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FINANCIAL STRATEGIES

EPI
Exit Planning Institute

EXIT STRATEGY AS A BUSINESS STRATEGY

A Collection of Case Studies from Advisors and Owners

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LETTER FROM EPI PRESIDENT, SCOTT SNIDER

Exit planning is not a one size fits all method. Every business is different, every business owner has different goals, and every buyer is looking for different aspects of a business. However, by incorporating a universal exit planning framework, or methodology, exit planning advisors and business owners will be set up for successful and significant business exits. The Value Acceleration Methodology is your strategic framework for executing exit planning. It is the value management system that makes the timing of an exit irrelevant.

Exit planning is laser-focused on what you can do right now to grow the value of the business and drive income. Forget the future. Focus on today. By focusing the approach on building a business with characteristics that drive value and integrating the owner's personal and financial objectives into it now, there will be many options to exit on the owner's timeline and terms.

There are over 3,000 Certified Exit Planning Advisors in the marketplace currently. With this large community of CEPAs, we have the unique opportunity to spotlight real exited owner case studies our CEPAs helped facilitate. Case studies allow advisors to learn and comprehend practical applications of exit planning. Research shows that case study learning fosters collaboration, knowledge retention, and professional growth.

The following six case studies illustrate a myriad of exit options from the perspective of the exit planning advisor or the exiting business owner. These case studies include family transitions, sale to a third party, acquisition by a competitor, and an OldCo/NewCo transition strategy.

Learn more about potential exit strategies and some tips to include in your next exit planning engagement.

Scott Snider
President, Exit Planning Institute

ADVISOR POINT OF VIEW

AN OLDCO/NEWCO BUSINESS TRANSITION

When deciding to exit their business, an owner has several internal and external exit options to consider. An internal option of selling their business to a key employee helps them transition the business smoothly while allowing for stars in their business to remain in positions of management and leadership. However, these key employees may not have the capital to buy the business outright.

See how Certified Exit Planning Advisor (CEPA), Michael DeSiato, helped one of his business owner clients transition his business effectively by utilizing an OldCo/NewCo model.

Meet the CEPA: Michael DeSiato

Michael DeSiato is a Tax Director in South Florida who works actively with Cherry Bekaert's Real Estate and Construction industry group. With over 44 years of experience, Michael helps middle-market business owners exit their business in a manner that is consistent with their personal and financial goals, while keeping them in control of the process.

As a CEPA, Michael understands the importance of collaboration in exit planning. He works with the business owner's professionals and advisory team to develop and execute a successful exit plan for his clients.

COMPANY BACKGROUND

ABC General Contractors is a second-generation contracting business located in South Florida run by John. John's father founded the company in 1970 and its first projects were building fast food restaurants throughout the U.S. Eventually the company migrated toward building multi-family apartments and grew to slightly over $100M in annual revenues with 35 employees. The company never had a valuation performed.

John was getting older and believed that the construction business was "a young person's game." He was tired and wanted to leave.

THE SITUATION

John and his company, ABC General Contractors, were long-standing clients of Michael DeSiato's with whom he had built a great trusting relationship over the years. Michael had helped him with tax planning, compliance, and various federal and state tax examinations over the years. His firm also performed John's annual audit which he needed to obtain bonding. He knew that Michael was looking out for him and had his best interests in mind. As such, he would reach out to Michael's firm for all his major financial decisions that related to his business, and finding the best way to exit was one such decision. John's wife, Mary, also worked in the business as the Head of Human Resources, and she too wanted to retire. John knew that his business was not an attractive candidate for an outside third-party sale due to the nature of his business. Most of the business John won was the result of his personal connections and were one-time projects. There was no recurring revenue stream. This, coupled with the fact that he was responsible for new work, made his company unattractive to a third-party buyer.

Therefore, at Michael DeSiato's suggestion, John focused his attention on staging an internal transfer to one of his up-and-coming key employees, William. John had been mentoring William over the last 5 years to eventually assume his position. In addition to teaching him how to run the company, John also introduced William to his key contacts, thereby allowing William to start building his own relationships with them.

Owner and company names have been changed to protect the privacy of the individuals and businesses represented in the case study.

AN OLDCO/NEWCO BUSINESS TRANSITION

THE GOAL

John wanted to exit the business in the next 5 years. He wanted to be able to withdraw all the equity in his company at that time, which was quite sizable, approaching close to $20M. That equity was needed for his company to obtain the necessary bonding to perform work. In addition to being able to take that equity for retirement, John and Mary no longer wanted to be personal guarantors on the company's bonding line. Finally, John and Mary wanted to work less during the 5-year runway to retirement and remain on the payroll with reduced salaries but with full benefits.

THE STRATEGY

The first step was for John to have a discussion with William to see if he wanted to be an owner and to assume all the risks of ownership. William was on board; however, William did not have the money necessary to buy the company, which is typically the case with key employees. To provide William with a mechanism by which he could become the ultimate owner while meeting John and Mary's goals, Michael recommended the use of the "Oldco/Newco" structure.

Michael DeSiato shares, "A new company (NewCo) was formed to take on future work, with the old company (Oldco) completing jobs currently in process and providing bonding and administrative support to NewCo for a fee. The NewCo was an LLC and William was issued a 95% profits interest, which was structured to be tax-free to William, while John owned the remaining 5%. William's interest was non-voting, and it was subject to a 5-year vesting schedule."

If William remained on board during the 5-year period and met financial benchmarks, the most important of which was that NewCo built up enough equity to support its own bonding line and that John and Mary were replaced by William as guarantors on that line, he would vest and own 95% of the company. Giving John the voting interest allowed him to control the economics of the arrangement and if William left at any time during the 5-year period, his interest would be bought back by John at a discounted tax book value to be paid out over 5 years. Once William became vested, Newco would redeem John's interest for its tax book value, thereby leaving William as the sole owner. This arrangement was beneficial from John's perspective as he remained in control until his financial goals were met and acted as a "golden handcuff" for William. It was great for William as he could become the owner of the company on a tax-free basis with no capital investment.

Michael DeSiato shares, "I worked with John and Mary's business attorney on the structure of the deal and the attenuate agreements. John and Mary had a financial planner that helped them quantify what they needed in retirement."

