SUCCESSION PLANNING

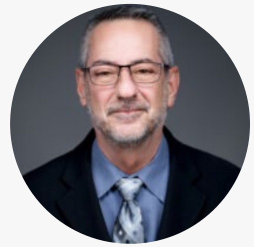
Unlock Your Business's Future

Agenda

- Exit Planning Overview
- Financial Planning
- Business Valuations
- Mergers and Acquisitions
- Tax on the Sale of a Business
- The Exit Plan

Meet The Team

Ed Brooks
Principal & Chief Growth Officer



Richard Burke
Outsourced CFO and M&A Advisor

Cammy Corso
Principal

Emily Verdone
Senior Manager

Andrew Lopez
Senior Manager

Ryan Stewart
Senior Manager

Introduction

Richard J. Burke

- 33 years financial management experience
- 23 years as a middle-market CFO
- 21 years as M&A Advisor
  - Debt Funds
  - Equity Funds
  - PE Advisor
- Certifications:
  - Certified Public Accountant (CPA)
  - Chartered Global Managerial Accountant (CGMA)
  - Certified M&A Advisor (CM&AA)

Experienced M&A professional who has closed hundreds of buy-side and sell-side middle-market transactions.

Helping business owners grow through acquisition and develop strategic exit plans to sell their business and maximize the value.

Expert in all phases of the M&A process, Richard will guide you from start to finish through the M&A process and provide a personalized advisory solution to meet your specific needs.

Exit Planning Overview

EVERY OWNER WILL EVENTUALLY EXIT THEIR BUSINESS VOLUNTARILY OR NOT

***Exit Planning defined*:**

- Business exit planning refers to the strategic process of preparing and executing a strategy for leaving or selling a business.
- A Succession Plan is preparing an enterprise that can exist – Independent of its founders
- It involves careful consideration of MANY factors (both Personal and Business) such as:

- Personal Financial Planning
- Maximize Enterprise Value
- Reduce Operational Risk
- Choose Your Successor
- Understanding M&A
- Tax Planning
- Building Your Advisor Team

Are You Ready to EXIT? - Top 10 Questions

→ **All business owners should be able to confidently answer these questions. If they cannot, this defines a starting point for planning, research and possibly soul searching.**

1. When do I want to retire?
2. What value do I need from selling my company to fund my desired retirement lifestyle or new business venture?
3. What is my company worth today from the perspective of a buyer?
4. How marketable is my business?
5. What options are there to sell my business and what are the pros and cons of each?

Are You Ready to EXIT? - Top 10 Questions

6. What else besides money is important to me when leaving my business?
7. Should I work post-sale at my company and for how long?
8. What am I selling (business, real property, rights, personal property, etc.)?
9. What should I do if my business sale won't fund my retirement adequately?
10. Who should I engage to assist me with this?

Exit Plan Road Map

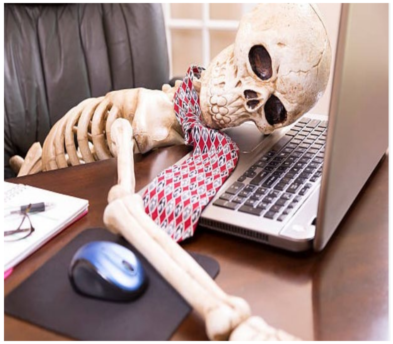
6 Essential Steps for an Exit Plan

The primary goal of exit Planning is to

- **maximize the value of the business upon exit while minimizing risk**
- **ensuring a smooth transition for both the owner and the business itself.**

1. **Setting Objectives** – define personal and financial goals
2. **Assessing the Business** – Understanding what drives value and what creates risk. Then build value & reduce risk.
3. **Develop an Exit Strategy** – To whom (pass it down, sell to third party, Management Buy Out, ESOP, etc.
4. **Create the Plan** – Detailed steps
5. **Execute the Plan** – in accordance with an established timeline.
6. **Post-exit Transition** – Retirement or next venture?

Exit Options



1. **No Plan** – Die at Your Desk

2. **Liquidation** - Close Your Business – Sell off any Assets

3. **Pass it Down** – Family Business Transfer

4. **PARTIAL SALE -**(may involve M&A advisor – Certainty a Valuation Expert)
   I. Partial Sale through equity raise. Slowly back out of daily management or take on a partner

5. **INSIDE SALE (Valuation Expert, Specialty Advisor, and maybe M&A Advisor)**
   I. Management Buy Out ("MBO" levered or unlevered).
   II. Employee Ownership (ESOP).

