OPTIONS

- Family members
- Other shareholders
- Management buyout
- Employee buyout (ESOP)
- Refinancing or recapitalization
- 3rd Party Sale
- Going public
- Liquidation (80% of small businesses are liquidated)

SUCCESSION PLANNING

Costs of Not Planning

- Undervaluation
- Wrong timing
- One buyer is no buyer
- Increased taxes
- Leave problems with family members
- Possible liquidation
- Sleepless nights!

Benefits of Planning

- Lower risks
- Maximize valuation
- Preserve wealth
- Reduce uncertainty
- Lower taxes
- Provide options
- Protect legacy
- Happier stakeholders
- Peace of Mind!

CONTACT INFORMATION

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