

# SCORE

FOR THE LIFE OF YOUR BUSINESS

## Choosing the Right Path for You & Your Business

### Planning to Sell Your Small Business

# Download the Presentation at

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# Who I am?

## Curtis D. Kuttnauer, BCA



Founder, President & Senior Partner  
Golden Circle Advisors

President

Kuttnauer Search Group

Principal & Owner

Alliance Cost Containment

Managing Partner

Golden Circle Consultants

Co-Owner

(3) Hungry Howie's Pizza Franchises

Sales & Sales Management

IBM Corporation

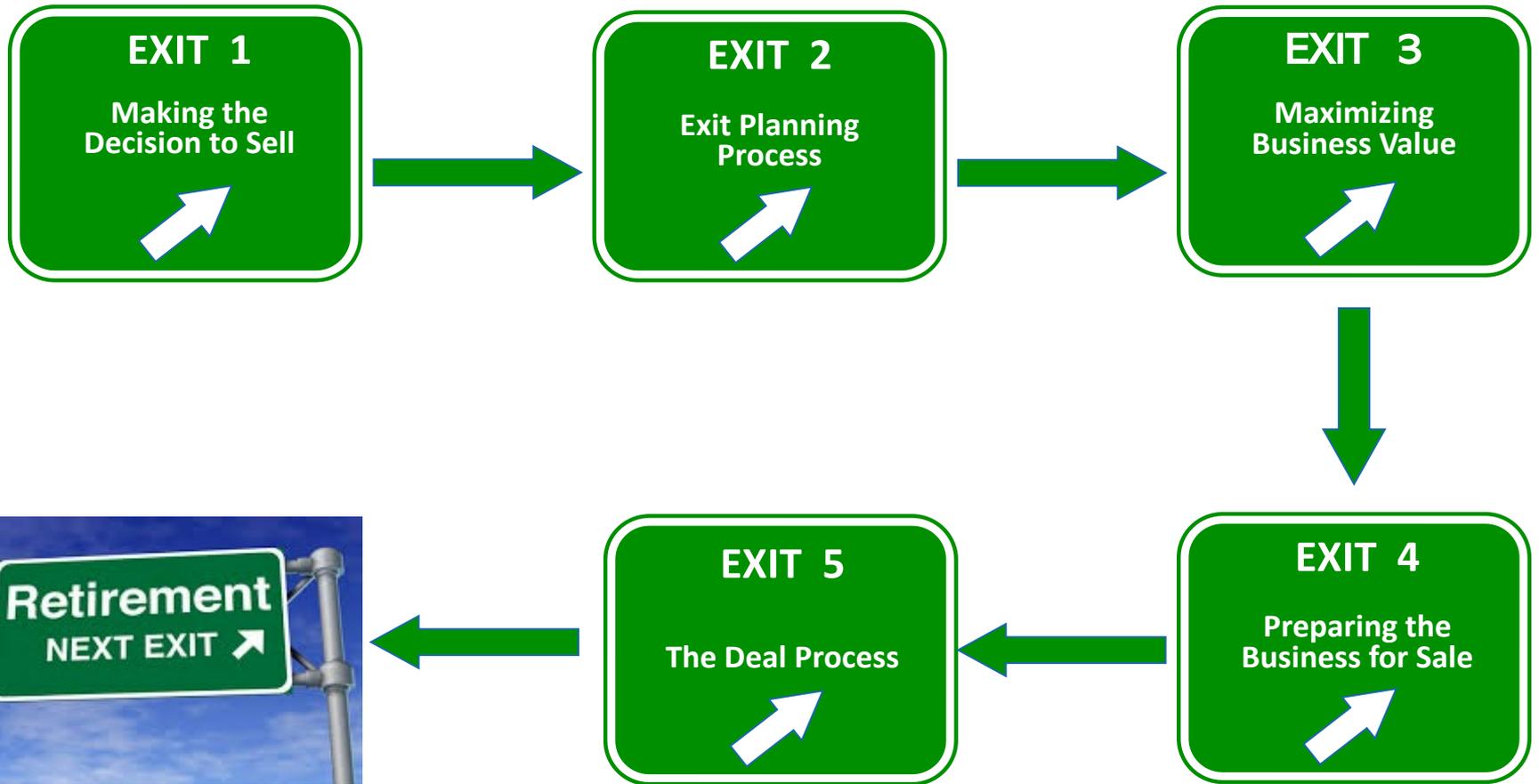
General Manager

Rent-A-Byte

Professional Membership & Community Involvement

- ISBA, Business Certified Appraiser
- Licensed Real Estate Professional
- Active Member of Northern Michigan Angels
  - Involved with 20Fathoms & Front Street Irregulars
- Chamber Ambassador, Traverse City Chamber of Commerce
- Certified SCORE Mentor & Specialist
- Past President & Board Member, The Pathfinder School
- Former Member of the Pinnacle Society
- Former Vice President & Treasurer, Congregation Ahavat Shalom
- Former Board Member, Temple Beth El
- Former Treasurer, Temple Beth El Brotherhood

