

Why Succession Planning?

MOST businesses do not sell or transfer at all. Only 50% of businesses with revenues between \$10 Million and \$50 Million sell. The percentage drops precipitously as businesses get smaller.

The rest are liquidated for pennies on the dollar.

Yet, despite what appear to be hurdles in selling a business, there clearly are opportunities, since we all know owners who sold or transferred their business for high valuations.

Let's look at a few more facts (good and bad):

- Business Value can increase or decrease quickly.
- Valuation for M&A purposes is usually based on Cash Flow or Profitability, not Revenues, from the last 12 to 24 rolling months.
- It does not matter what your accountant, you, or I value your business for. What matters is what a buyer will pay when you choose to sell or *have to* sell. (Too many owners sell when they have to.)
- Profitability drops much more quickly than revenues. (I call this the Value Profitability Loop) BUT, profitability can increase quicker than revenues - this takes discipline.

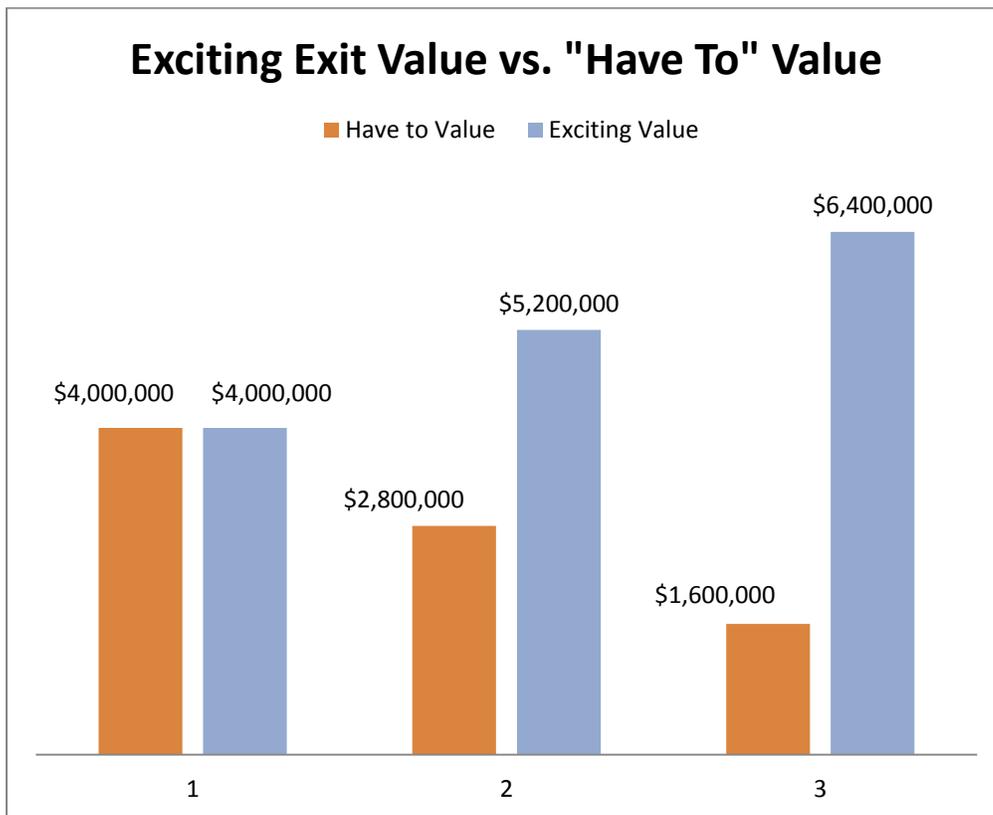
An example of a Value Profitability Loop:

- For instance, a company with \$10 million of revenues has 70% COGS totaling \$7 million. \$2 million of overhead and \$1 million profits (business value at a 4 multiple is \$4 million). If revenues drop about 20% over two years, typically overhead does not drop as much so

the company now has \$8 million of revenues, 70% COGS or \$5.6 million, \$2 million of overhead and now has \$400,000 of profits.

- A 20% reduction in revenues produced a 60% reduction of profits and business value.
- The opposite can happen when revenues increase. Revenues go to \$12 million over two years with a 70% COGS so profits are \$1,600,000. An increase of 60%.

Assuming a multiple of 4, the difference in sales VALUE of these two results is likely to be \$1.6 million vs. \$6.4 Million – See the third year (right columns) on the chart below.



- Most owners sell because they no longer “feel” good about their business. Namely when it is worth only \$1.6 million. Instead, if they did the planning, preparing, and pulling the trigger when the factors are right, essentially the same business would sell for \$6.4 million.
- Take a minute and think about what the difference (even after taxes) that \$4.8 million more would mean for your retirement, estate, your children, grandchildren, vacation trips, etc.

Clearly, you are committed to getting your number.

- How do you actually work through the difficulties and Implement the Whole Plan?

Want to Learn more – Sign up for our free white paper – “What’s Your Number” The Business Owner’s Guide to Selling Your Business. We have developed a special version for contractors. Get your copy today. www.harvestbusiness.com

The Results of an Effective Succession Process

- Obtain tax savings
- Deal structures that excite buyers (which could be your children or management)
- Resolve family and management issues
- Create additional buyers
- Realistically time the market
- Create more value
- Excitement from the process - reinvigorate your team
- Obtain “Your Number”

With an effective succession plan, you improve your business thereby increasing its value. In our example, that means our business owner would reap \$6.4 Million Dollars of value instead of \$1.6 Million Dollars of value.

What Does This Mean?

What this means is that you need a plan.

Each plan will vary because every owner and business is unique. For some, family issues reign supreme. For others, it is creating and capturing the highest market price. All owners will need to consider taxes, growth, and timing.

Harvest Business Advisors - What We Do:

Harvest Business Advisors creates opportunity and builds value through succession planning, business valuation and business merger and acquisition services.

We help you plan AND implement what is in this guide. It is simple in theory and difficult in practice. This means:

We work with you to solve the unsolvable:

- How managers can get the money to buy you out
- How to have those difficult but necessary family conversations early
- How to maximize your market value from that one sale opportunity

Harvest Creates Opportunity and Builds Value. Let us do it with you. Understanding without implementation is of little value. Begin by calling us today for a free confidential consultation.

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