THE RESULTS

NewCo did in fact grow from $100M to $200M during the 5-year vesting schedule and William did vest and become the 95% owner. Enough equity was built up in NewCo so that it was able to support its own bonding program and John and Mary no longer had to personally guarantee any bonding programs as William replaced them. John then liquidated Oldco and withdrew his $20M plus the profits he made during the 5-year vesting period in Oldco from projects in process when the program began plus the fee income received for bonding support. His 5% voting interest was also redeemed by NewCo, turning over voting control to William. It is important to note here that John did not turn over voting control until all of his exit goals were met.

AN OLDCO/NEWCO BUSINESS TRANSITION

WHAT'S NEXT?

John and Mary were now free to diversify their investment portfolio to provide for their retirement income needs. They also lent NewCo $5 million at a very attractive interest rate for a few years and were just recently paid back. The NewCo under William and his team have tripled in size to more than $300M in revenues and William is now ready to start working on his exit plan. John is consulted from time to time by William, but John is now busy chairing a Vistage Group, working on his golf game, and teaching construction management at a local college.

WHAT TO LEARN FROM THIS CASE STUDY

For owners who are looking to transition their business to a key employee, financial constraints can impact the speed of the transaction. However, in this situation, John and Mary were able to facilitate an OldCo vs. NewCo internal exit option. This option allowed John and Mary to slowly exit their business while retaining some of the revenue throughout.

Additionally, the option of an OldCo to NewCo exit allows for employees who may not have the capital to purchase the business, therefore opening the exiting owners to a larger pool of potential buyers. This exit option may not be the best fit for an owner who would like to remove themselves 100% from the business since John still had a 5% profit stake in the business as well as voting rights during the five-year transition period.

HOW DID THE VALUE ACCELERATION METHODOLOGY IMPACT THIS EXIT?

John and Mary had a deep understanding of their personal and business goals prior to exiting the business. In the Discover Gate of the Value Acceleration Methodology, owners conduct a business valuation, assess their personal, business, and financial goals, and create a prioritized action plan. By integrating their personal exit goals into their business exit, John and Mary were able to facilitate the exit they wanted in their desired timeframe.

When working with owners, work through the Value Acceleration Methodology to ensure they have a detailed plan for their life after they exit. Begin your engagements by discussing their business, personal, and financial goals and how their business impacts all three.

SELLING TO A THIRD PARTY

One of the most popular external exit options is to sell your business to a third-party buyer. In this case study, the owner of Hich Tech Carpet Cleaners worked with strategic advisors to sell the entirety of his business to an outside buyer.

Learn how CEPA, Wally Waldron, helped facilitate a successful exit for his business owner client well within his desired exit timeframe.

Meet the CEPA: Wally Waldron

Jason "Wally" Waldron is the secret weapon behind owners, founders, and CEOs of B2B companies who use his unique profit acceleration strategies to grow faster and maximize the value of their business. Wally is the CEO and Founder of Waldron Universal Enterprises. When owners feel trapped in their businesses, he applies Exitology, so they can buy back their time and freedom. He lives in the mountains of Evergreen, Colorado, with his wife and two children.

COMPANY BACKGROUND

High Tech Carpet Cleaners is a restoration and cleaning company in British Columbia, Canada, that specializes in model, fire, flood, and disaster restoration projects. High Tech was founded in January 1993 and employs 10-15 people. Bill, the founder and owner, reached out to Wally when he was looking to exit the business and retire in 2015.

THE SITUATION

Bill had worked in his business since 1993 and was looking to retire from the business. He was interested in a cash sale and handing the business off entirely to new ownership. Prior to working with Wally Waldron, Bill had not organized his marketing and sales strategies and was unable to have a cohesive operational structure in place.

Bill understood that in order to effectively sell his business to a third-party buyer, he would need to have clearly documented systems, a strong marketing strategy, and consistent annual sales. Waldron was introduced to Bill via a referral from one of his trusted resources, and as a CEPA, he was able to advise Bill on his business exit holistically.

> Waldron shares, "When we met Bill, he had a thriving business in the carpet cleaning niche but he was very inconsistent with his marketing."

THE GOAL

As the owner of High Tech, Bill wanted to transition his business from one that was unorganized and therefore unsellable, into a highly valuable organization that would easily sell to a third-party buyer. At the time Bill approached Waldron, he stated that he wanted to accomplish his exit and retire in the next five years.

THE STRATEGY

Waldron served as Bill's strategic business growth advisor and assisted in strategy consulting and implementation. Since Bill wanted to exit his business within the next five years, Waldron focused his planning on marketing and sales improvements. Wally wanted clarity on Bill's business goals and his Wealth, Value, and Profit Gaps. After a detailed understanding of these Gaps, the strategic consultants created a path forward to improve the sales and marketing team at High Tech.

Owner and company names have been changed to protect the privacy of the individuals and businesses represented in the case study.

SELLING TO A THIRD PARTY

By incorporating the Value Acceleration Methodology into his strategy, Waldron was able to provide Bill with a framework for the process. This framework allowed Bill, Waldron, and the other advisors on Bill's team to be on the same page when it came to understanding the current and potential value of High Tech. Bill worked with Waldron and his company, a tax accountant, his advisory board, and a business broker throughout his exit planning. Since the entire team was aware of Bill's business, personal, and financial goals, they were able to manage a strategy that effectively met all three.

Most of the value building in High Tech prior to its sale took place in the four intangible capitals. These capitals are the Human, Structural, Social, and Customer capitals. Waldron noted that strengthening the human and customer capital were key value builders. He shares, "We framed many of our conversations around solving the client concentration risk and also bolstering the human capital side of things to ensure Bill's operation is separate from his personal involvement."

THE RESULTS

By improving intangible capitals, decentralizing Bill from the business, and creating consistent marketing and sales strategies, High Tech had consistent growth that allowed Bill to exit in four years.

Sadly, during the four-year exit planning process, Bill's wife Sherry, his primary business partner, passed away. Waldron shares, "We all paused our work to allow Bill the time and space to grieve and reconsider his post-exit plans now that he had experienced this great loss." Losing not only his wife but his business partner impacted both his personal and business goals. Sherry passed away early in the four-year transition plan and Bill began to focus more on his business goals after her passing.

Waldron shares, "After Bill was able to handle the personal impact of losing his wife, his business focus was greater and he was able to accomplish his business goal of improving operations, streamlining processes, and preparing for his exit."

The 5 Ds

The 5 Ds are circumstances that can negatively impact an owner and cause them to exit their business earlier than they had hoped.