# Map to Your Exit Strategy

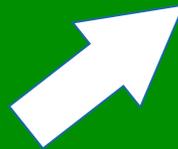


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## EXIT 1

Making the  
Decision to Sell



# Baby Boomer Statistics

- **70 million Baby Boomers**
- **11,000 Baby Boomers are turning 65 every day**, with the trend continuing for the next 18 years.
- **18.4% of the US population** will be more than 65 years old in 2020, which is a 34% increase since 2000.
- 9 million of the 15 million business owners were born in or before 1964, resulting in **one business owner turning 65 every 57 seconds**.
- Estimated that **12 million business will sell over the next 10 to 15 years**, with a large number of these owned by Baby Boomers.
- **70% of these companies are expected to change hands**.
- Retiring Boomer business owners will sell or bequeath **\$10 TRILLION worth of assets** over the next 2 decades.
- 55 to 64 year olds form businesses at the highest rate of any age group.
- There will be **as many Baby Boomers buying business**, as those that are selling.
- PricewaterhouseCoopers estimates that **40% of business owners EXPECTED to CLOSE** their business when they retire.
- There are **80 million Millennials in the US** (those under 35 years old)



# Baby Boomer Opportunities

## With Current Conditions of:

- Interest rates historically low
- Low inflation
- Historically low capital gain taxes
- Higher overall business valuations
- Capital availability from the SBA that also considers business cash flow, not just hard assets
- SBA 6-month payment & guarantee fees waived



*Now is the time to cash in & enjoy what you have worked so hard for.*

In Real Estate it is all about "Location, Location, Location."  
In Business it is all about "*Timing, Timing, Timing.*"

# Is this the right time to sell?

- Have you achieved your goals you set for yourself and the business?
- How much longer do you want to work in the business before retiring or moving on? \_\_\_\_\_ years
- What annual after-tax income do you want during retirement (in today's dollars)? \$\_\_\_\_\_
- To whom do you want to transfer the business?
  - Family?
  - Co-Owner?
  - Key Employee(s)?
  - Outside party?
  - ESOP?



# Has COVID-19 affected your business?

- If “No”
  - Should not impact your decision whether to sell as there are many buyers in the market
- If “Yes, 2020 was a good or better than 2019”
  - If you were thinking about selling before COVID-19, then this is another reason to consider selling now – a good year will help with valuations
- If “Yes, 2020 was a bad year and not seeing an improvement for 2021”
  - You should avoid selling now and focus on bringing the business back to where it was before
- If “Yes, 2020 was a bad year, but 2021 should be back on track”
  - If the pandemic was a bump in the road and then 2020 can be viewed as an aberration.

# Are you stuck in your business?

- No vision or strategic plan for the business
- Having too much of our wealth tied up in the business
- Using the business as a personal “piggy bank”
- Your personal identity is linked to the business
- Have not developed other interests and hobbies
- Tiredness, lack of passion
- Wearing too many hats
- Paralyzed from too much stress
- “Firefighter” mentality – Always putting out fires
- Being scared to make changes or got too comfortable
- Working “ON” and not “IN” your business
- Are there other motivating factors for me? Do I want the business to retain its name and identity following my exit?
- Is it important that my business retain its independence?
- What is the right time to leave my business?
- Does my business have all the necessary managerial expertise required to be successful in the future?
- Does the business have an appropriate capital structure and access to further funding to enable it to take advantage of the future opportunities?
- How do I ensure that I meet all of my future goals and expectations?



# The Reality For Business Owners

- Exiting your business is inevitable and the largest value detractor is often what the owner IS or IS NOT doing.
- 80% of business owners exit their business to retire, they are not *serial entrepreneurs*.
- Their principal fear is “will I have enough money so that I can fund my retirement lifestyle without running out of money.”
- Other considerations may include wealth transfer to the next generation, charitable giving and minimizing taxes.
- Most business owners have only an anecdotal perception of the value of their business.

