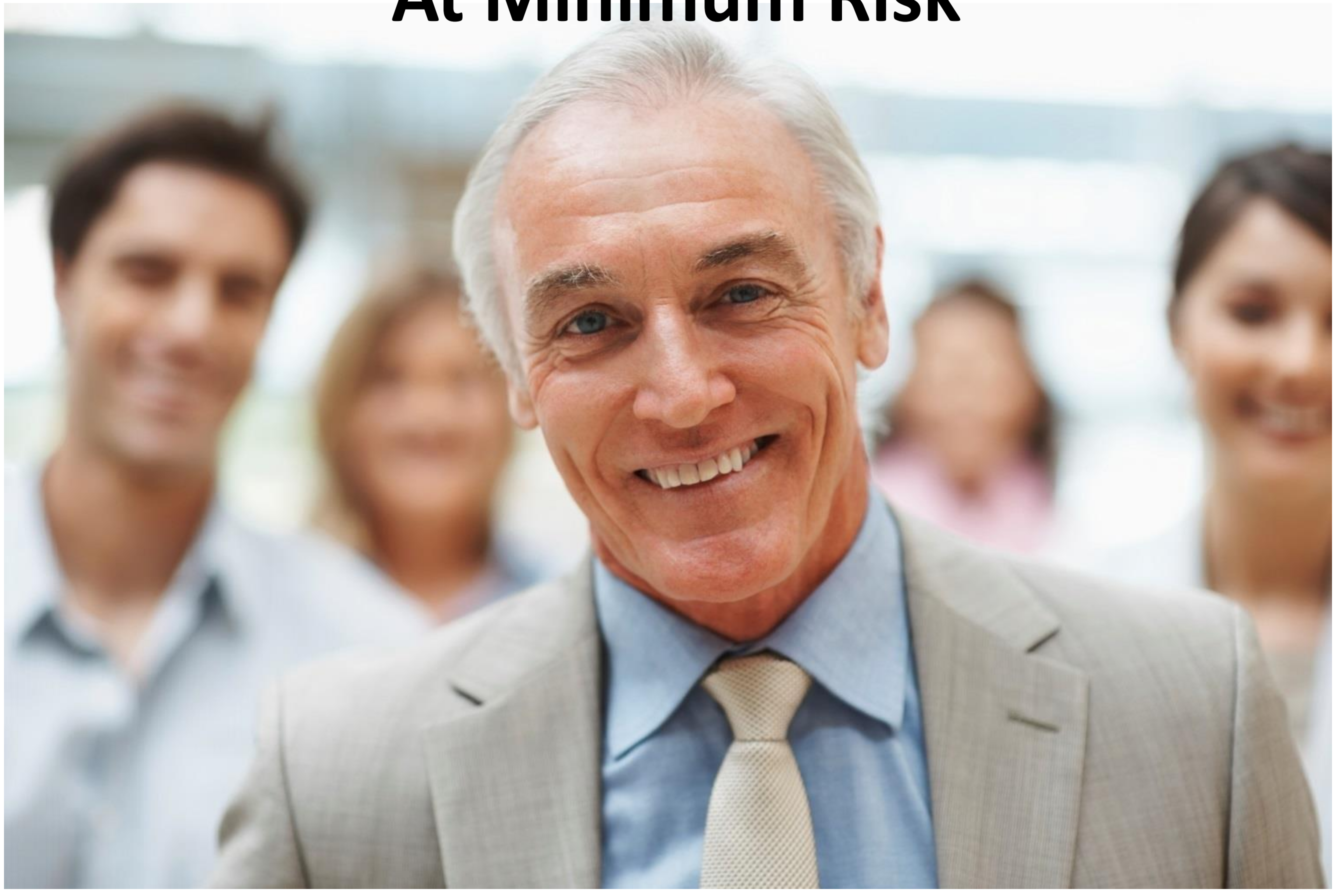
Exit Planning for Business Owners

Structured Transitions for Business and Wealth

Exit Your Business for Maximum Value At Minimum Risk



CONFIDENCE IS POWER

Structured Transitions for Business and Wealth

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Agenda

- **Introductions**
- **Presentation (30 Minutes)**
  - Exit Planning for Business Owners
  - Seven Step Exit Planning Process™
  - Selling to a Third Party
  - Selling to Insiders
- **Questions?**

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Keith Brown, CFP, CLU, CH.F.C, FEA, CExP™