1. **Divorce:** Are you prepared financially if you were to get divorced? What impact will a divorce have on your business?
2. **Disagreement:** What issues have you faced with your business partners? Would these issues build up to a business-ending dispute?
3. **Disability:** Are you prepared for any unforeseen medical conditions that may arise? How would a disability impact your day-to-day business operations?
4. **Distress:** Is your business facing financial distress? Do you have a contingency plan in place to avoid the impact of financial distress on your business?
5. **Death:** What will happen to your business if you or someone else in the business dies? Do you have written plans in place for the business in the event you are no longer around to run it?

SELLING TO A THIRD PARTY

WHAT'S NEXT?

After Bill sold the business to a third party, his operations manager and some members of his team remained in place to continue the operation and facilitate the transition. Bill retired in January 2019 when the new owners acquired High Tech. Waldron and his team managed the transition process and parted ways with the new owners after they took over operations.

WHAT TO LEARN FROM THIS CASE STUDY

While an owner may be prepared for their next act after exiting their business, if they are not personally prepared should one of the 5 Ds impact their lives, their business plan may be derailed. During Bill's four-year plan he lost his wife and business partner and had to reorganize his personal and financial goals for his next act. By incorporating contingency plans for an owner's post-exit life, some of the uncertainty that comes with loss and change is eliminated.

HOW DID THE VALUE ACCELERATION METHODOLOGY IMPACT THIS EXIT?

The second gate of the Value Acceleration Methodology is the Prepare Gate. In this gate, owners work to mitigate risks that can impact their exit. These risks can be associated with the business itself, the owner's personal life, or financial concerns. These risks can also be the result of one of the 5 Ds: Divorce, Disability, Disagreement, Distress, and Death. By failing to prepare an owner's business and the owner themselves for the possibility of being impacted by one of the 5 Ds, the risk in the business is greater.

When working with an owner, ensure they spend ample time identifying and mitigating the risks associated with their business prior to transition.

Overall, by utilizing the Value Acceleration Methodology, Waldron was able to grow the business value by 3 x EBIDTA with the same fixed costs, generate 33% annual revenue growth, and provide Bill with a clear exit strategy in less than his five-year timeframe.

3X

3 x EBIDTA

33% ANNUAL REVENUE GROWTH

CLEAR EXIT STRATEGY

THE CHALLENGE OF NOT WORKING WITH AN EXIT PLANNING ADVISOR

When planning to exit your business, having the proper team in place is paramount to your success. CEPA and Founding Partner of REAG, Scott Mashuda shares what he and his buy-side client experienced when trying to close on a deal with an owner who was ill-prepared to exit their business.

Meet the CEPA: Scott Mashuda

Scott Mashuda is a Founding Partner of REAG and is responsible for the firm's growth and strategic vision. He has nearly 20 years of mergers & acquisitions and business valuation experience. He has represented both public and private companies in matters of sale, purchase, valuation, and restructuring.

In January 2017, Scott was named to the Board of Directors of the M&A Source where he has served in various roles including past chair of the marketing committee, and chair of sponsorship. Scott was named one of the 2013 "40 Under 40" top M&A service providers by The M&A Advisor. He is an active member of the Cleveland Chapter of the Association for Corporate Growth. He has served as an adjunct professor of entrepreneurial finance at Duquesne University's Palumbo Donahue School of Business and Treasurer of the Allegheny HYP Club.

Prior to founding River's Edge Alliance Group (REAG) with Todd Torquato in 2004, Scott Mashuda served as a Senior Valuation Analyst at the accounting firm Ernst & Young.

COMPANY BACKGROUND

Scott Mashuda and REAG represented a buy-side client who approached the owner of Specialty Chemical Co., a manufacturing company. Mashuda's client was interested in acquiring Speciality Chemical. The company was a Mid-Atlantic business founded in 1974 and had 25 employees at the time. When Mashuda and his client first contacted the seller, they were informed that they were already working with a developer to redevelop the property. As the business was near a recently constructed interstate on-ramp, the seller believed the business would be more valuable as a B2C business instead of a manufacturing facility.

THE SITUATION

The owner of Specialty Chemical was aging and approaching retirement. He thought the real estate was more valuable than his business and was looking for a buyer that would acquire the business and relocate the manufacturing operation to their existing facilities.

> Mashuda shares, "While the timing and situation appeared to be a great match, a deal was not ultimately completed. After investing over a year in the process, the seller pulled out of discussions with the acquirer. Three years later, the seller reached out again with renewed interest."

THE GOAL

The owner's goal in exiting Specialty Chemical was to sell to a third-party buyer who would then relocate the business. He wanted to exit as soon as possible, but without working with a CEPA on the sell-side advisory team, his exit was not a smooth transition.

On the buy-side, REAG's client's goal was to acquire the business, retain the current customers, and outsource the production of the non-synergistic raw materials to an independent third party. They also wanted to maintain the seller's existing cost structure so the seller's valuation could ultimately be supported.

Owner and company names have been changed to protect the privacy of the individuals and businesses represented in the case study.

THE CHALLENGE OF NOT WORKING WITH AN EXIT PLANNING ADVISOR

THE STRATEGY

Without a Certified Exit Planning Advisor on his team, the owner of Speciality Chemical faced significant challenges during his exit planning process. Scott Mashuda and his client also faced difficulty as they would not be able to produce the raw materials for the same low rate as the seller. The seller had previously produced the raw materials in-house, but due to the relocation of the company, the raw materials would have to be sourced independently.

Mashuda shares, "With the acquirer unable to produce this product at their existing facility and the seller's facility being redeveloped, cost of goods sold were set to increase, meaning margins would decrease, EBITDA would decrease, and prices would potentially rise for customers. The issue then turned to the acquirer's ability to retain these customers post-closing if a price increase went into effect."

THE RESULTS

Scott Mashuda ultimately was able to broker a deal with his buy-side client. However, he shares that the process was difficult for all those involved. Mashuda says, "The seller ultimately received a lower purchase price than desired. With the sale of the property already agreed to in principle, there was a timeline that had to be set on the sale of the business, limiting its marketability."

The seller couldn't understand why the factors that had historically made the business different and gave them a competitive edge in winning new business were becoming roadblocks to the sale. The answer was that the industry had evolved to a point in which everything had become specialized. There was no other manufacturer that produced that same raw material plus the end products, which meant any buyer (including our client) would face the same challenges.

