Build Value • Protect Value • Monetize Value

Building Your Bridge to Monetization™

What is Your Process?

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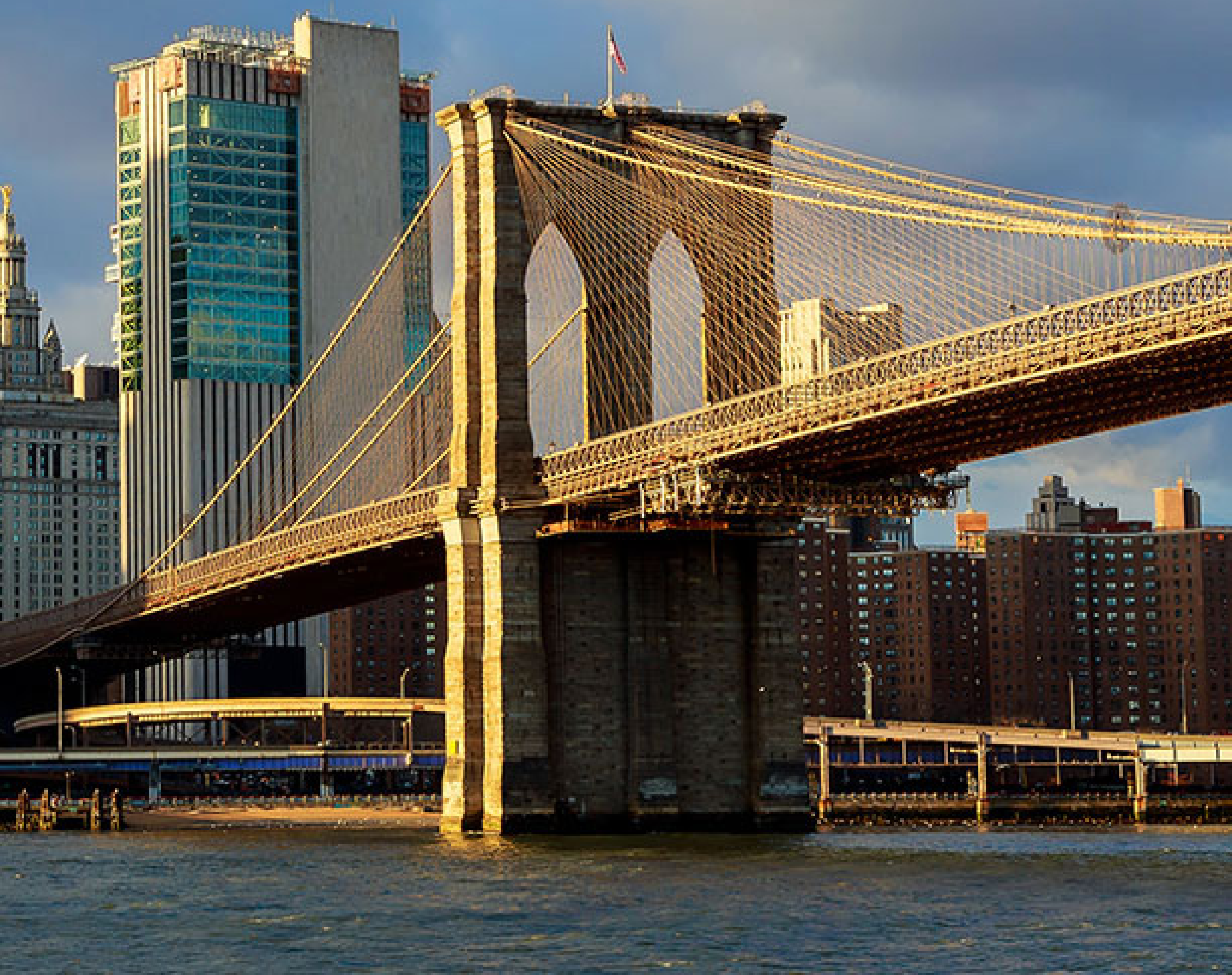

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INTRODUCTION

Remember when you first started your business? You were at the starting gate, willing to take the necessary risks, not knowing if success or failure was in your future. Fast-forward to today; you have built a successful company that has provided your family and others a nice lifestyle, security and a daily mission. At some point in your future you will be contemplating your exit and the succession of your business. Will you be ready?