“My brother-in-law knew a guy who had a business like mine that sold for...”
- Typically, 50% - 75% of a business owner’s net worth is in their business assets. The balance is in their personal real estate & financial investments.
- Business owners typically only have ONE chance to monetize their largest asset.





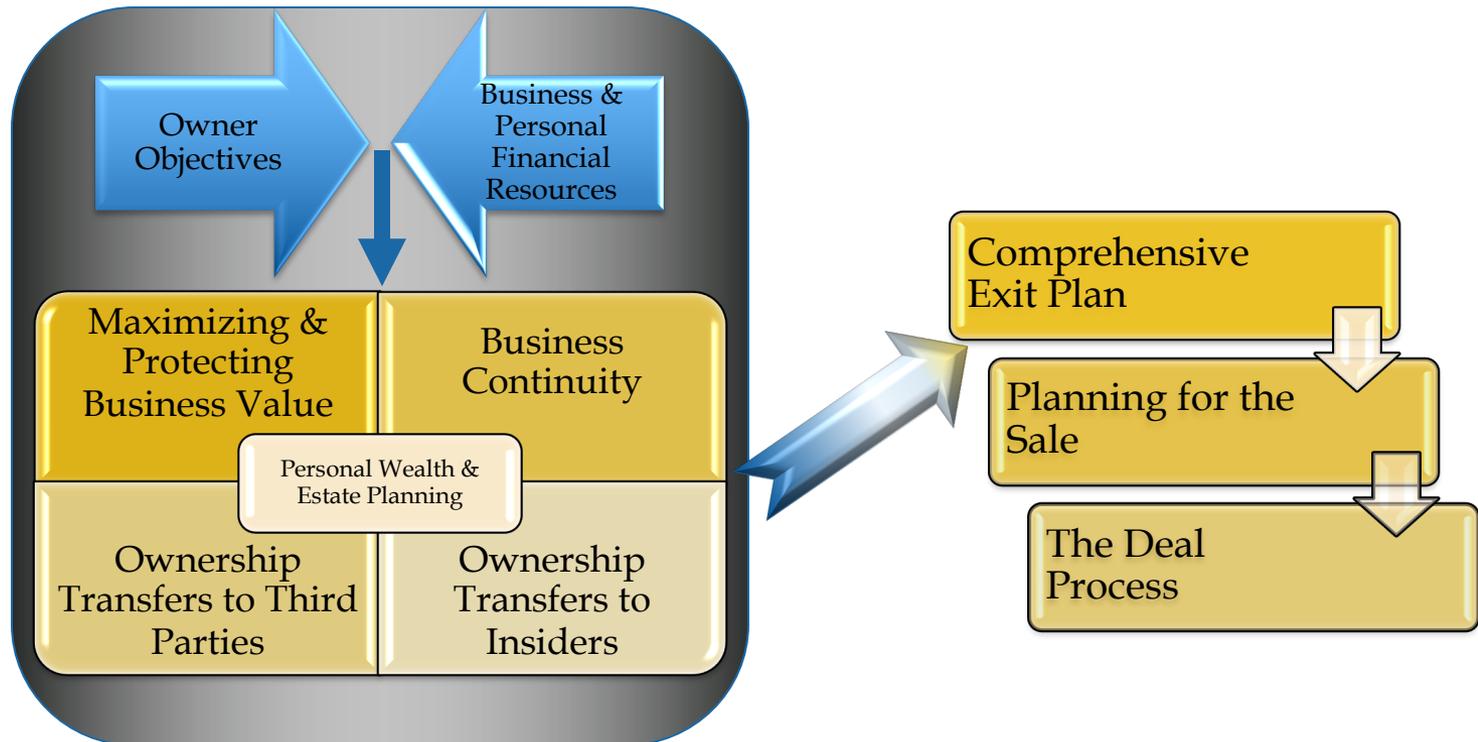
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## EXIT 2

Exit Planning  
Process



# The Exit Planning Process



*Most business owners spend more time planning a family vacation than how to build value and exit from their business.*

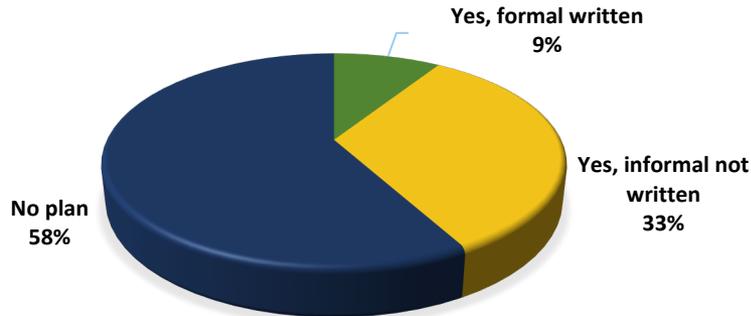
*This is not due to a lack of desire or intelligence.  
It is simply because they don't know how or where to begin.*