6. **OUTSIDE SALE – (MOST Likely to USE M&A Advisor)**
   I. Single Entrepreneur
   II. Serial Entrepreneur Group (platform builders)
   III. Family Offices
   IV. Private Equity Group (Financial Buyer)
   V. Public or Large Private Company (Strategic Buyer)

7. **IPO – For upper middle market ($80m and up)**

Exit Options – Family Transfer

There are several ways to transfer business ownership to Family Members/Children

1. **Transfer Through Your Estate** – Using a trust (there are several options)
   A. Business is transferred to trust during your lifetime
   B. Upon a triggering event (age, date, death) the trust distributes the business to the trust beneficiaries.
   C. Future transfer
   D. Requires a Qualified Appraisal
2. **Gift over Time** - Using the current annual gift tax exclusion $18,000 per person (2024), $19,000 (2025), you transfer a number of shares each year under this value. If married couple jointly own business, you each are allowed $18,000 to a single person or $36k.
   A. Future transfer
   B. Also requires a Qualified Appraisal.
3. **Gift All At Once** – Immediate one-time gift may be subject to gift tax, will require a Qualified Appraisal and possibly a gift tax return.
   A. Understand that the Doner is responsible for Gift Tax – not the recipient.
   B. Likely the business appraisal will exceed the Annual Gift Tax Exclusion.
   C. Currently there is a Life-Time Gift Tax Exclusion is $13.61m (2024) – set to expire mid 2025 – likely go to ½ of that.
   D. If value exceeds LTGTE Gift Tax is a graduated scale from 18% - 40% at over $1m. This could be very costly and requires careful planning.

Exit Options – Family Transfer

There are several ways to transfer business ownership to Family Members/Children

4. **Sell to Family Member**
   A. No restrictions on the sale value – related party sales should include an independent Business Valuation to substantiate fair market value and help ensure no perceived gift component by the IRS.
   B. It is likely a Child would not have the liquidity to buy with cash or Credit to secure a loan. This leaves a Seller-Note option.
      I. Minimum interest must be charged – Applicable Federal Rate (AFR – typically 5% points lower than Prime – currently at 3.37%).
      II. Risk of note not being paid if business fails.
      III. Seller earns interest income.
5. **Combination** – There are endless combinations of gifting, use of loans, a various trust types that can be used.

Exit Options – Inside Sale

1. **Management Buy Out (MBO)**
   A. Management team combines resources – develops a plan where the management team becomes directors.
   B. Typically, would need to be leveraged (LBO).
   C. Feasibility depends on the debt capacity of business. Could be bank or owner provided loan.
   D. Several positive attributes – primarily the management team is already running the company.
2. **Employee-Owned Stock Ownership Plan (ESOP)**
   A. It is a qualified retirement plan where company is sold to the Plan and employees earn shares of the company stock over time.
   B. Owner sells all or portion of company to the ESOP plan – (good way to ease out).
   C. Complex transaction and expensive to set up and maintain. Set up is $75k to $100k, and annual maintenance averages $6k to $12k (the larger the company – the more complex, the greater the cost).
   D. Transaction is funded with bank debt or specialty lenders.
   E. Company needs to be at the right size – typically over 50 employees and annual revenue of $10m or more.
   F. There are several tax advantages for ESOP plans.

Exit Options – Outside Sale- Buyer Types

FINANCIAL BUYER (Private Equity)

1. Primary motivation is return on investment.
2. Short hold period 3-5 years
3. Building a "Platform" – buying several smaller companies to form 1 large company – gives them higher multiple when selling (arbitrage of multiples).
4. Lower valuations on purchase to achieve an ROI.
5. Less concerned about employees' longevity.
6. Very astute buyers – watch out for "trickery"

STRATEGIC BUYER (Larger Company)

1. Multiple motivations: (market share, eliminate competition, complimentary products or services, technology, human capital, intellectual property – SYNERGIES.
2. Typically, would only re-sell if investment is under performing.
3. Better for employees, great benefits, promotional opportunities, greater resources to grow company, etc.
4. Usually they are the "GOLDEN TICKET" and willing to pay more.
5. They can also be very sophisticated buyers but tend to be easier to negotiate with.
6. Due diligence is faster – they know more about the industry and business than you do.

Here Comes the Boom!

