

EXIT PLANNING

Strategies for a Successful Transition



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QUESTIONS

If you have questions during this presentation, you may submit them through the Q&A button or email them directly to aschroeder@dcapartners.com



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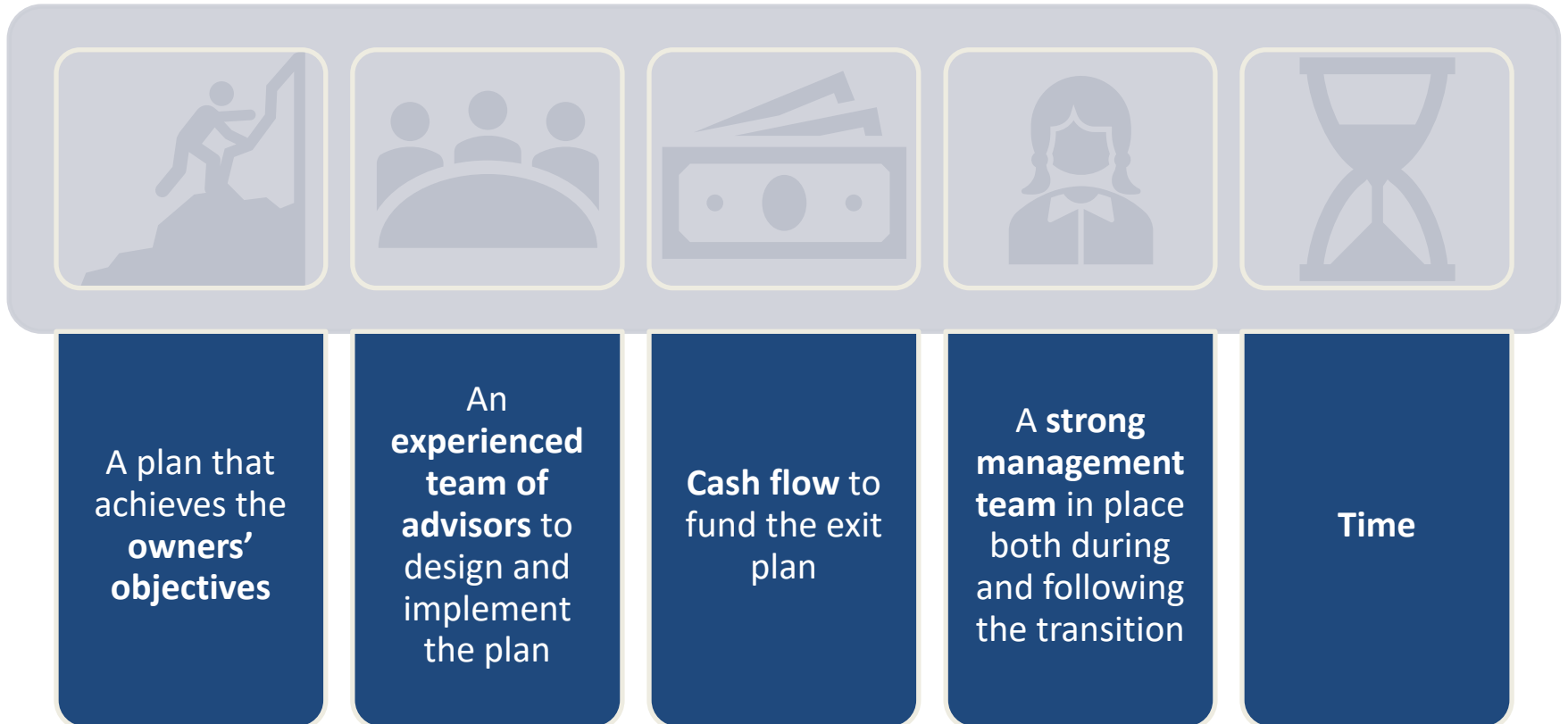
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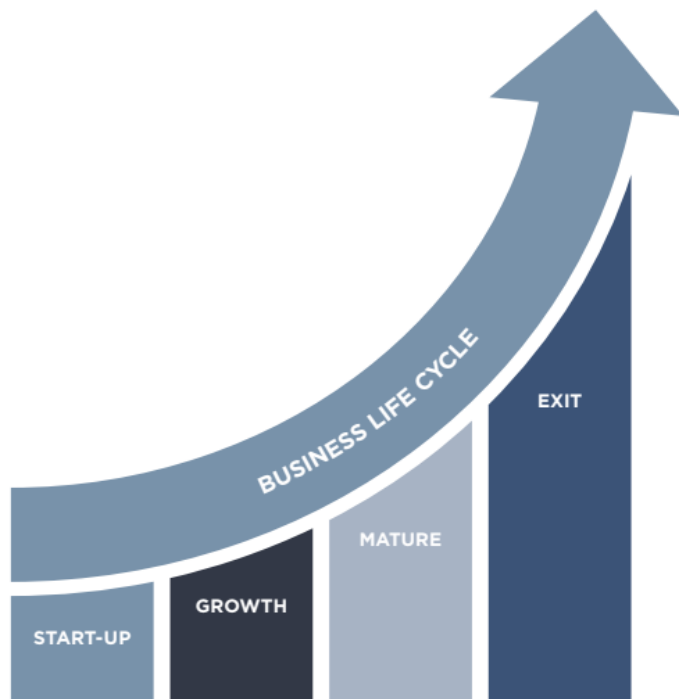
Integrating Business and Personal Goals