*The average business owner spends 80 hours preparing a business plan and only 6 hours preparing for their exit.*

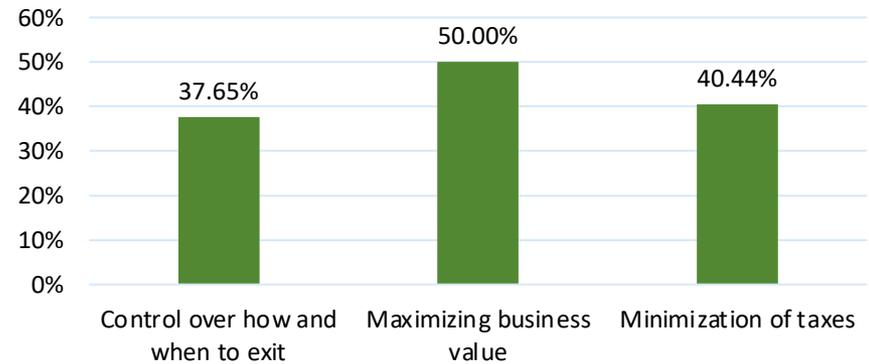
*“If you don't know where you're going you could end up  
someplace else.”* Yogi Berra

# Business Transition Planning

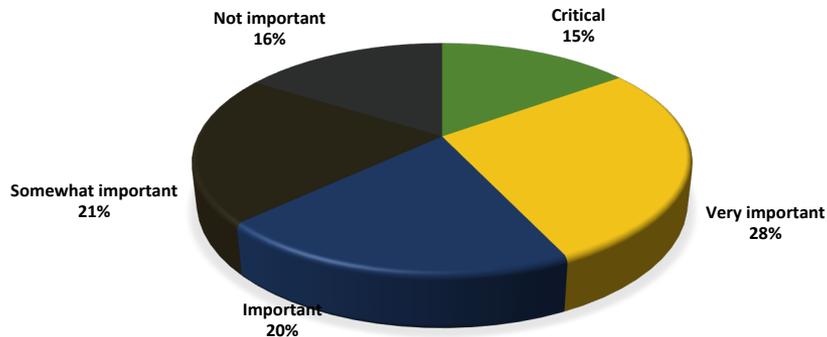
## Prepared a Transition/Succession Plan



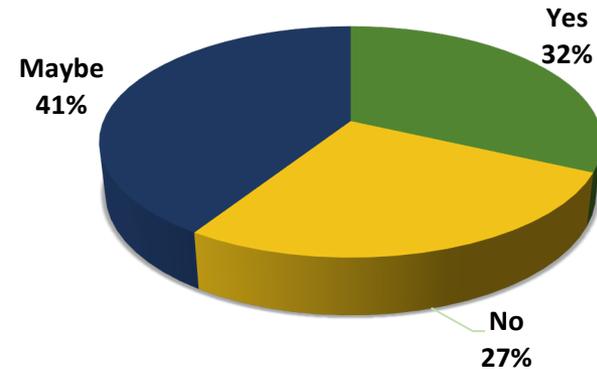
## Most Important Component



## Importance of Transaction Proceeds for Retirement



## Will Finance Deal to Get Increased Value



Source: ROCC Business Transition/Succession, October 2008

# Building a Team of Professional Advisors

## *Working with a Team of Advisors*

- No one professional has all the answers.
- Diverse skills and talents are necessary.
- Team approach minimizes time and cost.
  - If properly facilitated and led.