The issue at hand is that most business owners don't really know what it takes to monetize their business since most have never done it before. The purpose of this eBook is to educate business owners on how to build their business exit strategy in a way that leads to a smooth business transition, as well as financial and emotional success. As a Certified Exit Planner, my goal is to truly help business owners through the process, from beginning to end.

INSIGHT

48% of business owners who want to exit their businesses have no exit strategy*(1).

*(1)smallbiztrends.com

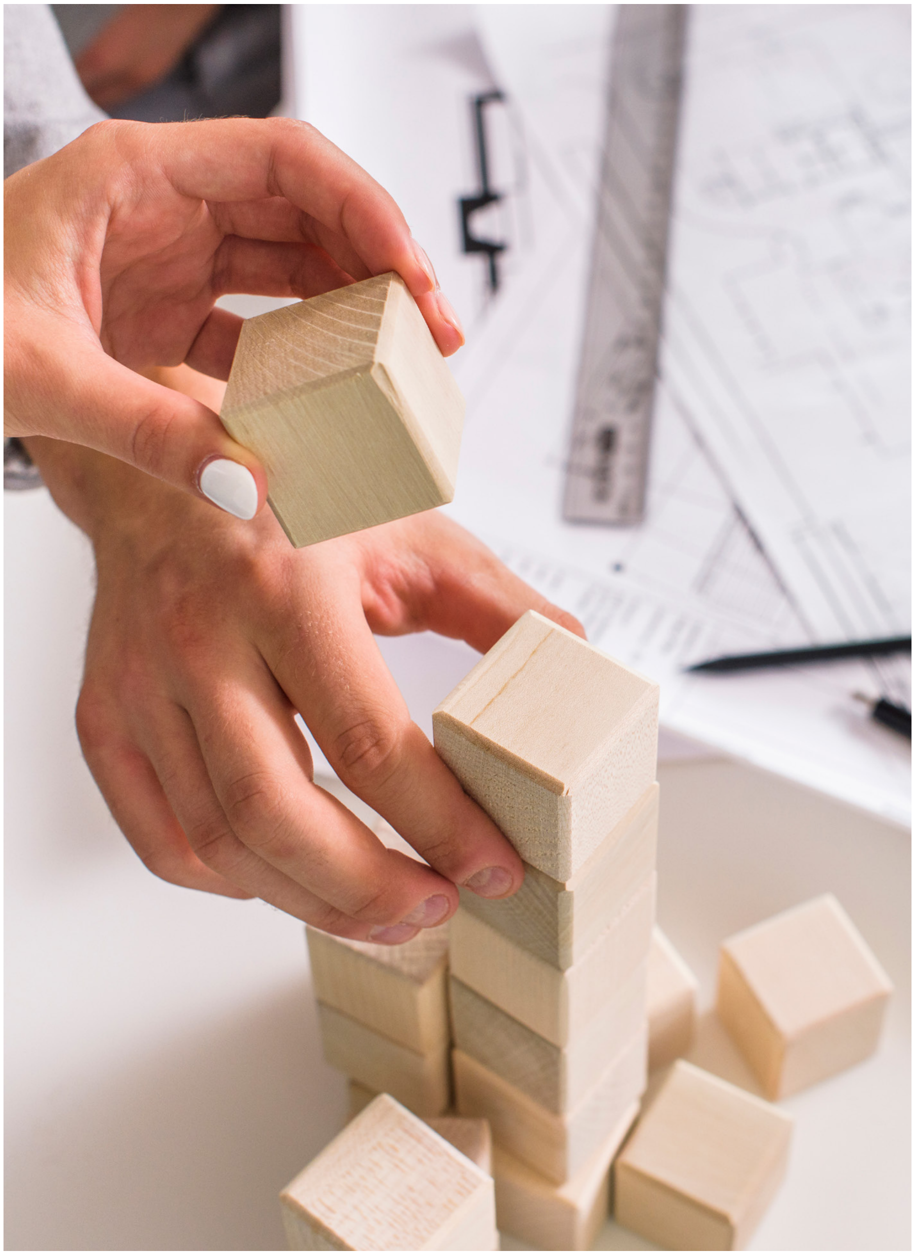
YOUR GATEWAY TO FINANCIAL FREEDOM STARTS HERE

As a business owner and advisor to business owners for over 30 years, I understand the psyche of the entrepreneur. Two words come to mind : builder and risk-taker, someone who can turn concepts into reality and is not afraid to take the necessary risks in search of financial gains. Further along your entrepreneurial journey, financial freedom takes on a new meaning. Business owners need to tap into their "builder" trait and build their "Bridge to Monetization™". Achieving financial (and emotional) freedom requires a structured business exit process, one which will enable you to identify and analyze the many obstacles you will encounter throughout your business monetization journey. As such, I designed a 3-step process called the Bridge to Monetization™. Our process leaves no stone unturned. Working as a team, we harness all issues and challenges that a business owner will face when exiting, paving the way for a smooth and life-altering transaction.

Shared throughout this eBook, the Bridge to Monetization process is uniquely designed to include the key stakeholders including management, key employees, business advisors, accountants, attorneys, family members and anyone else who will play a role in the exit planning process. This is done in a manner that aligns the best interest of the business, with that of the business owner. The Bridge to Monetization™ process is simple but powerful; Build Value, Protect Value, Monetize Value.

STEP 1

BUILDING YOUR BUSINESS VALUE



The very first step of the process begins with assessing your business value and using the analysis to build value prior to a monetization event.

How do we do that? I have identified three very important factors that play a key role in maximizing your company's financial value;

1. Define and Enhance your Value Drivers.
2. Convert Goodwill from Intangible to Tangible.
3. Bring greater Clarity to your Brand and your Message.

VALUE DRIVERS

What are your value drivers? How can you enhance them prior to your exit?

The latter is an imperative question that the Build Value step in our process helps answer.

Value Drivers can include anything from a unique product offering or a niche' customer base to a strategic vision, technical innovation or true employee creativity; all which ultimately help to generate "free" cash flow. And free cash flow is the bottom line; it leads to increased profits which lead to increased business value.