- The Baby Boomer generation was born between 1946 and 1964.
- The “Silver Tsunami” – there are 77 million Baby Boomers in the US.
  - 12 million have ownership in privately held businesses and approximately 10,000 Boomers reach retirement every day.
- Around 10 million baby boomer-owned business will change hands between 2019 and 2029 (source: Small Business Administration, SBA).

Supply and Demand:

- The sheer volume of Baby Boomer business for sale will increase supply of businesses and decrease the number of buyers, which can lower prices

Business Exit + M&A Trends and Stats

Flood of PEG Capital to Middle Market

- Middle Marked (MM) is defined as revenue from $5m to $500m.
- PEGs are the leading source of MM investments.
- In 1980 PEG investments in MM was approximately $57 billion. It is estimated to be at $600 billion today, increasing PEG controlled capitalization from 10% to 48% of MM.

- Typically, 90% of a business owner's wealth is in their business.

- 50% of business owners try to sell the business themselves - risky due to the high stakes

- between 70% to 90% of M&A deals fail. The top 3 reasons are:
  - Lack of planning and expertise.
  - Company is overpriced
  - Cannot pass due diligence phase

FINANCIAL PLANNING

Planning for a successful financial exit

Cammy Corso, CPA, CFA

Financial Planning Principal

DHJJ

Navigating a Successful Financial Exit

- Financial Planning Overview
- Cash Flow Planning
- Investment Management
- Tax Planning
- Estate Planning
- Insurance Planning

Financial Planning – All About You!

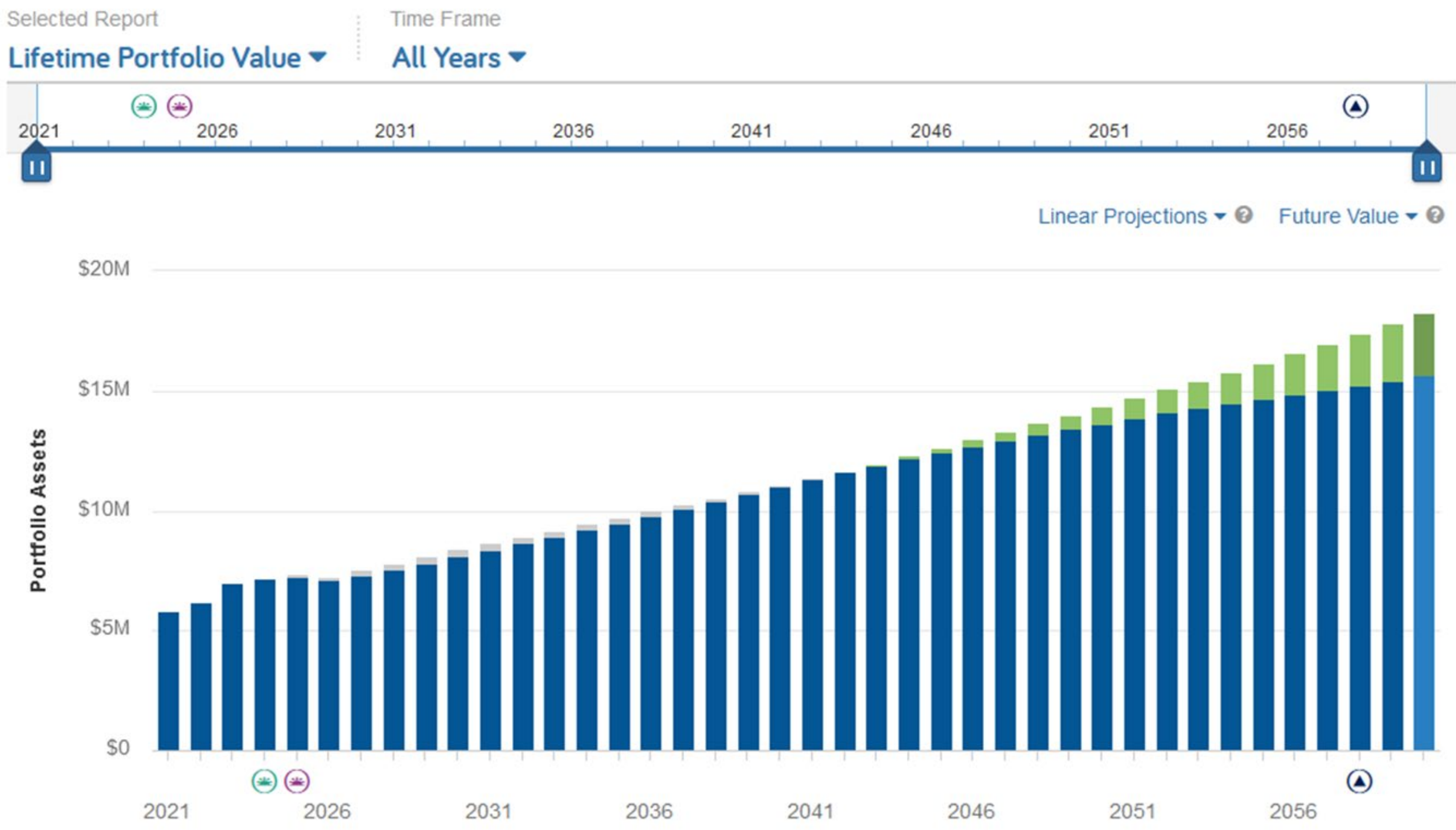
- All About Your Personalized **GOALS**
  - Finding Financial Success
  - What Does That Mean to You?
  - Invest Your Time in Your Future
  - Short-Term and Long-Term Plans
  - Sense of Security and Clarity
  - Help You Make Decisions
  - Update as Life Changes