As a result, the challenges multiplied—the buyer needed to understand the cost of third-party raw material production to fully understand their material cost, product cost, and adjusted EBITDA. The seller was also unwilling to share the proprietary formula without a check in hand.

REAG figured out a solution and the deal was completed, but as a result of these challenges, the seller received a lower purchase price. All parties involved, buyer, seller, and intermediaries, came away frustrated.

THE CHALLENGE OF NOT WORKING WITH AN EXIT PLANNING ADVISOR

WHAT TO LEARN FROM THIS CASE STUDY

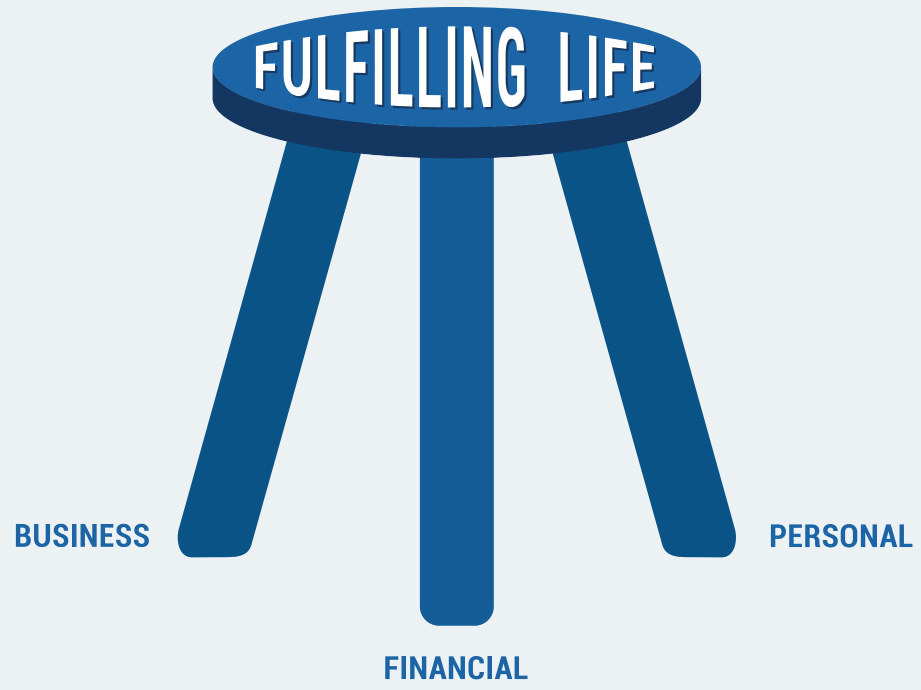
This case, while ultimately ending in the sale of the business, was not a smooth process due to the owner's lack of holistic planning. Since the owner of Speciality Chemical did not work with a Certified Exit Planning Advisor (CEPA) or a diversified team of advisors during his exit, he was unable to see how certain aspects of his business, while valuable to him, were not transferable to the next owner.

Mashuda states, "Working with an exit planner early in the process would have allowed the seller to better understand the business, establish realistic expectations, identify the challenges of selling the business, and change the business model in a way that would allow for a larger pool of potential buyers to be sourced."

HOW DID THE VALUE ACCELERATION METHODOLOGY IMPACT THIS EXIT?

By failing to work with a CEPA, the owner of Specialty Chemical was unaware of the Value Acceleration Methodology and therefore failed to have a deep understanding of their business value. Additionally, the seller did not have a cohesive personal plan in place for his life after he exited the business. Without planning for his personal and financial goals as well as business goals, he had a disjointed exit strategy. The Speciality Chemical owner failed to understand the risks in his business and personal life that would negatively impact the sale price of his business.

CEPAs educate the owner on all of the exit options and enter engagements with a holistic perspective to truly serve the business owner's diverse needs. CEPAs collaborate with a multi-disciplinary team of professionals to support the success of the business owner and use each other's specialties and expertise to the benefit of the project.




OWNER POINT OF VIEW

ACQUISITION BY A COMPETITOR

What happens when one owner wants to exit the business, but the other owner does not? How do you manage these partner disputes to ensure the success of the business and the partner dynamic?

Michael Berlin shares the story of his exit from the business he founded and the impact it had on two companies.

Meet the Owner: Michael Berlin

Michael started his unexpected entrepreneurial journey after being part of workforce reduction from a large IT consulting company, Whittman-Hart. As part of his separation from Whittman-Hart, Michael had four clients released and founded his own software consulting services company, Briteskies, in May 2000.

Within a year of its founding, Michael brought in a co-worker and friend who would later become a 50% owner of the organization.

COMPANY BACKGROUND

Briteskies, LLC is an eCommerce company located in Cleveland, Ohio. The business was founded in May 2000 by Michael Berlin.

The company grew into a 50+ person boutique software customization, development, and implementation company that grew steadily, profitably, and without debt by partnering and building relationships on trust with a diverse client base.

Briteskies "do the right thing" mantra allowed them to understand business needs and deliver innovative solutions to both small and large-scale clients. Briteskies customer portfolio included retail, manufacturing, distribution, eCommerce (B2C & B2B), banking, logistics & transportation, medical, oil & gas, and financial companies.

Michael shares, "As entrepreneurial business owners, I believed and still believe we can share these opportunities and spectacular experiences with our customers, our team members, their families, and with the communities in which we all live so that we can positively impact the lives that we touch."

THE SITUATION

Michael Berlin knew it was time to exit his business based on five key factors.

Key Factors That Influenced Michael's Exit

- HEALTH CONCERNS
- PARTNER DISPUTES
- LOSS IN REVENUE
- CUSTOMER CONCENTRATION ISSUES
- CAPITAL MARKET CHANGES

ACQUISITION BY A COMPETITOR

After a life-threatening medical emergency in 2011, Michael gained a new perspective on his business and lifestyle. In late 2015, Michael decided it was time to exit the business he founded and its related lifestyle.

He shares that a misalignment between him and his partner over current and future business goals was the largest factor. Michael and his partner saw the business going in different directions and Michael understood the toll that could take on the company's success. Disagreements, one of the 5 Ds, can ultimately lead to the collapse of the business if not mitigated.

Michael also shares that after over 10 years of 30% year-over-year growth, the revenue and profits of Briteskies stagnated due to the difference of strategic opinions between the two partners.