Essential Ingredients of a Successful Exit Plan



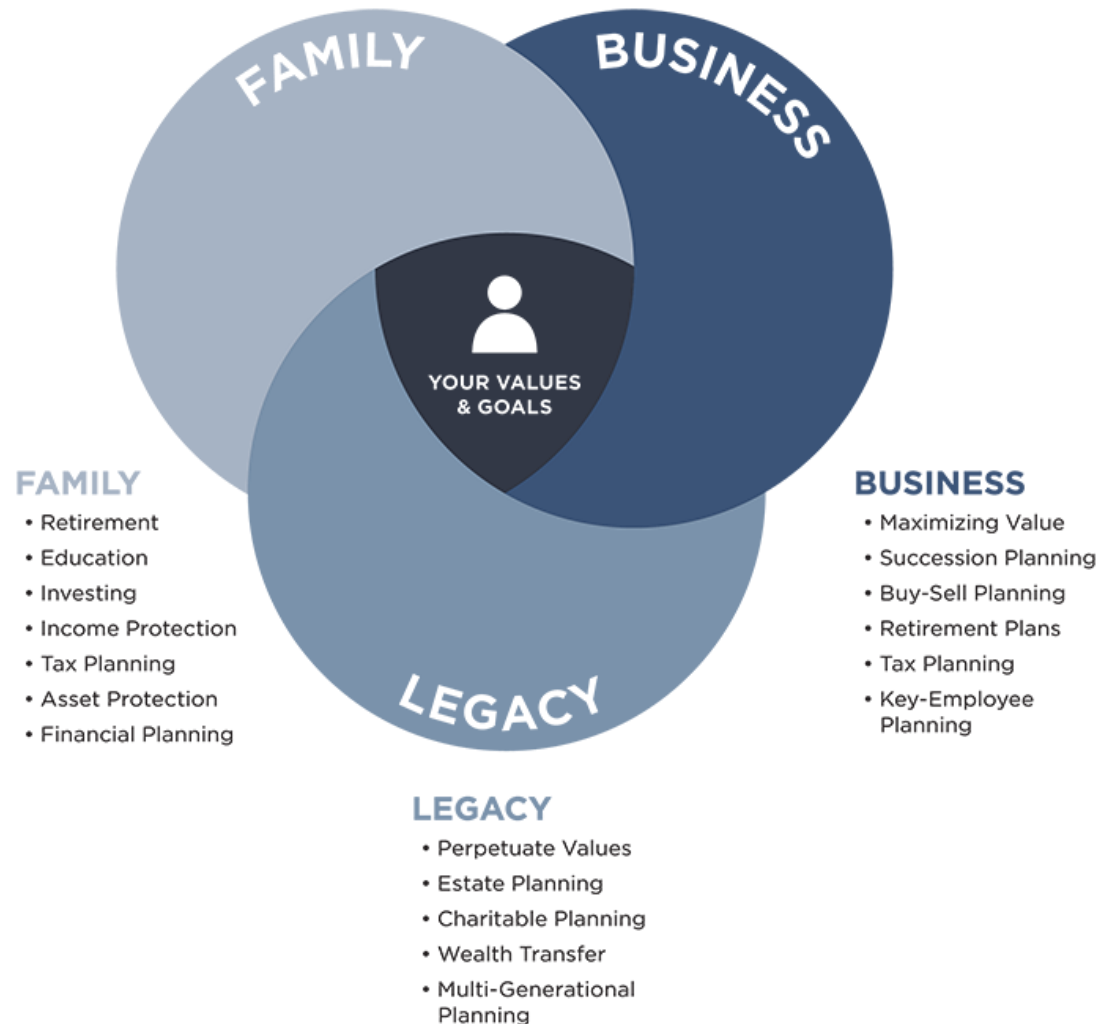
Ownership Succession Planning

No matter where you are in your business lifecycle, it's never too early to start thinking about a transition plan