But it doesn't stop there. As an owner, you must also take the necessary actions to maximize your value drivers before the time is fraught. Since this is crucial to increasing business value, a smart step would be to discuss with your business exit advisor who can help you conduct a customized business exit audit. Think of it as a business exit readiness test, wherein they can further help you identify and target those areas within your business that need to be addressed prior to an exit. If done right, it will also expose you to a new perspective.

The business of buying and selling companies has become quite complex over the years. In many cases, the buyer of a business (and their advisors) seek the lowest price possible and will look for gaps and holes to exploit. That is why spending time on solidifying and further developing your value drivers is so critical, if you want to maximize your future price.

3 important Value Drivers that maximize a business's valuation

Loyal Customers

Unique Offerings

Creative Employees

DEFINING AND VALUATING YOUR GOODWILL

Goodwill refers to an intangible asset that is often associated to a business sale transaction.

Technically, Goodwill is the price that your business's acquirer pays, over your company's book value. Your company's stance on its Goodwill will be scrutinized throughout the course of your exit process, since it holds a lot of weight in reflecting your company's success.

Although GAAP (Generally Accepted Accounting Principles) and IFRS's (International Financial Reporting Standards) accounting standards have made it compulsory for companies to annually evaluate their goodwill, most small to mid-size companies do not follow such standards. Despite its value on the larger company spectrum, Goodwill has become quite the debate for accountants who argue that calculating goodwill is no easy feat.

WHY?

Goodwill's intangible nature makes it harder for business owners and their accountants to calculate something that isn't physically quantifiable, unlike property or equipment.

This leads us to a larger question, what is my business worth? Most business owners do not know the proper answer. During the Build Value step of the 3-step Bridge to Monetization™ process, it is a good idea to "Benchmark" your business's value, before you begin the exit planning process.

Here, a business exit advisor comes in, as you may not need or want a costly formal business valuation. Think of the exit advisor as catalyst that bridges the gap between an owner and their accountant to assess and build value, which includes valuing your Goodwill.

Business exit advisors can help you identify and analyze components of your Goodwill, which can later be used effectively during the business sale negotiations.

The equation is simple

Fair Market Value – Book value = Goodwill (?)