Cash Flow Planning

Step One - Run The Numbers

- Start With Your Personal Balance Sheet
- Estimate your income while working
- When will you sell the business and for how much? Various scenarios are helpful.
- Estimate income streams in retirement
- Figure out what you currently spend
- Will spending be the same in retirement?
- Plan for health care expenses – biggest unknown
- Assess risks and plan for them

How Does It Look?



ASSETS LAST UNTIL
Age 100

FUNDING GAINED
0 Years

VALUE GAINED
$2,621,510

Tax-Efficient Planning Should Be a Focus

- Plan in the accumulation phase to create the most wealth over your lifetime
- Where should you be saving your money?
- Create multiple scenarios to see the value
- Tax rates will drive the analysis
- What assets do you spend first?
- How much from each “bucket”?
- What assets to you hold in each “bucket”?

Asset Location

Classify Your Assets

Taxable
- Savings/Checking
- Investment a/c
- Living Trust a/c
- Business Sale proceeds

Tax-Deferred
- 401(k)
- IRA
- Deferred Comp
- Annuity

Tax-Free
- Roth 401(k)
- Roth IRA
- Life Insurance

Asset Location

Know Where to Grow Them

Taxable
Gains taxed when sold
Earnings are taxed
Long-term gains 15%
Qualified dividends 15%

Tax-Deferred
Distributions taxed
All at ordinary tax rates
Dividends are ordinary income
Capital gains are ordinary income

Tax-Free
Growth tax-free
Distributions tax-free

Social Security Planning

Social Security Planning

- When should you collect?
- Analyze break-even points
- Strategies with spouses

Timing

- Collect early – age 62
- Collect at full-retirement age – age 67
- Defer past full-retirement age and collect an increased benefit

Considerations

- Accumulated benefits at various ages
- Spousal Benefits

Social Security Planning

SOCIAL SECURITY OPTIONS

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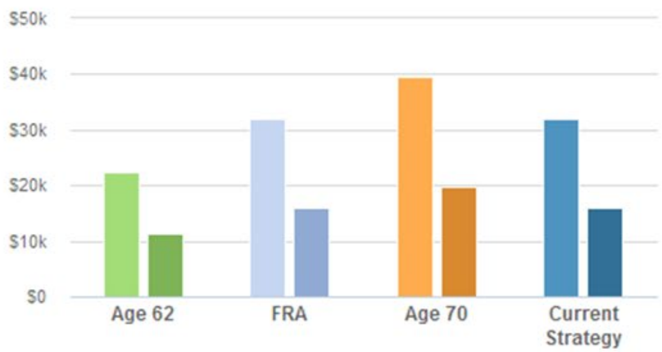
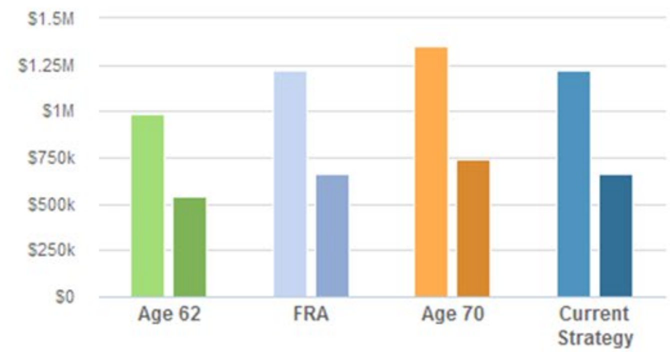
Annual Retirement Benefits