The Integration of Your Values for a Planned Outcome

A myriad of factors (and stakeholders) can drive transition planning decisions



Timing and Goals

Time can be your greatest ally, or worst enemy, depending on how much of it you have...

Eventually Every Company Will be Sold or Transferred to New Ownership

- Owners receive an unsolicited offer
- Owners are ready to retire
- Owners are ready to give up control (in exchange for liquidity) but have a desire to remain active for a period of time
- Owners are looking to grow and have a more substantial liquidity event further down the line
- Owners are looking to transition the business to the next generation, employees, etc.

“Timing” your transaction goes well beyond simply timing the market or the macroeconomic forces at play

- How much longer do you want to work in the business before retiring? _____ years
- How many of your “personal” expenses are tied in with the business?
- What annual after-tax income do you want during retirement (in today’s dollars)? \$_____
- **Ultimately, the after-tax sale proceeds will not replace the business’ cash flow**

Selecting the Buyer

Identifying your preferred and/or likely buyer categories on the front-end will drive planning and decision making throughout the process

Buyer selection (and/or stack-ranked preference) will help drive your decision making

- Family?
- Co-Owner?
- Key Employee(s)?
- Outside party?
 - Strategic Buyer
 - Financial Buyer/Private Equity
- ESOP?

Your own personal “Deal Team” will be critical advocates for your business and your personal objectives

- Business Succession Advisor
- Business/Estate Attorneys
- CPA
- Valuation Specialist
- M&A Advisor
- Business/Management/Compensation Consultants
- Banker

Preempting Buyer Objections

Regardless of timing, buyers' objections tend to follow consistent themes

Too often sellers look back and realize they could have received more value for their business had they only:

- Diversified their customer mix
- Tightened expenses
- Increased margins
- Identified and acted upon long-term growth opportunities
- Developed a strong management team and staff to lead in their absence
- Organized their finances
- Reduced the number of owner expenses and addbacks
- Mitigated regulatory, compliance and other risks

What the Buyer vs. the Seller Sees

Concerns about what may be below the surface impacts value



Sales Process Overview

What to expect when you finally decide to go to market

Develop
Outreach
Materials

Potential Buyer
Solicitation

Potential Buyer
Negotiation

Selected Buyer
Due Diligence

Closing

2 MONTHS

- Develop optimal Company positioning
- **Finalize target list**
- Approve non-disclosure agreement
- Create teaser
- **Create CIM**

1 MONTH

- **Conduct outreach**
- Data room management
- **Obtain initial bids**
- Structure
- Price
- Consideration & terms

1 MONTH

- **Select finalists**
- Management meetings
- Obtain final bids
- Clarify key points
- Discuss structure (earnouts, equity roll, etc.)
- **Financial and tax planning strategies**
- Select best buyer