Factors that affect the value of Goodwill :

1. Customer list
2. Unique process and patents
3. Brand (including trademarks)
4. Quality of management
5. Company reputation
6. Company location

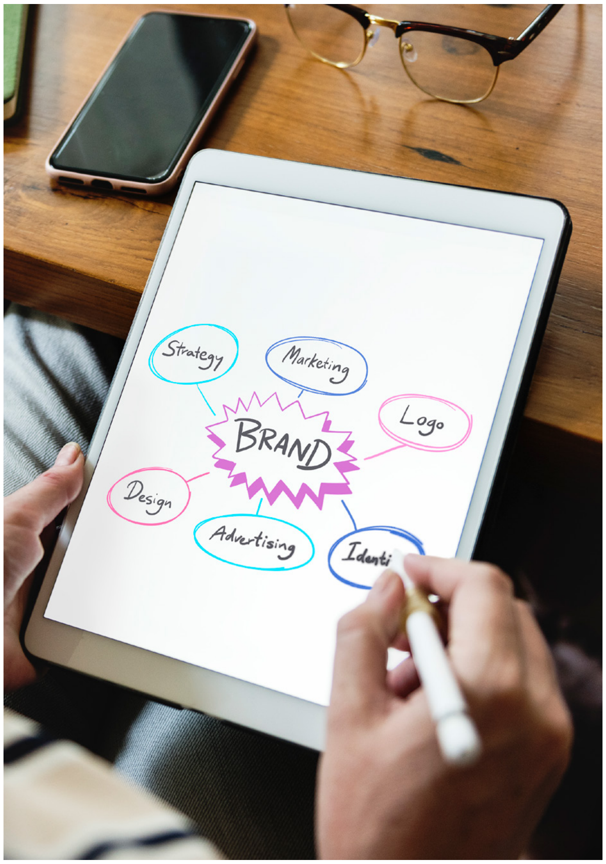
And more...

HOW CLEAR IS YOUR BRAND AND YOUR MESSAGE?

Would you ever think twice about buying an Apple product, if you wanted one? Of course not. Your decision has a lot to do with the company's brand and how they convey that brand through their messaging.

Apple has always stuck to its word and reiterated the message of 'Think different', not just directly with its users but in the market, creating a perception that the brand is a class apart and unlike any other.

Why is branding and messaging so important in a business exit strategy? Well, for one, it builds trust and confidence among your clients and a myriad of stakeholders. And that trust and confidence, if messaged properly, will be observed and felt by prospective buyers, especially if they are strategic buyers within your industry.



AS A PROSPECTIVE BUYER OF YOUR BUSINESS, ONE WOULD LOOK AT:

Making a strong entry into the market

Expanding on a company's market penetration

Sustainable growth

A clear and effective brand and message checks all three boxes. Incidentally, it creates a gateway from which additional strategies can be developed to maximize a business's current value. Most importantly, a strong messaging strategy prior to an exit provides adaptability in communicating the company's "story" to the marketplace with great enthusiasm. This leads to a good feeling about the company; both externally and internally.

STEP 2
PROTECTING YOUR BUSINESS VALUE

You understand what it takes to build your business value, but how do you shield its sustenance? How do you "secure" your growing business entity and all its variables in a way that protects the company and its valuable assets from potential erosion and pitfalls prior to an exit?

I have identified three very important questions to ask yourself in order to protect the value of your business :

1. Do you have the right team and are they properly incentivized?
2. Have you fully leveraged your tax minimization strategies?
3. Have you implemented your critical risk management strategies?

The average business owner has more than half of their net worth tied to his/her business's value. This suggests that a business owner should do everything in their power to protect the value of their business in a highly proactive manner years before an exit. Protecting your business value is just that important. Below are three approaches, however there are more.

"Clients do not come first. Employees come first. If you take care of your employees, they'll take care of the clients"
– Sir Richard Branson.

And how exactly do you do that?

1. Employee input in corporate culture.
2. Team building programs.
3. Performance based compensation.
4. Emotional Intelligence in the workplace.

DO YOU HAVE THE RIGHT TEAM?

A good business owner knows that the people who work for the company are to be recognized as an asset and treated accordingly. However, these people must provide value. If you're looking to protect your value, it starts with human resources as the foundation.