# Who to transfer the business too?

	Pros	Cons
Transfer to Third Parties	<ul style="list-style-type: none"> <li>• Cash at closing</li> <li>• Eliminate financial risk</li> <li>• No family succession issues</li> <li>• Speed of exit</li> <li>• Potentially higher price for owners if sold to a strategic acquirer</li> </ul>	<ul style="list-style-type: none"> <li>• Time to locate a buyer can be prolonged</li> <li>• Emotional exhaustion for negotiations and due diligence</li> <li>• Higher fees in selling the business</li> <li>• Can cause distraction from running the business</li> <li>• Market timing dependence</li> </ul>
Transfer to Family or Insiders	<ul style="list-style-type: none"> <li>• The buyer understands the business</li> <li>• Can be structured to minimize taxes &amp; fees</li> <li>• Owner can remain active with the business during &amp; after the sale</li> <li>• Can serve as a reward for employees &amp; management</li> <li>• Can provide a means of multi-generational wealth building</li> <li>• Owner can maintain control during the transition period</li> <li>• Allows for the successor to be mentored by the owner during the transition</li> </ul>	<ul style="list-style-type: none"> <li>• The transition may require owner to remain involved with the business</li> <li>• Sales proceeds will likely be dependent on future success of the business</li> <li>• The structure may require owner to receive proceeds over a period of time</li> <li>• Complex personal dynamics with multiple family members or employees can create challenges</li> <li>• The successor may require additional mentoring or coaching</li> <li>• Is normally funded through through 3rd party debt or seller financing which can inhibit the company's growth potential</li> </ul>

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## EXIT 3

Maximizing  
Business Value



# First Step – Get a Business Valuation

- Provides valuable data for an Exit Planning Process
- Provides a baseline for business value
- Allows you to monitor progress toward your stated objectives.
- Identifies what is being sold
  - [Inventory](#), [Equipment](#), [Real Estate](#), [Stock](#)
- Establishes profitability & cash flow
- Assesses risk
- Identifies value drivers
- Scans marketplace
- Considers financing strategies
- Establishes relationship between earnings and value
- Should be done regularly with business planning



# What is a Business Valuation?

- Both a *Product* and a *Process*
  - Business valuation vs. a real estate appraisal
- Significant value is in the Process
- Process is a multi dimensional analysis of your business from the Buyer's Perspective
  - Financial, lifestyle, asset, risk & growth attributes
  - Identifies what adds to and what detracts from value
  - Usually this leads to a handful of items that could greatly improve value
- Form of limited scope appraisal that determines a “Most Probable Selling Price” at a point in time (vs. “Fair Market Value” standard)



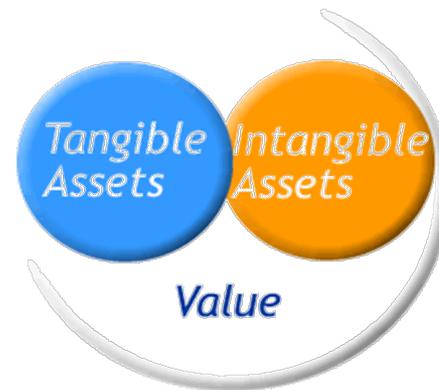
# What Is Valued?

- **Tangible Assets**

- Leasehold Improvements
- Equipment, Furniture & Vehicles
- Inventory, Accounts Receivable

- **Intangibles**

- Goodwill (vs. “Blue Sky”)
- Patents & Copyrights
- Controlled Territories, Product/Service Niche
- Customer & Supplier Contracts