Certified Financial Planner & Exit Planner:

- Over 30 years managing financial risks
- Wealth management for business owners, business families and executives
- Successfully sold co-owned company Daystar
- Sauder School of Business Family Enterprise Advisor FEA Designation 2012
- Certified Exit Planner (CExP™) designation through Business Enterprise Institute (BEI) in 2014

Chris Kassardjian, MBA, Bsc

Exit Planning / M&A Consultant:

- Selling or acquiring business over $10M
- Private Equity for deals $10M to $500M
- Founder of CK Global Solutions
- BSc, MBA from California State University of Hayward Graduate of the Faculté des Sciences in Lille, France
- Accomplished international executive, senior management and small business experience in North America and Africa

What is an Exit Plan?

- Holistic approach to a Business Exit Strategy
- Receive maximum value for life's work
- Limit the Business Owner's tax burden
- Keep control of the process

Benefits of an Exit Plan

- Exit Plan based on the owner's objectives
- Experienced team of advisors to design and implement the plan
- Cash flow and a quantified business value
- Strong management team in place
- Time

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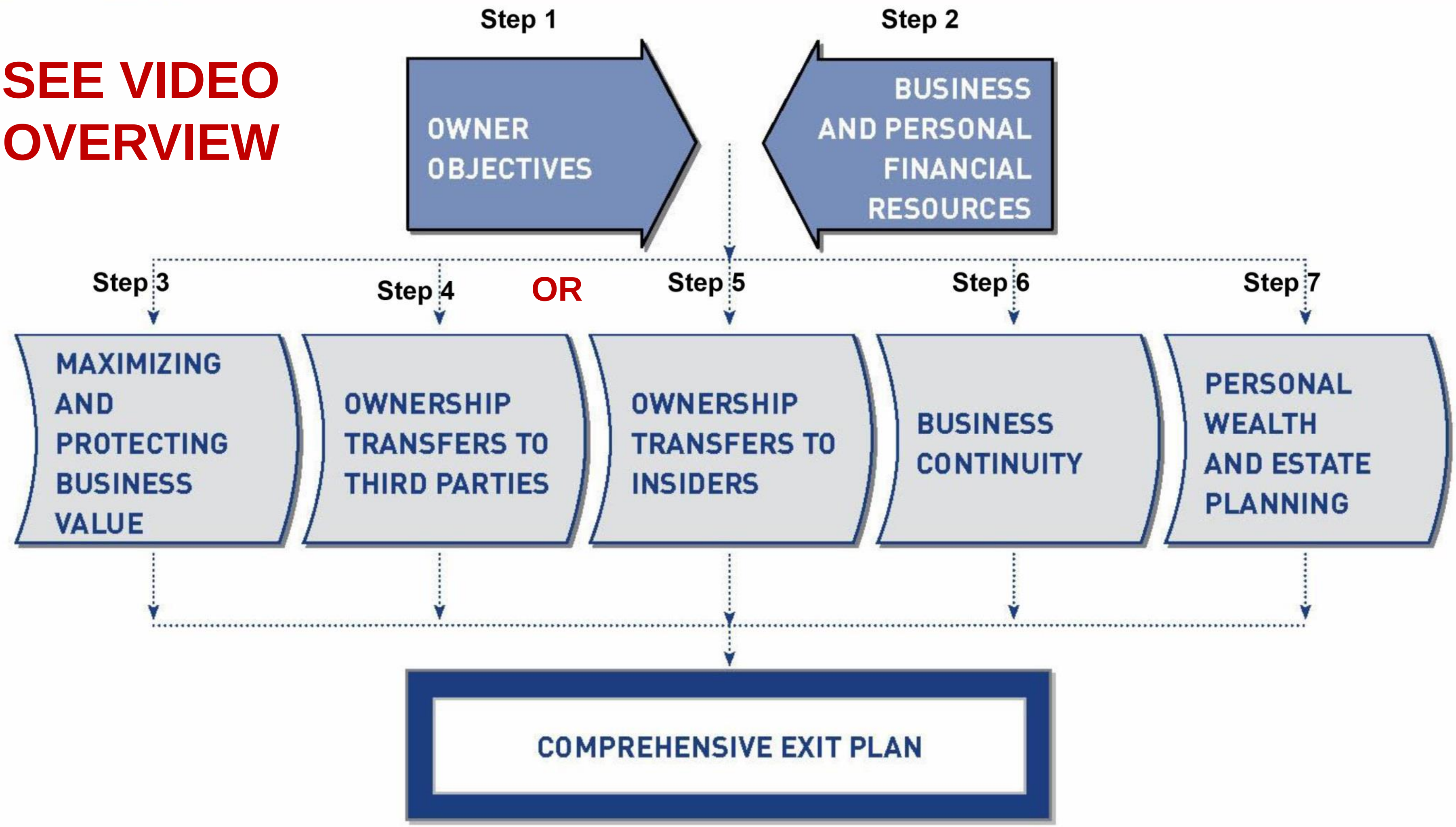
SEE VIDEO OVERVIEW