	David	Judy
Age 62	$22,400	$11,201
FRA	$32,000	$16,002
Age 70	$39,680	$19,840
Current Strategy	$32,000	$16,002

Total Cumulative Benefits



	David	Judy
Age 62	$987,463	$540,006
FRA	$1,217,746	$662,318
Age 70	$1,354,647	$742,739
Current Strategy	$1,217,746	$662,318

Strategy Summary

- Using the strategy **Age 62** is best if your life expectancy is before age 77/76
- Using **Current Strategy** is best if your life expectancy is between ages 77/76 and 81/80
- Using the strategy **Age 70** is best if your life expectancy is age 81/80 or later

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Staying Invested

What's Your Strategy?

Know What Risk You ***Need***. Then Decide How Much You ***Want***

What Kind of Investor Are You?

- Assess risk tolerance
- What is your past behavior in good markets and bad markets
- Ability to stay invested

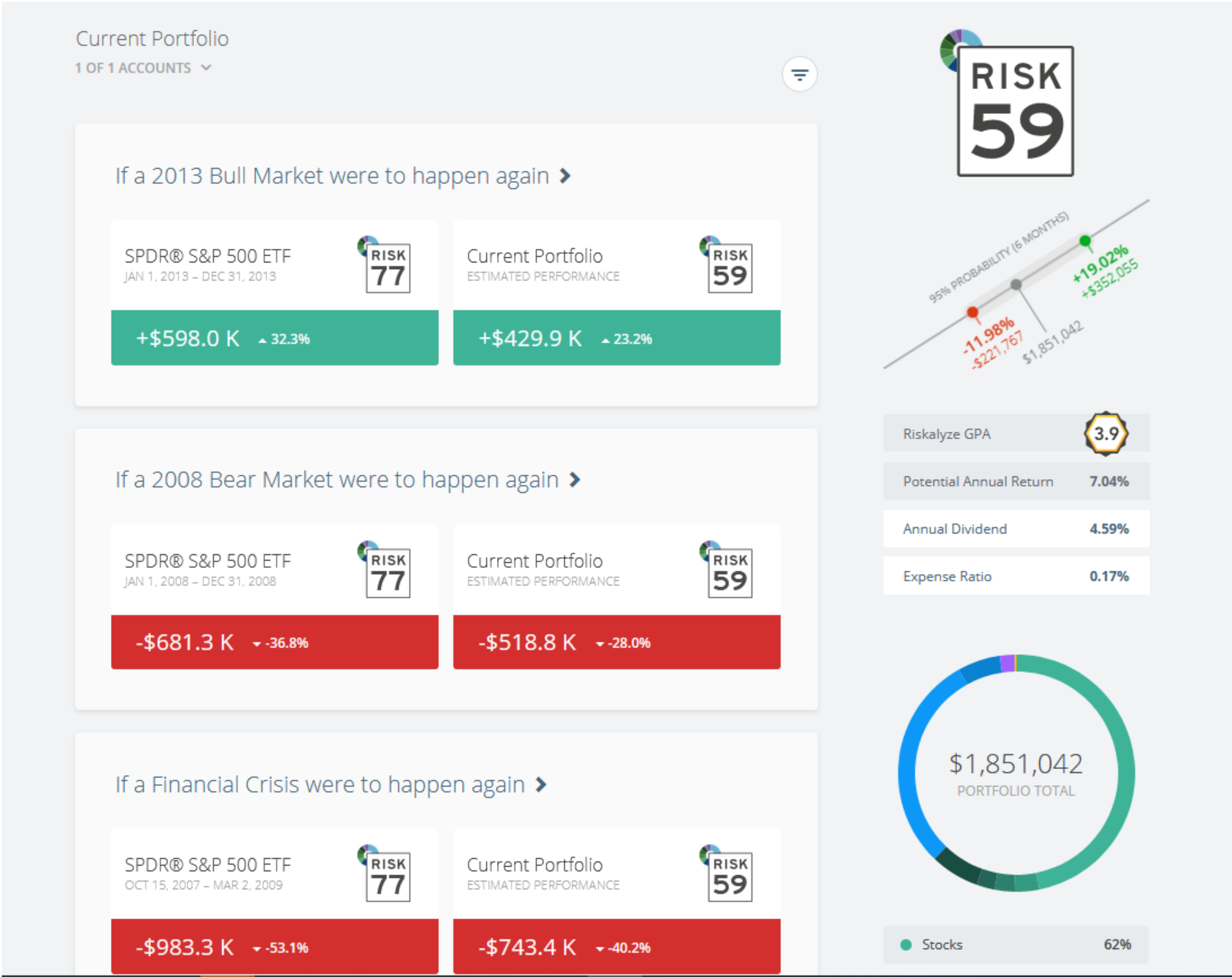
Things to Ask Yourself

- When things get tough, I get…
- Who do you talk to when things are uncertain

The Number One Goal

- Be comfortable enough with your strategy to stay invested

Risk Assessment



Wise Investment Words

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets."

— Peter Lynch

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."

-- Paul Samuelson

Investment Management – Tax Efficiency

Asset Location

Taxable Account

Tax-Deferred Account

Tax-Free Account

Nature of Investment

Mutual Funds

ETFs

Other Vehicles

Over-funded Life Insurance

Annuity(s)

Tax Planning

Tax Planning Before and After the Exit

What are your deferral options for the year?

- 401(K) Vs. Roth 401(k)
- HSA vs. Traditional Insurance Plan
- Deferred compensation options

Look at this year vs. future years

- What is the tax on the next dollar of income?
- What is the tax on the next dollar of deduction?

Especially important in years that are high taxable income and low taxable income years

- Low Tax Years: Accelerate Income & Defer Deductions
- High Tax Years: Defer Income & Accelerate Deduction

Tax Planning With an Exit on the Horizon

Change creates opportunity

- Low income years
- High income years
- Change in policy

If this year is similar to next year…

- Consider accelerating deductions to save taxes
- Consider deferral of income

Standard deduction vs Itemized deduction

- Important for charitable planning
- Consider if giving is better under current law or 2026 sunset