Having the right team has to do with identifying and developing talent, creativity and loyalty. And once you find and develop the talent, creativity and loyalty, it is critical that you "lock-it-in"! This is where things like employment agreements, incentive-based compensation and even profit-sharing and equity plans come into play.

As a business owner you must always remember that your employees have emotions which is where emotional intelligence comes in. It is very important to be sensitive to things like communication, company culture and employee recognition prior to an exit. The quality of your human resource lies in how motivated and driven they are to put their best efforts forward, helping you build value prior to an exit.

TAX MINIMIZATION STRATEGIES

As a business owner, protecting your business asset and the income it generates from taxes should be a top priority. However, one of the most common issues that I've witnessed throughout my 33 plus years of advising business owners is when clients do not fully leverage the tax law. Tax planning for business owners is part of the integrated financial planning process. Integrated financial planning integrates your personal cash flow, estate, charitable, insurance and investment planning needs to your business exit planning needs and should run on a parallel track for a business owner.

As a business owner and a taxpayer, the United States tax laws provide certain benefits that, when leveraged can produce significant tax savings. However, knowing where the tax benefits and loopholes exist requires effort on behalf of the business owner and their advisors.

In fact, having a proactive team of business advisors can make or break true tax planning, since the average business owner doesn't know where to find the tax benefits and loopholes. Developing and implementing tax minimization strategies takes time, depending on which taxes you are trying to minimize and how.

There are four major taxes that effect you and your business.

1. Income Taxes
2. Capital Gains Taxes
3. Estate Taxes
4. Gift Taxes

Protecting against unnecessary tax erosion prior to an exit is something that I have been talking to business owners about for many years. However, it does take creativity, expertise and several years of tax planning to do it right. If you wait until you have an offer or letter of intent, it's too late.

MANAGING RISK

These are stories we all read about daily in the media, but rarely take the time to stop to consider, evaluate and address how they can adversely affect my company . You should revisit things like;

- Your shareholder and buy-sell agreements.
- Your contracts and terms with vendors and banks.
- Read your employee benefits, handbook and communication strategy.
- Your SOP handbook including cybersecurity and data integrity protections.
- Your customer/client communication strategy.

Being aware of the many risks you and your company face when planning your exit is the first step to developing a risk management strategy. Just suppose, one or two years before your exit one of your key executives decides to abandon ship and go to one of your competitors with your business secrets. Or a new company enters your market with better products or services (or big capital) and takes some of your best customers. Or maybe there is a change in your industry or vendors that adversely effects your products and your sales decline dramatically. Or maybe you never knew that you CFO was embezzling money for the past 2 years.

Many business owners are considered risk takers; having the personality and the ability to take-on the risk of starting and running a business. If you have owned the business for ten, twenty or thirty years, you have probably past the difficult times. You have all your products, employees, systems and processes in place and you believe your risks are relatively under control. However, as you approach your exit and seek to monetize the value of your business over the next one, three- or five-year period, the stakes increase, and the risk goes back up.

Therefore, you need a custom designed risk management strategy that assesses your unique business risks long before your exit.

By Eric Donner

STEP 3 - MONETIZING YOUR BUSINESS VALUE

A monetization event can come in very different shapes and sizes, depending on your pre and post business exit goals as the owner and, the specific circumstances within your business several years prior to an exit.

You may be planning on selling to a third-party financial buyer like a private equity firm. Or maybe you want to try to sell your business to several of your key employees as an expression of gratitude for their loyalty. Or quite possibly you are considering selling to a strategic buyer like a “friendly competitor”. If you have family in the business, you may want to sell your company to family members as a family legacy, which brings an entirely unique set of circumstances that must be addressed.

Regardless of which approach you ultimately decide upon, you need to develop and execute a process over several years in order to not only maximize the monetization event, but to assure the smooth succession of your business.

Based on my experience, this is easier said than done. There are just so many obstacles and unknowns that pop-up along the exit journey, concurrent to running your business. This is why building your Bridge to Monetization™ with an experienced exit planner is so important.

INTERNAL MONETIZATION

Selling a business to insiders who are non-family members is one of the most misunderstood monetization options. This includes minority owners, current management and key employees. It could also include selling the company to an ESOP(Employee Stock Ownership Plan). ESOP is an ERISA-based plan that has huge tax advantages to the business owner, if their business is a good fit. Or it can be a combination of these. However, the common concern and challenge for the business owner is where does the money come from to fund the purchase of the business.

