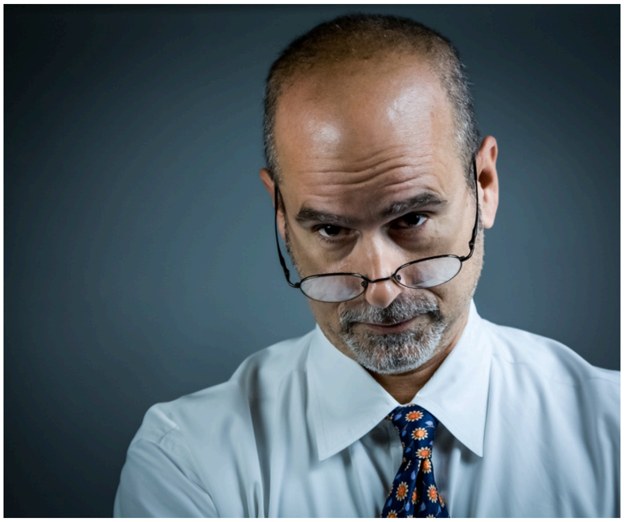
A DIVISION OF EVERGREEN WEALTH SOLUTIONS

WHAT FACTORS ARE THE LARGEST DETRACTORS OF VALUE FOR MY BUSINESS?



Business owners who are thinking about an exit often-times want to know what challenges they will face in a sale process and whether or not someone else will want to own their business after them. A solid exit planning process includes both personal and business factors to be considered. On the business side, it is helpful for an owner to know about the elements that are likely to reduce the value of their business in the eyes of potential buyers. When an owner is aware of these factors, it is likely that these 'risks' can be mitigated over time, leading to a higher exit value for the business. This newsletter takes a look at the factors that generally reduce the value of a business and provides some recommendations as to ways that owners can address these items years in advance of an anticipated exit or sale transaction and therefore increase not only the potential value of the business, but also the overall likelihood of a successful sale.

What Buyers Fear Most

As an owner who is thinking about a future exit, you are well served in understanding the concerns and fears of potential buyers for your business. The largest fear that a buyer has is that of the unknowns and the risks that accompany not knowing what the future holds. In other words, privately-held businesses do not report earnings in the manner that publicly traded companies do. Therefore, when it comes time for a buyer to review your business for purchase, they will have countless questions about how the business operates, the markets that it serves, key people who run the day-to-day operations, as well as the overall strategy and business plan for the future.

As each question is answered, the buyer's concerns should be reduced. Ideally, those concerns are reduced to a point where a future buyer is eager to write you a check to take ownership of the cash machine that is your business so that they can become the next owner / partner in the company.

Pre-Sale Risk Reduction

Although every privately-held business is different, there are common factors that can be identified which contribute to the overall riskiness of a business in the eyes of a potential, future buyer. Some of those items include:

1. High levels of dependence upon the owner
2. The lack of a management team (which goes along with owner dependence)
3. Lack of a clearly-defined strategy for growth
4. Low levels of profitability (relative to industry comparable percentages)
5. High levels of customer or vendor concentration
6. Incomplete or non-existent operations and procedures [manuals, etc . . .]
7. Incomplete or non-existent marketing and selling programs
8. Poorly kept, non-GAAP compliant financial statements

The factors listed above exist in the majority of small businesses today and as you look through this list of factors, you will likely see many that apply to your business. If you look ahead to what a future owner of your business will see as important, the manner in which you can answer questions relating to these [and many other] items is likely to significantly impact the success that you have in selling your business.

How Many Years Does it Take to Fix These Issues?

Some factors are easier to fix than others. An approximate time-frame to address each of the factors listed above is provided below:

Factors That Can be Fixed in Less than One (1) Year

- Lack of a clearly-defined strategy for growth
- Poorly kept, non-GAAP compliant financial statements / records
- Incomplete or non-existent operations and procedures [manuals, etc . . .]
- Incomplete or non-existent marketing and selling programs

Factors that Take More than One (1) Year but Less than Three (3) Years to Fix

- Low levels of profitability (relative to industry comparable percentages)
- High levels of customer or vendor concentration

Factors that Take More than three (3) Years to Fix

- High levels of dependence upon the owner
- Lack of a management team

Timing Your Eventual Exit

An owner's exit from their business is primarily a personal decision and should be lead by that owner's goals and objectives, both personally and professionally. With that as a background for this important level of planning, the time frames listed above should help you understand how long it can take to plan and execute your exit. For that reason, it is recommended that you begin your planning sooner rather than later because the factors and timeframes listed above are merely estimates. Your company may take longer to fix many of these issues and, if you sell before they are addressed, you will likely be transferring the business at a lower value than you may desire (or otherwise deserve).

Concluding Thoughts

We hope that this newsletter has accomplished the objective of having you see that there are many factors that increase the riskiness of your business in the eyes of potential buyers, thereby reducing the value that you might otherwise be paid. Knowing what these factors are and having the time and commitment to fixing them may allow you to substantially increase the value of your business prior to your envisioned exit.

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