Issues with Customer Capital also impacted Briteskies value. Michael states that there was potential to lose one of their largest customers due to changing technology. With much of their revenue tied to one large customer, losing this client would be detrimental to the success of the business and the morale of the team members.

Lastly, Michael shares that the changes in the capital markets could adversely impact his business and its salability in the coming years and he wished to exit before that occurred.

THE GOAL

Michael was interested in selling the entire company and he sought out a strategic buyer from Chicago to purchase Briteskies. This business was a larger version of their company. Michael shares, "The size, customer mix, location, and technology skills made me feel we could drive value."

When he began his exit planning strategy in 2016, he expected to successfully close within the year.

THE STRATEGY

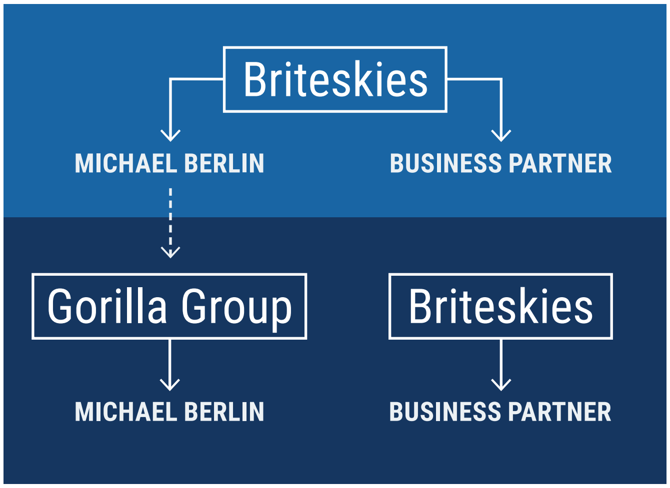
Michael Berlin collaborated with a team of close friends and advisors to facilitate his exit. A business broker helped introduce Michael and the acquiring company. After the introduction, Michael states that the broker exited the team to allow other advisors to manage the transition. His transition team consisted of his close friends, a business attorney, an accountant, a CEPA, mentors, and his Entrepreneur's Organization forum group.

With only one potential buyer, Michael shares that it may have hurt his negotiating power during the transaction. However, by only working with one potential buyer, he focused his resources on securing an acceptable deal.

Michael's close friend and CEPA, Chris Snider, CEO of the Exit Planning Institute, helped to ensure his personal, business, and financial goals would be met during the transaction.

THE RESULTS

Although selling the entire company was the goal, it became obvious that his business partner had no desire in exiting the business. As an amicable alternative, the assets of Briteskies were divided between owners allowing Michael to sell his to a larger and strategic competitor, Gorilla Group, and allowed his partner to retain control of a portion of Briteskies.



ACQUISITION BY A COMPETITOR

Michael Berlin was able to effectively exit Briteskies in under a year. He shares, “We closed the deal on Halloween in 2016. I knew I had to get the deal done so I could get home and trick or treat with my children!”

Michael and his development team were acquired by the competitor per the transaction agreement. The remainder of Briteskies assets stayed with Michael’s former business partner. Michael ultimately stayed with the acquiring company, Gorilla Group, for two years to assist in transitioning the team to the new company.

WHAT’S NEXT FOR MICHAEL?

Michael is passionate about how entrepreneurship and exit planning can positively change lives. After his exit, Michael took the advice of Christopher Snider and earned the Certified Exit Planning Advisor (CEPA) credential.

Michael strongly feels, “CEPA classes would be beneficial for current owners who are thinking about their eventual exit. Most owners are not truly thinking about their exit and respond with a numeric value when asked when they would like to exit their business. ‘I’ll retire in 10 years,’ ‘I’ll exit when I’m 65,’ or ‘I’ll sell when I reach $X million in revenue or $Y million in profit.’ These responses, however, do not consider the various things that can impact your business and potential exit strategy in the meantime. For example, what happens if your business loses a major customer, or the capital markets collapse? You must be prepared to exit at any time.”

In looking back on his exit from Briteskies and then the acquiring company, Michael shares, “Owners need to switch their mindset towards de-risking, improving value, and determining if they want to grow or sell.”

Currently, Michael is focusing on his family while he mentors owners as a business consultant. He says, “As my next chapter of life evolves, I am looking for the right startup and business acquisition opportunities for me to leverage my acquired entrepreneurial leadership capabilities, growth experiences, enjoyment in mentorship, and ability to connect with people, in a fun and rewarding environment to give back and help build truly special things.”

WHAT TO LEARN FROM THIS CASE STUDY

In the past, the perception of exiting your business meant you were going to retire. However, research from the Exit Planning Institute State of Owner Readiness Report shows over 59% of business owners do not plan on retiring after exiting their business. Michael Berlin’s exit via an acquisition represents an exit option that allows for the owner to continue working in the business in some capacity.

HOW DID THE VALUE ACCELERATION METHODOLOGY IMPACT THIS EXIT?

Michael’s exit from the business he founded highlights the importance of understanding your business and personal goals. The misalignment between the two owners of Briteskies created the opportunity for Michael to sell to a larger acquiring company and remove his stake in a business he had founded 16 years prior.

The Value Acceleration Methodology’s third gate, The Decide Gate, asks the owner to decide if they would like to grow their business or exit the business. For business partners, the discussion of the future of their business is even more paramount to their success. If partners are in disagreement over the future of their business, this can cause issues with their exit plan, growth strategies, or day-to-day operations of the organization.

When working with owners on their exit, begin your engagements by meeting with all key members of the ownership team to determine their business, personal, and financial goals. This will allow for the advisor and owner or owners to be on the same page in terms of business exit planning.

SELLING TO A THIRD PARTY

How do you know if you are ready to exit your business? We spoke with Michael Fischer, the Founder and former CEO of Thinsolutions, about what motivated him to exit his business. Additionally, Michael shared what lessons he learned from his exit that he implements in his post-exit life.

Meet the Owner: Michael Fischer

Michael J. Fischer, formerly the Chief Executive Officer of Thinsolutions, has over 25 years of experience as an entrepreneur, most in the field of information systems. Michael has a B.S. in Management Information Systems from Bowling Green State University, College of Business, and an MBA from The Ohio State University.