2 MONTHS

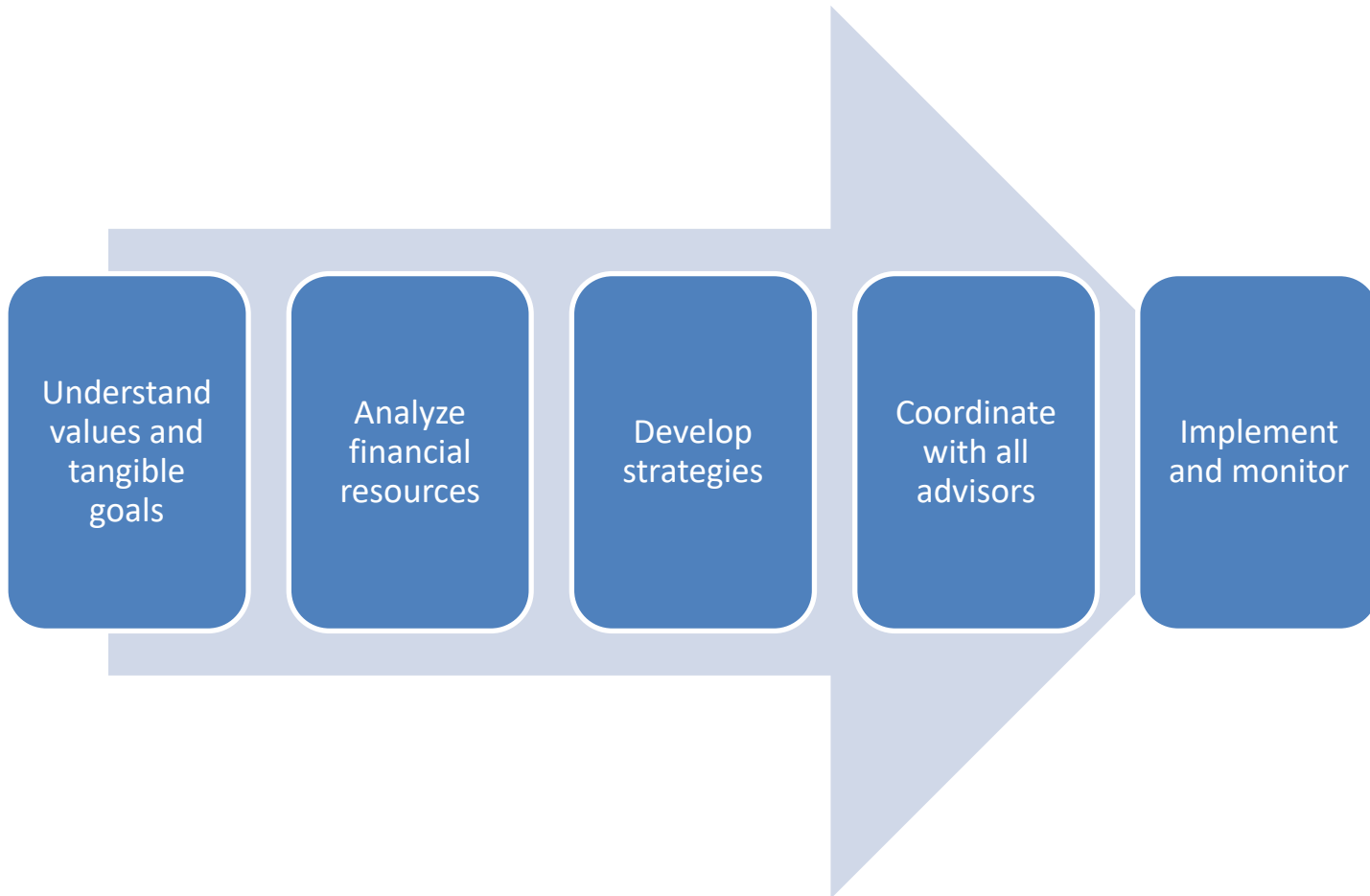
- Manage info. flow
- Confirm assumptions
- Documentation
- **Reps and warranties**
- Holdbacks & recourse
- **Working capital**
- Employment agreements
- Overcome objections and issues raised
- Manage on-site management and other meetings

1 MONTH

- **Legal documentation**
- Advisor coordination
- Continued affirmation
- **Execute agreement**
- Closing conditions


Financial Planning Process

A structured process ensures an effective outcome



Financial Planning Tools

An effective planning tool should be dynamic and flexible



[Options](#) [Support](#) [Help](#) [Logout](#)

Main Menu / Clients / My Plans / My Snapshot
Tyler and Heather Woodson

Snapshot

FastLink

Accounts

Transactions


Expense & Income

Budget

MYBLOCKS

Return to My Plans

Recommended Scenario Result



87%
Probability of Success
In Confidence Zone

Explore

Play Zone®




What Are You Afraid Of?

