

BUSINESS SUCCESSION

THE ART OF THE EXIT

Presented by:

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PRESENTERS

Ray Melcher

- President and CEO of Marathon Capital Advisors
- Provides M&A Advisory, business brokerage, strategic planning, business performance consulting and loan brokerage services
- Also serves as interim, part-time CEO or COO for companies in transition

Mike McCarthy

- M&A Advisor and Business Consultant
- 40+ years of experience in various management, leadership and consulting positions
- Provides M&A advisory, business brokerage, strategic planning and business performance consulting services

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SEMINAR OBJECTIVES

1. Stimulate thinking about some of the issues business owners deal with relative to his/her exit
2. Discuss the types of buyers who might buy your business
3. Explain the process of planning for the exit



THE ART OF THE EXIT

You are Born

You grow up

You continuously learn

You own a business

You work hard

And then... the exit

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THE EXIT...

Can be planned or unplanned

Can be voluntary or forced

Can be awkward and disappointing

Can be graceful and rewarding



THE AMERICAN DREAM

Family and privately owned businesses... backbone of the USA

- Different strokes for different folks
 - Not all business owners are created equal or think alike
 - Different reasons for working for yourself
 - Different goals regarding growth and perpetuation
 - Different goals related to “The Exit”

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OPTIONS FOR THE EXIT

1. Close the business and liquidate assets
 - Gradual or all at once
 - Generally not optimal
2. Transition ownership to a family member(s)
 - Sale or gift
 - Gradual or all at once
 - Sometimes excellent results, sometimes not so much

(Continued)

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OPTIONS FOR THE EXIT

3. Sell to a key person(s)

- Gradual or all at once
- You finance it or cash out
- You stay on board or leave
- Often a favorable option

(Continued)

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OPTIONS FOR THE EXIT

4. Sell to an independent person

- Competitor (often a merger)
- Strategic or industry buyer
- Financial buyer / investor
- Business owner wannabe
- Vendor
- You finance it or cash out
- You stay on board or leave
- Often best option



THE ART OF THE EXIT RULE #1

All buyers/successors are not created equal.

As you go through life running your business, think about what would be most important to you when you exit the business

- All buyers do not have the same motives and goals, and those motives and goals may well not align with yours
- Different buyer characteristics for different types of buyers



BUYER CHARACTERISTICS

Financial Buyer (PEG, Private Investor, Aggregator)

- Professional management / absentee ownership. You may be asked to stay with an employment contract to serve as GM or president.
- ROI main goal
- Often heavily financed. Leads to expense reduction
- Buyer may not be industry savvy or passionate
- Often a short term ownership plan – flip it 3-7 years
- Usually kept intact unless it's an add-on to a platform company into which it consolidated.



BUYER CHARACTERISTICS

Family Member(s)

- Gradual or all at once
- Gift or sale
- Seller financing is common
- Achieve perpetuation goal
- Can be complex and emotionally charged if multiple children or other family exist
- Requires lots of planning
- Often too expensive to happen



BUYER CHARACTERISTICS

Owner-Operator

- Active management by the new owner
- Probably first owned business – learning curve
- Probably heavily financed, but owner “all in” (lien on home, etc.)
- Will want to retain employees, building, business name, etc.
- Will want you to stay on board for a transition period, if not longer
- Will probably require seller financing
- Will probably sell the business in the future
- Generally smaller transactions, \$2 million or less enterprise value

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BUYER CHARACTERISTICS

Industry or Strategic Buyer

- Views the acquisition as an “add-on” for scale, geography, diversification, technology, staff and/or customers
- Experienced in the business
- Often not heavily financed
- Less likely to ask you to stay on board post transition
- May keep business intact or may consolidate with another operation
- Often results in staff reductions, name change, new location, etc.
- Often has long term view and is willing to reinvest profits
- More common for larger transactions greater than \$2 million enterprise value
- Often pays the highest price

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THE ART OF THE EXIT – RULE #2

“Life is what happens while you're busy making other plans.” – John Lennon

Because of the unforeseen and the uncertainty of life events, plan early, plan often and be ready for what comes

Constantly preparing increases odds of appealing to the type of buyer most appealing to you and achieving your goals

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SO WHAT DOES PLANNING INCLUDE?

Goal: To make your exit and the transfer of control of your business as easy, financially rewarding and consistent with your desires as possible.

Be thinking – What will make my business most appealing to buyers and will my goals be realized if the business must be sold if a life event triggers a sale

- “Staging” for the sale
- Involved advisory team (accountant, attorney, tax advisor, financial advisor, M&A Advisor)
- Competitive advantage and differentiation
- Management and staff competency
- Procedures and policies – documented
- Equipment and facility kept current and in good repair
- Reputation for quality and customer service
- Solid financially and good financial records

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EXIT TRIGGERS

Life events often dictate the exit timing and sometimes force the exit in spite of your desires and planning.

- Illness
- Partner squabble
- Disability
- Death
- Financial issues
- Rogue competition
- Family matters
- Economy
- Technological advances
- Regulatory compliance
- Loss of key employees
- Others

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YOUR CONSIDERATIONS WHEN READY TO EXIT

What are your desires for your family, your employees and your customers?

What financial needs will you have post-exit? Retirement planning?

When do you wish to make your exit?

Who will serve on your “Dream Deal Team?”

- Attorney – sale and equity planning
- Tax Advisors
- Accountant
- M&A Advisor
- Investment Advisor
- Etc.

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GETTING STARTED TOWARDS THE EXIT

- Valuation of the business – update every few years, especially if changes occur
- Review tax and financial implications
- Engage M&A Advisor to assist with presale preparations
- When ready to exit, work with M&A advisor to create a marketing plan to identify qualified buyers for the business
- Develop a realistic timetable to properly set expectations
- Expect the process to be emotional



SUMMARY

Exit Options

1. Unplanned sale or closure of a weak small business with little or no value. ☹️
2. Unplanned sale or closure of a good business with good value to a new owner, but not optimally realized due to lack of preparing. ☹️
3. Unplanned sale of a good business with good value to a new owner and sold for a full, fair market value with favorable deal terms. 😊
4. Planned sale of a weak business with modest value but able to be sold rather than closed down because of preparation 😊
5. Planned sale of a good business with good value to a buyer with good sale terms 😊
- This is the optimum.

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CONCLUSION

With continuous planning,
constant introspection about your needs and desires,
input from qualified, experienced deal team advisors,
you can increase your odds of a graceful & rewarding
experience when its time for your exit.



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ENJOY THE REWARDS

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