Michael has served for three years on the Board of the Cleveland Chapter of the Entrepreneurs Organization where he helped the chapter grow from 25 to 105 members. He also served on the Board of Entrepreneurs Organization of South Florida where he created a Mentorship program whereby EO members got teamed up with veteran members of the business community for mentoring relationships.

COMPANY BACKGROUND

Michael Fischer founded Thinsolutions in 1997. His leadership and vision allowed Thinsolutions to evolve from a pioneering Cleveland network management company to an experienced technology services provider offering a breadth of services including Cloud Services, Application Development, and Technology Consulting Services. The company also grew geographically. While still headquartered in Cleveland, Ohio, Thinsolutions expanded with offices in Ft Lauderdale and Jupiter, Florida as well as in the Raleigh-Durham region of North Carolina.

At the time of his transition from the business, Thinsolutions employed 50 people and had an average annual gross revenue of around $9 million.

THE SITUATION

Michael was interested in exiting Thinsolutions after working 16 years in his business. He shares that the commodification of the industry was a drawback for him and he wanted to exit before more of his business went in that direction. At this point, he had expanded the business by acquiring four other businesses in a four-year span.

THE GOAL

Michael hoped to sell Thinsolutions to a third-party buyer and cash out of the business. He did not have a timeframe in mind for this exit, stating simply, "the sooner the better."

Michael shares, "My first love is not technology; it's strategizing and solving the puzzle on how to grow businesses." That being said, he was eager to start or invest in another business after exiting Thinsolutions.

THE STRATEGY

While Michael did not have a set team of advisors to facilitate an exit, he leaned on his trusted peer group of owners in similar IT companies. He explains, "It was a pretty unique peer group of friendly competitors that didn't compete in each other's markets. Some of the company founders had previously sold to the same buyer I was considering."

Prior to exiting his business, Michael ensured that Thinsolutions structural capital was strong and transferable. All financial records were organized and documented before negotiations with the third-party buyer began. Additionally, Michael understood his role in the business. As the Founder and CEO of Thinsolutions, he needed to decentralize himself from the business. Michael explains that he handed off the management of the business one year in advance of the sale so he as the owner was not pivotal to the success of the business. Michael was able to exit his business within nine months of working with the third-party buyer.

SELLING TO A THIRD PARTY

THE RESULTS

After Thinsolutions completed a series of 4 acquisitions over a 4-year span, the company itself was acquired in April of 2012 by a large strategic buyer, Konica Minolta. Michael stayed on for one year to facilitate the transition of the business.

1997

Thinsolutions Founded

ACQUIRED FOUR BUSINESSES

2012

Acquired by Konica Minolta

This exit provided the acquiring company with a significant business containing well-documented systems and an aligned management team. Michael states that as with any business sale, some employees chose to leave the business, however, the majority continued on with the new ownership team. Konica Minolta is a larger company based in Japan. After acquiring Thinsolutions they introduced more structure and now provide more offerings for customers.

WHAT'S NEXT FOR MICHAEL?

After exiting Thinsolutions at 41 years old, Michael was not prepared to retire.

He shares, "I thought it would have been a lot easier to locate the next business or businesses to get into but it was a struggle. In hindsight, I would have done a lot more thinking about what's next and then had a more targeted approach toward the next endeavors to take on."

According to Exit Planning Institute's State of Owner Readiness Report, 60% of business owners have informally thought about what they will do in their next act, however, 27% shared they had no plans for their life after their business.

Michael Fischer is currently a partner in four different businesses but focuses most of his efforts as Managing Director of WillCo Tech LLC. WillCo Tech was acquired in 2017. Its flagship software product is CyberSTAR which has a growing number of contracts focused on cybersecurity workforce compliance in the Department of Defense.

WHAT TO LEARN FROM THIS CASE STUDY?

He continues to say that his exit from Thinsolutions has been instrumental in his ability to build business value in his current businesses. Michael explains, "We run each business like they are always for sale even when they are not. You never know when something crazy bad is going to happen in business. You also never know when you might get an unsolicited offer to buy your company. We've found running the business with the mindset that it is always for sale leads us to a better operating business. It is not just about growing revenue and profit but also about focusing on creating sustainable systems, processes, and people along with de-risking the business every day."

HOW DID THE VALUE ACCELERATION METHODOLOGY IMPACT THIS EXIT?

The Value Acceleration Methodology allows business owners to be ready to exit at any time. By identifying baseline value, mitigating risks associated with the business, assembling a master plan to achieve goals, and ultimately deciding to grow or exit their business, owners are prepared to exit their business even if an unsolicited offer is presented.

When working with owners, stress the importance of building sustainable and transferable value in their businesses. This will not only improve their business value in the present, but provide them with a more significant exit in the future.

TRANSITIONING A FAMILY BUSINESS TO THE NEXT GENERATION

Studies show that only 30% of family-owned businesses last until the second generation, and an even fewer 12% will make it to the third generation. What causes family businesses to successfully transition to the next generation?

We spoke to James, a soon-to-be third-generation family business owner, about how his family's business has prepared for keeping the business in the family for years to come.

Meet the Founder's Grandson

James has worked in his family's business since he was a high school student. As a student, he learned the foundation of Family Manufacturing Company operations and what makes the family business unique in their industry. He has since spent the past 10 years managing daily operations.

James shares, "My experience and knowledge of the actual business has only recently begun as my responsibilities have grown."

COMPANY BACKGROUND

The Family Manufacturing Company was founded in 1967. Located in Northeast Ohio, this family business employs around 50 people. The family conducts annual business valuations to measure the impact of their strategic initiatives.

They are a high-precision machine shop that focuses on larger equipment and systems rather than smaller widgets. The company manufactures equipment for Aerospace, the Department of Defense, the Department of Energy, Underground Mining, Fuel Cells, Motion Simulation, as well as other industries.

James shares, "My grandfather started our family business out of his garage over 50 years ago. Today, we are planning for our company's second transition, from second to third generation."

THE SITUATION

James' father is getting ready to retire from the day-to-day operations after nearly 40 years in the family business. The transition of leadership from the second to the third generation family member is a topic of great discussion at Family Manufacturing Company.

The family remains the sole owners of the company, however, only two family members currently work in the business. James and his father are working with a Certified Exit Planning Advisor on their transition of ownership.

THE GOAL

James states, "Our family's goal is to keep the company in the bloodline, and I am next in line to step up to the plate. My father and I are well aware of the historical success rates of a family business lasting into the third generation – historical odds are not in our favor. As such, we are trying to be as proactive as possible in using the information gained from exit planning classes to identify key areas of the business that need to be bolstered or improved to keep our business not only operational but growing and adapting to current trends."