Roth Conversion Strategies in Tween Years

- Years between retirement and RMD age (73 or 75)

Estate Planning

What If Something Happens Tomorrow?

- Who will get the assets?
- How will they transfer?
- When will they transfer?
- Will there be taxes?

Estate Planning

Basic Plan

- Will – Dictates executor & where your assets will go
- Power of Attorney – Health Care & Financial

Trying to avoid probate?

- Focus on Titling of Assets
  - Joint
  - Transfer on Death/Payable on Death
  - Beneficiary Designation for Qualified Assets
  - Living Trust

Estate Planning With A Living Trust

- While alive, same as you for tax purposes
- Flexibility during life – you can change it
- Privacy at death
- Control beyond death
- Avoid Probate
- Asset protection for beneficiary(s) post-death
- Upfront costs but less back-end costs
- Potential to name a corporate trustee

Estate Planning For Taxes

Federal Estate Tax Limits

- $13.61 million per taxpayer
- Portability of exemption for married couples
- Current estate limits sunset in 2025 and 2026 exemption amount will be approximately $7 million per taxpayer

Illinois Estate Tax Limits

- $4 million per taxpayer
- No portability of exemption for married couples
- Not affected by the sunset in 2025

Estate Tax Reduction Strategies

- Lifetime gifting to get assets off your balance sheet
- Create an Irrevocable Life Insurance Trust (ILIT) to have insurance pay out outside of your estate
- Charitable giving strategies
- Spend More
- Consider Irrevocable Trusts as part of Exit Planning where proceeds pay out to trusts outside of your estate

Insurance Planning

Insurance Planning – Types of Insurance

Life Insurance

- Term Product
- Permanent Product
- Overfunded Product

Long-Term Care

- Stand-alone Product - Sold Previously
- Hybrid Life/Long-Term Care
- Lump-Sum Product
- Long-Term Care Annuity

Disability Insurance

- Income replacement
- Different Types

Insurance Planning – Get A Review

- Understand what you have
- Is it still what you need?
- What about after exit?
- How does the cost compare to replacement product?
- Anything that might be a better fit?

IMPORTANT DISCLOSURE INFORMATION

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10 MINUTE BREAK

BUSINESS VALUATION

Exploring Estate, Gift, and Exit Planning Advisory Services

DHJJ

Andrew Lopez, CFA, CPA/ABV

Business Valuation Senior Manager

When are valuation services needed?