Compare to Current




Tyler & Heather's Goals

[Timeline](#)
[Show Detail](#)



Needs

-  Retirement - Basic Living Expense
-  Health Care
-  Truck


Wants

-  Travel
-  College - Kate
-  Sedan

Wishes


-  Charitable Giving
-  FUN Money

Current Portfolio



Compare to Recommended



Net Worth: \$1,390,000



Show Category Details

Investment Assets	\$1,313,000
Other Assets	\$325,000
Total Assets	\$1,638,000
Liabilities	(\$248,000)
Net Worth	\$1,390,000

[Details](#)

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Risk-Balanced Investment Objectives

Globally diversified, four-asset-class portfolios are tailored to our clients' unique circumstances



Current and Proposed Portfolio Allocation



Total Stock
68%

Projected Returns

Total Return	5.60%
Base Inflation Rate	2.50%
Real Return	3.10%
Standard Deviation	9.48%

Bear Market Returns

Great Recession November 2007 thru February 2009	-36%
Bond Bear Market July 1979 thru February 1980	14%

Is your portfolio allocation in line with your goals?

Can it withstand varying market conditions?

Are changes necessary to increase probability of success?

Asset Class	Rate of Return	Investment Portfolio	
		Value	% of Total
Cash & Cash Alternatives	0.10%	\$320,090	6%
Short Term Bonds	0.16%	\$0	0%
Intermediate Term Bonds	0.86%	\$0	0%
Long Term Bonds	1.60%	\$0	0%
Large Cap Value Stocks	5.90%	\$824,982	15%
Large Cap Growth Stocks	5.90%	\$1,496,251	28%
Mid Cap Equities	6.80%	\$258,479	5%
Small Cap Equities	6.80%	\$133,228	2%
Developed Market Equities	5.80%	\$147,433	3%
Emerging Market Equities	7.30%	\$148,583	3%
REITs	5.30%	\$0	0%
Commodities	4.30%	\$164,255	3%

Modeling Cash Flow

Worksheet Detail - Retirement Distribution Cash Flow Chart

Scenario : Current Scenario using Average Returns

Year Age (John / Jane)		2024 69 / 64	2025 70 / 65	2026 71 / 66	2027 72 / 67	2028 73 / 68
Retirement and Strategy Income						
	Assign To					
Guaranteed Payments	Fund All Goals	500,000	500,000	500,000	0	0
Rental Income	Fund All Goals	71,443	73,229	75,059	76,936	78,859
Rental Property Income	Fund All Goals	15,041	15,417	15,802	16,197	16,602
Social Security - Jane	Fund All Goals	0	0	0	22,895	23,468
Social Security - John	Fund All Goals	42,805	43,875	44,972	46,096	47,248
Total Retirement and Strategy Income		629,288	632,520	635,833	162,124	166,178
Other Additions						
	Assign To					
Business Sale Proceeds	Fund All Goals	5,000,000	0	0	0	0
Group Term Life	Fund All Goals	0	0	0	0	0
Total Other Additions		5,000,000	0	0	0	0
Total Income		5,629,288	632,520	635,833	162,124	166,178
Cash Used To Fund Goals						
	Estimated % Funded					
Health Care	100.00%	26,431	20,187	21,399	22,696	24,073
Retirement - Basic Living Expense	100.00%	105,063	107,689	110,381	113,141	115,969
Gift or Donation	100.00%	26,266	26,922	27,595	28,285	28,992
Travel	100.00%	10,506	10,769	11,038	11,314	11,597
Total Goal Funding		(168,265)	(165,568)	(170,413)	(175,436)	(180,632)
Total Taxes and Tax Penalty		(287,086)	(292,656)	(297,853)	(101,084)	(104,772)
Total Outflows		(455,352)	(458,224)	(468,266)	(276,520)	(285,404)
Cash Surplus/Deficit (Net Income)		5,173,936	174,296	167,567	(114,396)	(119,226)
Portfolio Value						
Future Dollars						
Beginning Value		5,377,044	11,055,158	11,766,037	12,503,818	12,979,620

Can your assets and income sources support your lifestyle withdrawals?

Run different scenarios to see the impact to each of your goals.

Focus on Path Toward Goals



Recap: Thinking with the End Result in Mind

- **Know your goals:** Timing, personal goals, cash flow needs, lifestyle
- **Know your business:** What is most important about it, your industry, and what is likely to drive an optimal valuation (core and strategic assets)
- **Evaluate your business from a buyer's perspective:** Identify “Enhancers” and “Detractors” that will impact value at exit
- **Position your business:** Develop a plan with accountability to improve the businesses’ exit value and close the gap by eliminating Detractors and optimizing Enhancers
- **Execute:** Be deliberate and make specific decisions that will drive value
- **Implement your plan:** Put your personal financial plan into action

Progress Is Not Linear