# Value is in the eye of the beholder

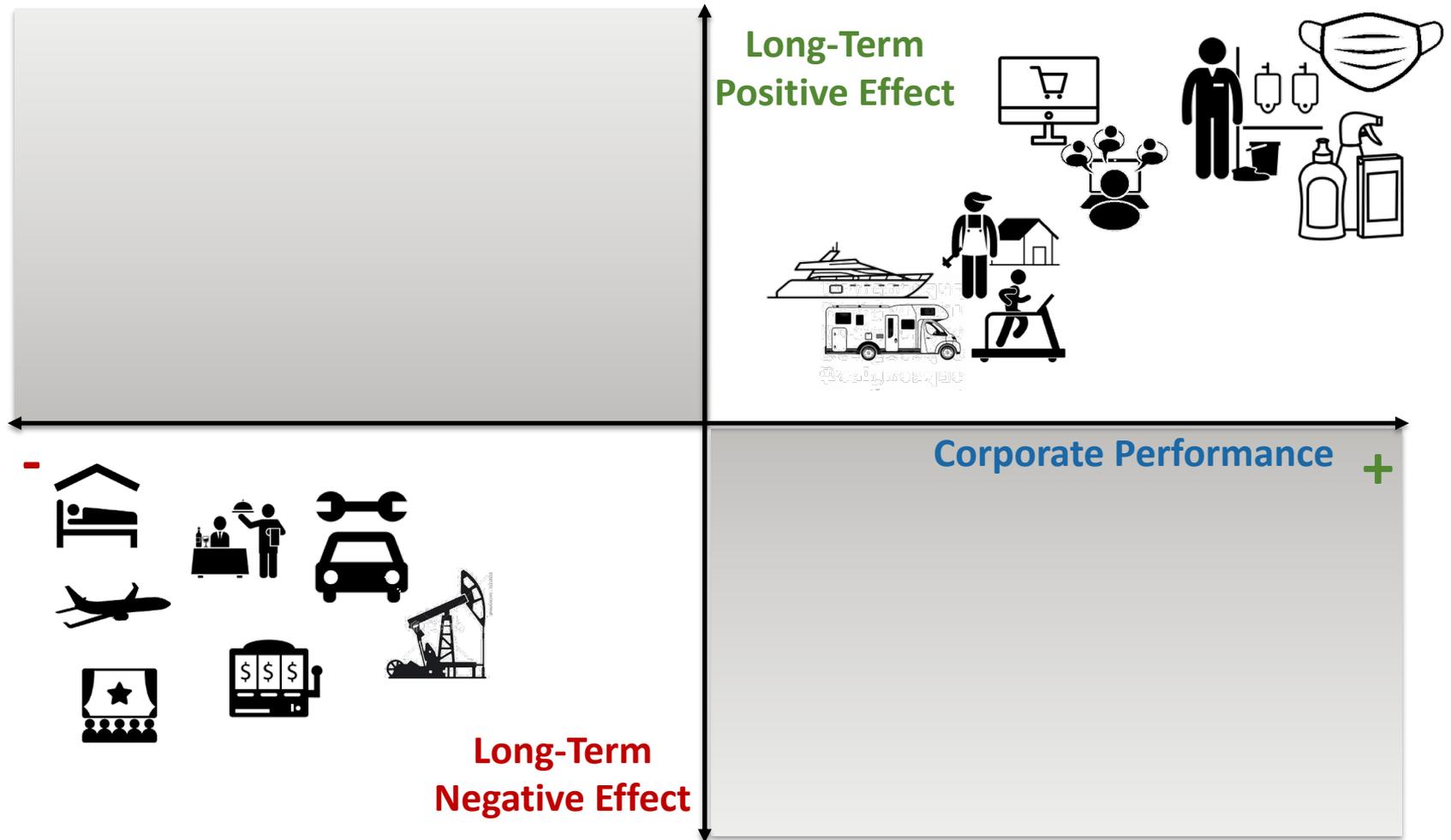


- Individual / Lifestyle
- Financial Buyer / Private Equity
- Strategic Buyer
- Related Parties
  - Family
  - Key Employees

# Possible COVID-19 Effects on Valuation

Time to Return to Normal Operations	Limited to No Change Tied to COVID-19	By Spring 2021	By 2022	Beyond 2022
<b>Impact on Business</b>				
High Positive	Improvements not due to COVID-19, value as normal.	Improvements that are tied to COVID-19 can be treated as an aberration and will not be considered in valuation.	Improvements have benefited the company beyond the immediate pandemic, so should have some positive impact on valuation.	Improvements are expected to maintain a longer-term positive impact and should be considered in valuation.
Moderate Positive				
Slight Positive				
Neutral	No impact from COVID-19, value as normal.			
Slight Negative	Declines not due to COVID-19, value as normal.	Decline that are tied to COVID-19 can be treated as an aberration and will not be considered in valuation.	Declines have impacted the company beyond the immediate pandemic, so should have some negative impact on valuation.	Declines are expected to maintain a longer-term negative impact and should be considered in valuation.
Moderate Negative				
High Negative				

# COVID-19 Winners & Losers



# Value Drivers & Detractors

## Drivers

Positive Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

Excellent Customer List

Product Differentiation

Defensible Market Positioning

Dominant Market Share

Technology and Proprietary Processes

Location

Franchise / Dealership

## Detractors

Lawsuits for Previous Acts, Products Produced or Services Rendered

Loss of Customers

Outdated Technology, Products, etc.