While the timeline for transitioning ownership is fluid, James shares that he would like to transition soon.

THE STRATEGY

Through the Family Manufacturing Company's work with a Certified Exit Planning Advisor, they were able to facilitate value growth even in a time of economic downturn.

Planning before a transition allows for a succession plan to be developed and executed, often resulting in a smooth transition. James continues, "In our scenario, having ample time to execute our succession plan gave us the opportunity to find and hire the appropriate talent, cross-train individuals, and also focus on the transition of our customers and new sales representatives."

Owner and company names have been changed to protect the privacy of the individuals and businesses represented in the case study.

TRANSITIONING A FAMILY BUSINESS TO THE NEXT GENERATION

James shares, "We have a long-standing relationship with a great CEPA. Establishing this relationship early on has helped us prepare for an exit strategy; avoiding an unsystematic, fast plan. Starting the succession conversation in the beginning stages not only put the owners, but also our employees in a better situation - fostering confidence throughout the organization as to what the future entails."

The Impact of COVID on The Transition Plan

The effects of COVID are still rampant throughout the industry. James shares, "Many of our older employees, whom we had for 35 years, were forced to retire early after we sent them home to limit the risk of exposure. Employees, who had expressed their want to work for another 5 years, decided they didn't want to come back after they got a taste of retirement. And the hiring of new employees was halted."

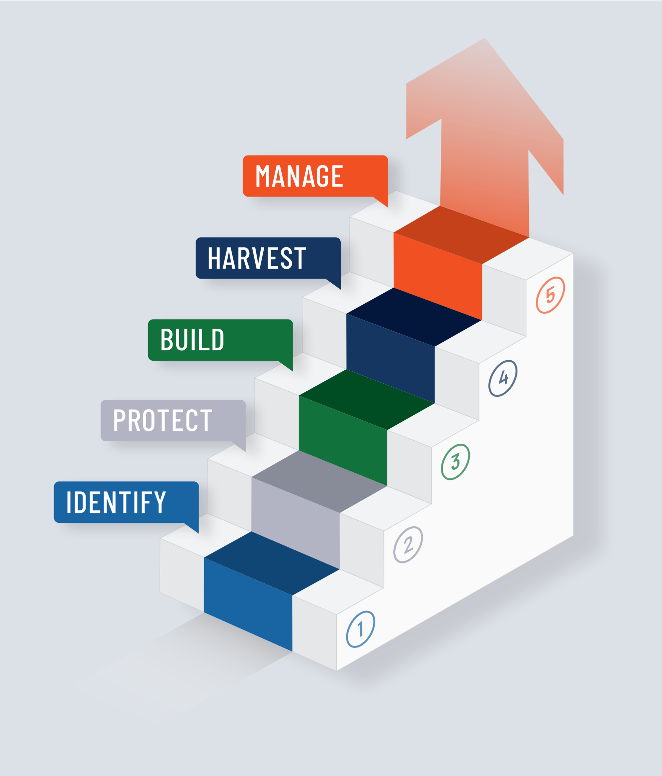
The company's projects require an extraordinary amount of engineering and testing prior to release for manufacturing. Throughout COVID, many of their customers were trying to save money in an effort to retain employees and offset lost revenue. This resulted in engineering and testing shutting down, and projects and pipelines getting backlogged - creating a very small funnel that is easily disrupted.

James explains, "The recent downturn during the pandemic swallowed a lot of small businesses. Thankfully our diversification allowed us to dip our toe into different markets that sustained enough work. With the right customer relationships and contracts, continued training for employees helped propel us into our future. Something that allows us to protect our value."

Improving Intangible Capitals Through the Five Stages of Value Maturity

James and his father worked with their CEPA to determine ways to protect their current business value as well as improve upon it. He shares, "We've maintained our best efforts through our 55 years to diversify our abilities and customer base to mitigate our risk during downturns. We know our limits and turn down work that becomes too risky to take on or takes up too large of a portion of our business."

They also made improvements to their Intangible Capitals during the pandemic. "Our value is in our employees that have the skill set and the know-how to outperform. But their skill set is only as good as the equipment they are working with.



TRANSITIONING A FAMILY BUSINESS TO THE NEXT GENERATION

One area for improvement we identified was our structural capital. During the pandemic, we were able to purchase two crucial pieces of equipment that would propel us forward when the industry spending would return."

THE RESULTS

As a result of working with their trusted CEPA, James and his father have improved their structural capital, diversified their customer capital, and enhanced their human capital. While they are still in the process of transitioning from the second to the third-generation owner of Family Manufacturing Company, they believe they are well on their way to a successful transition.

James explains that he believes the transition will be well received by current employees and management due to the fact that he has been working in the business for over a decade. He and his father get along and will continue to support each other and the business well after the transition takes place.

WHAT IS NEXT FOR THE FAMILY?

After the transition of ownership takes place, James' father shares that he still would like to play a small role in the business for the time being. He has been practicing his retirement and has a detailed personal plan for his life after exiting the business. James will eventually take full control of the Family Manufacturing Company and hopes to continue the family legacy long into the future.

WHAT TO LEARN FROM THIS CASE STUDY?

In a family business, determining the line of succession is paramount to the continued growth and success of the company. From the beginning, James' family understood that transitioning a business to the third generation was statistically difficult. To improve their chances of a successful transition, each generation involved in the business prepared for the eventual transition.

HOW DID THE VALUE ACCELERATION METHODOLOGY IMPACT THIS EXIT?

James' family has detailed plans to keep the business in the family for years to come. By allowing the next-generation owners to learn about every aspect of the business well before they take over, the business is better prepared to transition to an educated successor. James took the time to educate himself about various transition and exit plans in order to manage the business successfully after his father's exit.

By following the Value Acceleration Methodology, James was able to guide his father and grandfather through the succession process and prepare to successfully transition the family business to the third generation.

When working with a family business, advisors must understand the goals and objectives of all involved family members.