Due to this concern, the process of selling to insiders has had both accountants and business owners anxious. Why? Poorly structured planning, financing and execution.

A qualified business exit advisor will know just how to create an effective internal ownership transition strategy, one that seamlessly blends the mindset and expectations of the owner with that of the internal buyers. At the top of the list is open channels of communications among all parties to manage expectations along the way so they build a sturdy foundation to their Bridge to Monetization™.

EXTERNAL MONETIZATION

Of all the monetization options, a third-party sale typically generates the largest price tag for the sale of a business. However, that doesn't mean that it won't come with its own unique set of challenges and drawbacks. Some of those challenges include;

- Overseeing the due diligence process which would require furnishing an exhaustive list of records, documents, agreements, client lists and more to the potential buyer.
- Ensuring that a normalized EBITDA (Earnings before Interest, Taxes, Depreciation, And Amortization) is in place, along with intellectual property rights and other essentials, if any.
- Preparing for and facilitating the negotiation process so you don't lose business value and end up with a lower selling price.

An owner must ensure that all the necessities and contingencies have been considered and addressed prior to the transaction. This takes time and resources as part of a strong advisory team advocating on behalf of the business owner(s).

Insights:

A major concern for owners in the matter of third-party transaction is timing.

Industry sources indicate that around 88% of business owners opt out of such agreements because it wasn't the right time*[(2)].

*[(2)]smallbiztrends.com

YOUR FAMILY LEGACY

If a family member (like a child or sibling) is "in the business", a careful assessment must be completed to identify if the family member is qualified, as well as figure out if the math will work for the exiting owner. Of all the monetization options, selling to family members is fraught with many obstacles. In fact, it is not uncommon for the Bridge to Monetization™ to topple in family-owned businesses. Why? It is my experience as an advisor to many family-owned businesses that emotions tend to run high when planning for the disposition of the one asset that created significant wealth for the family over many years. Tread carefully and consider a few pointers:

- Consider how much after-tax income you and your spouse require for life from the sale of the business.
- Consider what type of "discount" will you give on the sale of the company stock (a gift).
- Consider if you can afford to "gift" stock in your company to your children.
- Consider if the family member slated to become CEO or President is qualified and has true leadership skills (they can still be owner with another as CEO).
- Consider how to best "equalize" the disposition of assets to non-business family members.
- Consider the emotions of family members throughout this transition.
- Consider using trust and charity tax laws to minimize taxes on the sale to family members.

CONCLUSION

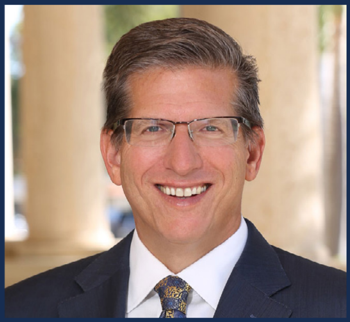
Early in this eBook I mentioned that almost 50% of business owners have no written exit plan. It is extremely important to develop a unique strategy for you and your business, and to establish a process and a qualified team to execute your strategy over time.

If done correctly, building your Bridge to Monetization™ will allow you to maximize your value, minimize tax and risk, and ensure a successful monetization event. Most importantly, it will allow you to leave your business in style and enjoy your retirement knowing that the succession of your most valued asset will be your legacy.

Yes, 'making hay while the sun shines' applies just as much to running your business at its peak as it does to when you're finally letting go of it.

So, be wise and take the time necessary to build your Bridge to Monetization™.

ABOUT THE AUTHOR



ERIC DONNER

Eric Donner is the Founder and CEO of Clear Advice Business, LLC located in Boca Raton, FL. As a business and financial advisor, Eric has over 33 years of experience working with business owners. Eric holds his designations as a Chartered Financial Consultant (ChFC®), Certified Exit Planner (CExP®), Chartered Advisor in Philanthropy (CAP®) and Chartered Life Underwriter (CLU®).

Eric has lectured around the country on subjects including estate planning and retirement distribution planning and authored the book- Planning for Retirement Distributions, Tax, Financial and Personal Aspects.

Call Eric Donner to learn how to Build Your Bridge to Monetization™

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