Step One: What Are Your Objectives?

Principal issues all business owners wrestle with are:

- Exiting the business on their timetable
- Creating financial security for themselves and their family
- Deciding who should get the business
- How to maximize business value

We must bring key stakeholders in the process:

- Shareholders
- Spouse, Children, In-laws
- Key Employees

Other considerations:

- Leave a legacy?
- Never “retire?”
- Philanthropic works?

Step Two: Quantify Business & Financial Resources?

- Provides a baseline value
- Measures business and personal resources
- Comprehensive financial planning allows you to monitor progress toward stated objectives:
  - Retirement goals
  - Spending and cash flow needs
  - Post-closing investment strategy

Step Three: Maximize & Protect Business Value

- Grow business value to be able to sell the business
- Reduce income taxes upon sale of business
- Protect assets from business and personal creditors
- Motivate & keep Key Employees & Management
- Focus on increasing cash flow
- Solidify and diversify customer base
- Implement strategies to grow the company
- Build solid management team and **groom a successor**

Step Four: Ownership Transfer to Third Parties

Universal Objectives:

- Cash at closing
- Eliminate financial risk
- No family succession issues
- Speed of exit

Other Considerations:

- Only 25% of all businesses sold to a Third Party
- Sales under $10 million – one out of three sells
- Sales over $10 million – 50 / 50 chance

(***Business Reference Guide***)

Step Four: Team Collaboration

Professional team helps you get the best price in the shortest time.

The advisor is part of a team of experts:

- Financial planner
- Lawyer
- Tax specialist
- Valuation expert
- **Advisor**
  - Business broker OR
  - M&A advisor OR
  - Investment banker

Step Four: Choosing the Right Advisor

Business Broker

- Small Business Specialist **up to $3M**
- Good for asset & franchise sale
- Commission = % at close (average 10%)
- Market business on Sale Websites only

M&A Advisor

- Middle Market **$3M to $100M**
- Complex Business Structures
- Retainer + Commission
- Breadth of Marketing
- Prepare CIM – guides total process

Investment Banker

- Larger Companies: **$100M+** mostly public- assist with SEC etc
- Specialize in one or more Industries
- Large Retainer + Commission
- Access to global buyers & sellers

Selling to Third Party

Controlled Auction

- **All buyers are pooled at the same time**
- Buyers given timeline to submit EOI & LOI
- Seller chooses best offers
- Proactive aggressive marketing

Negotiated Sale

- **Buyers are handled on a first come basis**
- Sale price will not be auctioned
- Seller deals with one buyer at a time
- Passive marketing

Controlled Auction Process

Preparation

- Structure Transaction
  - Teaser
  - NDA’s
- Communication Plan
- Buyer Targets
- Full Offer Package CIM
- Owner Approval
- **Launch Marketing**

Buyer Selection

- Contact Buyers
- Obtain NDAs
- Send Formal CIM
- Initial Qualification
- Request EOI
- Evaluate EOI
- **Select Best Offers**

Negotiation

- Controlled meetings Buyers/Seller
- Buyer Access to business
- Negotiations
- Request LOI’s
- Evaluate Offers with Seller
- **Select Buyer**

Closing the Deal

- Meet Buyer Again
- Mutual Due Diligence
- Resolve Open Issues
- Final Structure & Terms
- Definitive Agreements
- Transaction Document
- **Close Deal**
- **Transition Plan**

Preparation: Selling to Third Party

Structuring the Transaction:

- Create a **Teaser** – Executive summary of the sale opportunity that will attract buyer attention
- Prepare a **Confidential Information Memorandum**
- Confidentiality – Have **Non Disclosure Agreements** ready