Labor Force/Employment Issues

Vendor Relationships

Government/Tax Issues

Industry Changes

International, National and Local Economies

Competition

# Key Strategies

Creating & Improving Business Value

# Improving Business Value

## **Financial Operations**

- Need for good & accurate record keeping, ideally, audited financial statements
- Focus on profitability rather than revenue growth
- Choose operational efficiencies & profit maximization over tax avoidance
- Explore tax efficient strategies, such as pass through entities (S Corporation or LLC's)

## **Owner's Role**

- Reduce reliance on business owner
- Succession/Exit Plan - Identify and groom a successor
- Execute Buy/Sell agreements

## **Human Resources**

- Build a deep management team
- Formal employee training and developing & mentoring key personnel
- Increase employee tenure & reduce turnover
- Ensure documentation – handbooks, job descriptions & personnel files



# Improving Business Value

## **Operational Processes**

- Document Processes, Policies & Procedures
- Maintain equipment maintenance
- Technology & Web Presence
- Streamline Processes
  - Evaluate each product or service to verify contribution to bottom line
  - Analyze & outsource non-core activities or those that can be done cheaper
- Inventory Control & Turnover relative to industry standards



## **Develop & Enhance Competitive Advantages**

- Offer unique products or services that can not be easily replicated
- Become dedicated to creating distinction between your company and competition
- Superior products or services can create pricing advantages (in good times) and customer loyalty (in challenging periods)



## **Customers**

- Increase Retention & Loyalty
- Eliminate dependency on owner relationship
- Limit Customer Concentration
  - 80% of revenue concentrated around a small group of customers
  - 20% of business concentrated with one customer
- Maximize channels – direct, reps/agents & internet



# Improving Business Value

## **Suppliers**

- Reduce dependency on single or few suppliers
- Eliminate dependency on owner relationship
- Renegotiate, if appropriate



## **Marketing and Advertising**

- Enhance marketing strategy/plans



## **Legal Issues**

- Secure Intellectual Property - patent, copyright and trademark applications
- Settle & resolve all litigation & insurance claim issues
- Resolve all regulatory issues



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## EXIT 4

Preparing the  
Business for Sale



# Reasons to Start Planning Early

- Will optimize the value of your business
- Prepare for both anticipated and unanticipated events
- Market & business conditions must be considered in the timing of a business sale
- Many things need to be prepared that requires significant effort & time
  - Preparing the business for sale
  - Be prepared for due-diligence for the prospective buyer



# Information Needed

- Business overview
- Products & services
- Company history
- Customer information
- Sales & marketing plan
- Competition & competitive advantage
- Industry information
- Organization
- Owner involvement
- Financial information with support documents
- Future expansion
- A/R
- A/P
- Gross profit margin
- Income & expenses
- Litigation
- Areas of improvement
- Environmental – physical plant & property
- Regulatory compliance considerations

# Preparing Your Business for Sale

1. Start early
2. Address key dependencies – customers, vendors, employees & yourself
3. Look for cost efficiencies & trim the fat
4. Have strong financial controls & processes
5. Recast financial statements
6. Identify excess assets & convert them into cash
7. Articulate your vision
8. Analyze your staff
9. Develop a growth plan that is realistic & supportable
10. Separate family issues from business issues
11. Working capital: understand it, manage it, reduce it!
12. Tackle any “Deal Killers” now
13. Determine what are you selling
14. Timing is key – sales levels, market conditions, etc.
15. Seek professional advice



# Entity Structure is Important

## Asset Sale

- Buyer
  - Avoids entity liabilities and risk exposures
  - Step up in basis of assets (higher depreciation/amortization)
    - Purchase price allocation required
- Seller
  - Different tax treatment between C corporations and pass-throughs
  - No continuing liability
  - Transition may be secured by employment continuation



## Stock Sale

- Buyer
  - Takes entity liabilities and risk exposures
  - No step up in basis of assets (lower depreciation/amortization) absent § 338(h)(10) election when eligible
- Seller
  - Capital gains
  - No continuing liability
  - Transition may be secured by employment continuation
- May be required by current contracts not being assignable