CONCLUSION

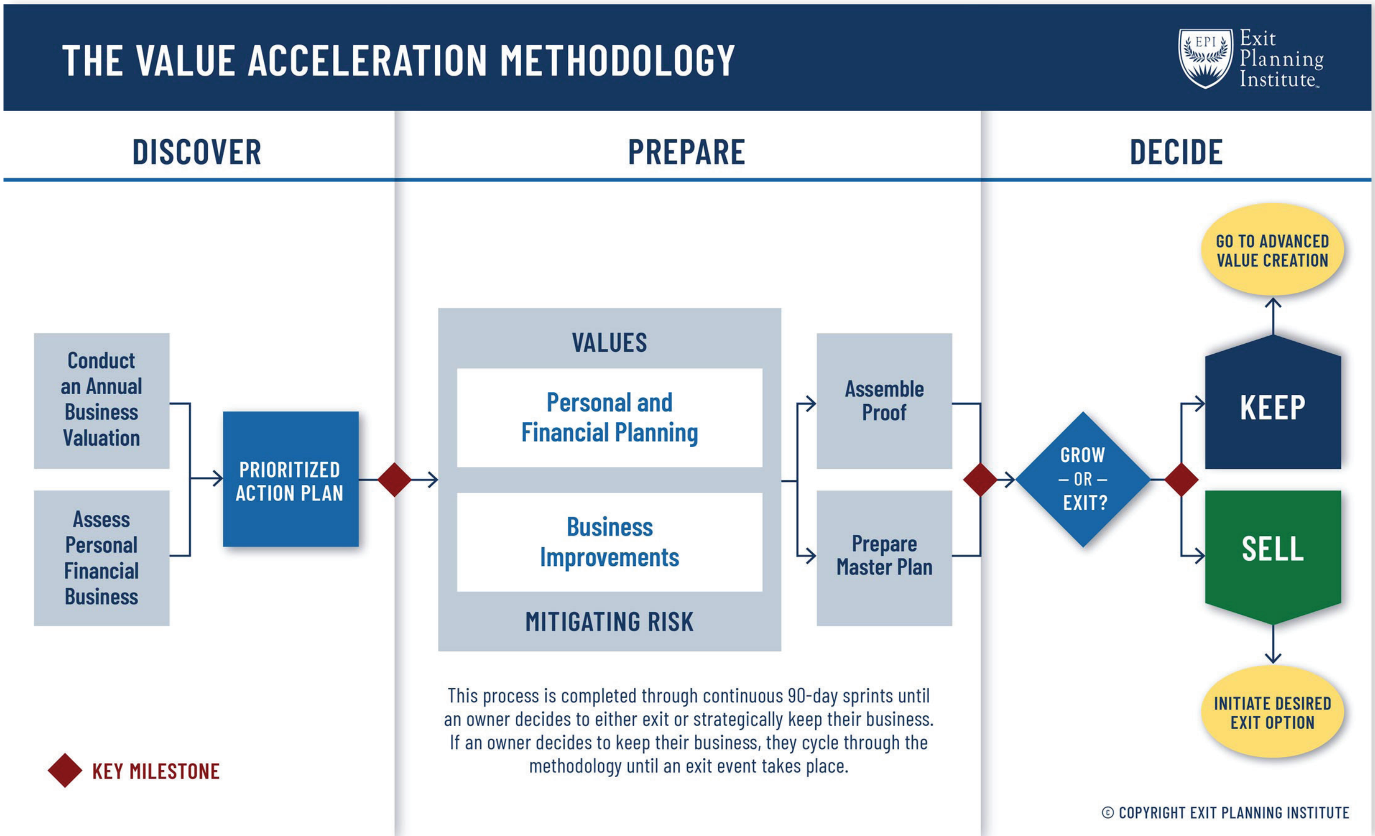
Exit planning is not just a plan. It is a strategy rooted in execution that grows value while expanding options so that an owner can transition the business on their terms when they are ready. The Value Acceleration Methodology aligns an owner's business, personal, and financial needs.

One of the biggest regrets of owners without a transition strategy is that they failed to integrate the value acceleration process to prepare their business, and themselves, for transition. Owners realize after the fact that they left money on the table because they did not maximize the value of the business before the time of exit.

The Value Acceleration Methodology can be broken down into three gates. These gates are: Discover, Prepare, and Decide. Christopher Snider writes in Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value & Unlock Wealth, Value Acceleration "can be used as a tool to teach your team how to create value, not just more income, measure their performance, and benchmark value creation."

These three gates combine the plan, concept, effort, and process into a clear strategy to build a business that is both valuable and transferable. Chris Snider shares, "Value acceleration actions require tireless commitment and relentless execution. Exit planning is simply good business strategy integrated with your personal and financial goals and objectives."

While a business owner might not be looking to exit their business for years, planning for the future is the best way to expect success during a transition. Having a clearly defined exit strategy through the Value Acceleration Methodology not only builds value in your business today but prepares you for the future.



THE VALUE ACCELERATION METHODOLOGY:

Meet the Creator

In 2016, Chris Snider, CEO of EPI, wrote the first book on the Value Acceleration Methodology called Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value & Unlock Wealth. This book helped bridge the gap between owners and advisors. Walking to Destiny empowers business owners and provides them with the correct tools, knowledge, and path to effectively position their business and themselves for not only exit options down the road, but more importantly, rapid business growth today. Chris's book expands on the core concepts that are introduced in this whitepaper and highlights businesses that embody the methodology.

Change your outcome and read Chris's book at **WalkingToDestiny.com**

Meet the Community:

The advisors who incorporate the Value Acceleration Methodology into their practice are called Certified Exit Planning Advisors (CEPAs). EPI is powered by our elite and diverse community of top advisors focused on creating a valuable, transferable future for the business marketplace. CEPAs are able to have deeper and more holistic conversations with business owners as members of their advisory team and are often called the most trusted advisor. This whitepaper includes insights from just a few of the over 3,000 CEPAs in the exit planning community.

Meet the Trusted Advisors and explore the Exit Planning community at **BuildSignificantCompanies.com**

Understand the Owners:

Exit Planning Institute has spent over ten years researching business owner exit readiness and analyzing the mind of an owner. **Through this research, EPI has found that owners profoundly regret selling their business if they do not prepare for the personal side of the transition.** An owner with a profitable business might seem ready to transition their business. However, simply because a business is successful, does not necessarily make it significant to its customers, employees, or potential buyers. Highlighted in this whitepaper are some of the key findings from the 2021 New York City State of Owner Readiness Report that continue to support significance over success.

See how ready your business is for a transition and access all State of Owner Readiness Research at **OwnerReadiness.com**

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