Preparation: Determine Buyer Profile

Buyer

- Individual
- Strategic / Industry
- Financial
- Internal
- Family

Profile

- Seeking new opportunity
- Entrepreneurs seeking best fit
- Seeking Acquisition / Growth
- Know what they want
- Seeking Return on Investment
- Transfer to employee(s)
- Successor or transition

Preparation: Be Aware of Buyer Priorities

Entrepreneurial

- Cash Flow
- Living Wage
- Growth/Profit
- Ease of Transition
- Pricing
- Flexible Terms

Strategic Buyer

- Cash Flow
- Solid Management
- Good Growth
- Transferable Customer Contracts
- Synergies or Diversification
- Assets / IP

Financial Buyer

- Cash Flow
- Solid Management
- Historical & Future Growth & Profit
- Short & Long Term ROI
- Industry Potential
- Location

Preparation: Create and Launch Marketing

Steps to Market the Business to a Third Party:

- A Compelling Story
- **Blind Profiles** (maintain confidentiality)
- Align Marketing with Target Buyer Preferences
- Utilize Multiple Channels (including networks)
- Strategy should be proactive & aggressive
- Leverage the expertise of your M&A Advisor

Buyer Selection: Initial Qualification Actions

Important Steps:

- Credit Report Verification
- Bank and Other References
- Signed Confidentiality Agreement NDA
- Release Full CIM to Potential Buyer
- Request EOI

Negotiation Process: Preparation

Leverage Knowledge of Your Advisor:

- Review strategy with your Advisor
- Seek advice as to negotiation tactics
- Understand what to do if negotiation deadlocked
- Know when and how to say **NO**

Negotiation Process: Preparation

Exploratory Meeting:

- Seller & Advisor Meeting with **5-7 best candidates**
- 2nd Stage Qualification (received EOI)
- Personal Discussion with interested Buyers
- Initial Discussion of terms and conditions
- Remember confidentiality (meet off-site)

Negotiation Process: Letter of Intent

Key Factors:

- Sale Offer Price
- Condition to access all business records
- Representations & Warranties
- Transition conditions
- Closing Date of Offer
- Terms and conditions
- Timeline for buyer due-diligence
- Deadline for Response from seller
- Non-Compete Terms
- Break-up Fees

Closing the Deal: Buyer Due Diligence

Financial

- Full Financial Statement /Banking
- Insurance/Employee Benefits
- Tax Returns
- Adjustments & Normalization
- Mortgages

Legal

- Certificate of Incorporation
- Articles of Association
- Ownership & Share Structure
- Customer /Supplier Contracts
- Encumbrances
- Patents, Trademarks, Copyrights

Operational

- Sales Commitments
- Leases
- Real Estate /Property
- Physical view of assets
- Health & Safety Audits
- Environmental Audits

Communication is Critical

Closing the Deal: Key Process Factors

Objectives:

- Final Meeting with Buyer
- Resolve Open Issues
- Finalize Structure & Terms
- Draft Definite Agreements with lawyers
- Finalize Transition Plan
- **Close Deal**

Closing the Deal: Purchase Agreement

Objectives:

- Selling Price
- Financial Schedule (payments etc)
- Closing Date
- Closing Location
- Loan or Lease Agreements
- Formal Agreements between Owner & Buyer

Closing the Deal: Transaction Plan

Objectives:

- Transaction Action Plan and Timelines
- Communication for disclosure of sale
- Employee Transitions
- Operational Guides
- Customer Meetings
- Transition of owner out of the business

Step Five: Ownership Transfer to Insiders

Universal Objectives:

- Achieve Exit Objectives of:
  - Transferring ownership to a family member
  - Selling to Key Employee or Key Employee Group (KEG)
  - Transitioning ownership to a Partner(s)
- Motivate and retain Key Employees
- Reduce tax burden
- Reduce risk and increase amount of money received

Step Six: Business Continuity Planning

- Objectives still achieved if you don’t survive
- Retain ownership and control even if co-owner departs
- Can force non-contributing owners to leave
- Ensures survival of the business for the benefit of others
- Results in family receiving value of your interest
- Retain key employees and stay bonuses
- Contingency planning for risk management

Step Seven: Personal Wealth & Estate Planning

- Preserve wealth, minimize taxes using both lifetime and death planning tools
- Integrates lifetime exit objectives with estate plan
- Estate planning becomes part of business planning
- Result is comprehensive exit planning

Questions?