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## EXIT 5

The Deal Process



# Recent Survey of Business Sales

## Financial & Deal Terms Based on Business Value – 2Q14

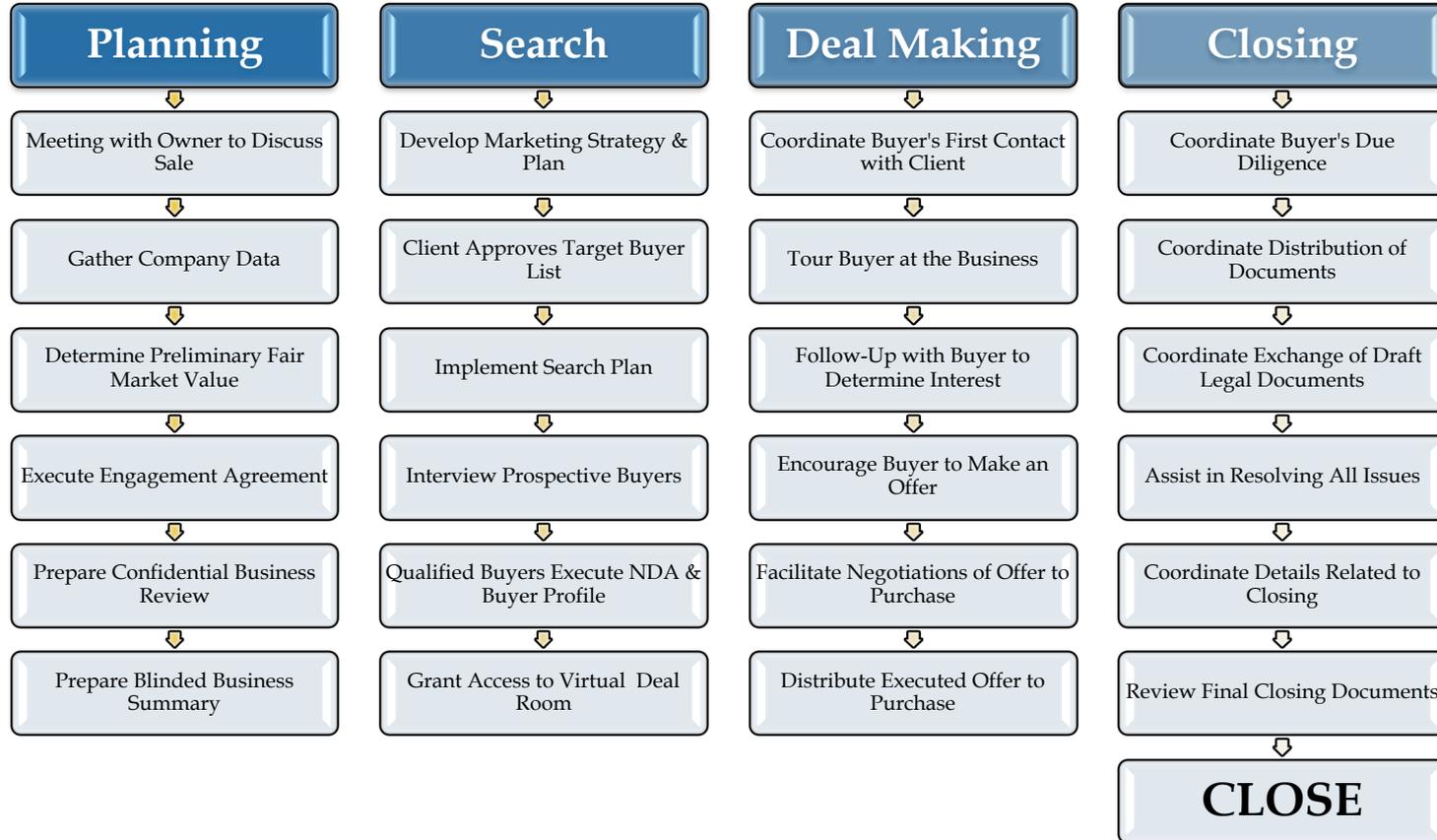
Business Value	EBITDA Multiple	Seller Financing %	Earn Out %
\$499K	Multiple 2.6	13%	0%
\$500K - \$1M	2.9	18%	3%
\$1M - \$2M	4.3	9%	1%
\$2M - \$5M	4.5	10%	1%
\$5 - \$50M	5.4	0%	27%

Source: BizBuySell, 2Q14

## Findings

- First time buyers outnumbered all other types for under \$1M & \$2M - \$5M.
- Strategic Buyers dominate sector of businesses valued \$1M – \$2M.
- Half of all businesses valued \$5M - \$50M were acquired by Private Equity firms, with the balance split between Strategic Buyers & existing business owners.
- 78% of deals valued less than \$500K are terminated without closing
- Success rate is 1 in 4 actually sells
- Success rate for businesses with sales of \$10M - 1 in 3
- Success rate for businesses with sales above \$10M - 50/50

# The Deal Process



# Common Preparation Pitfalls



1. Going solo
2. Not having the right professional advisors
3. Starting the process with unrealistic expectations
4. Getting the timing wrong
5. Incorrectly valuing your company
6. Not spending enough time on preparation
7. Preserving confidentiality
8. Pre-qualifying prospects
9. Providing accurate sales and financial data
10. Seller can't let go – emotional tie to business

# Thank You...



**Golden Circle Advisors**  
SELL SMART, BUY SMART

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