- Preliminary Estate Tax Planning
  - Optimize tax implications for effective estate management
- Business Succession Planning
  - Plan for the transfer to the next generation or the sale of the company (M&A, ESOP)
  - Sales to related party should include a business valuation to substantiate fair market value and help ensure no perceived gift component by the IRS
- Gift Tax Returns, Estate Tax Returns, and Charitable Contributions
  - Manage transfers to the next generation or estate planning vehicles
  - Address estate closure upon passing, including filing and tax obligations
  - Claiming a tax deduction for a charitable contribution
- Buy-Sell Agreements, Life Insurance, and Employee Bonuses and Compensation
  - Preliminary and ongoing valuations, or at time of triggering event (Buy-Sell)
  - Establish life insurance benefits for business continuity planning
  - Issuance of employee stock options, stock appreciation rights, and phantom stock
- Litigation
  - Divorce, shareholder disputes, bankruptcy, etc.

Defining the Engagement

- **What is the purpose of the engagement and who is the intended user?**
  - Purpose of the engagement and intended user detailed in engagement letter
  - Valuation practitioner will typically provide flexibility regarding the use of the valuation but requires approval
- **What is the subject interest?**
  - 100% of the equity
  - 30% non-voting equity
- **What is the standard of value?**
  - "Fair market value"- the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arms length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.
    - Standard of value for IRS filings
    - Fair market value assumes a financial buyer perspective, and doesn't consider the strategic value of a specific buyer (synergistic value)
  - "Fair value" is standard of value under GAAP accounting and in most court settings. Each state defines "fair value" differently (consult with local legal experts)
- **What is the level of the valuation (Controlling vs. Noncontrolling)?**
  - Basis of valuation is driven by subject interest and purpose, e.g., gifting of a minority position in the equity or sale of 100% of the equity
  - Controlling, nonmarketable basis – No discount for lack of marketability (DLOM) or modest DLOM
  - Noncontrolling, nonmarketable basis - Discount for lack of control (DLOC) and DLOM
- **Premise of value – Going concern or liquidation**

Approaches to Valuation

- Income Approach
  - **Capitalized Earnings Method:** a method within the income approach whereby economic benefits for a representative single period are converted to value through division by a capitalization rate.
  - **Discounted Cash Flow Method**: a method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate.
  - **Typical Use**: Commonly applied in valuations when historical earnings or projected earnings are positive.
- Market Approach
  - **Guideline Public Company Method**: a method within the market approach whereby market multiples are derived from market prices of stocks of companies that are engaged in the same or similar lines of business, and that are actively traded on a free and open market.
  - **Mergers and Acquisitions Method**: a method within the market approach whereby pricing multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business.
  - **Typical Use**: Applied in valuations when relevant comparable data is available.
- Asset Approach
  - **Adjusted Net Asset Method**: a method within the asset approach whereby all assets and liabilities (including off-balance sheet, intangible, and contingent) are adjusted to their fair market values
  - **Typical Use**: Used primarily in holding company valuations or when this approach yields a higher value than income or market approaches.

What type of valuation advisory services?

- **Consulting Services**
  - Preliminary exit planning strategies
    1. Value Assessment
    2. Indication of Value and Marketability Assessment
       - Value, financial performance, Industry outlook, and M&A activity in the industry (who are the players)
- **Calculation of Value**
  - Considering a sale, buy-sell agreements, preliminary exit planning
- **Conclusion of Value**
  - Estate and gift tax filings
  - Litigation
  - ESOP, M&A, buy-sell agreements

Consulting Services (Value Assessment)

- Consulting services provides an indication of value (NOT A CONCLUSION), allowing client to explore potential exit strategies
- Pros:
  - Cost-effective solution for exploring and optimizing exit planning strategies
  - Provides actionable insights to increase value in a sale, such as mitigating risk factors, e.g., key personnel, customer concentration)
  - Create an economic balance sheet and financial needs analysis
  - With the Marketability Assessment
    - Helps determine if your business is sellable
    - Provides a short list of potential buyers
- Cons
  - Does not meet compliance standards for official purposes
  - Limited insight into data
  - Limited research on industry and economic factors
  - Results may differ from other valuation engagements (i.e., Calculation of Value or Conclusion of Value)
- Best used in the early stages of exit planning

Calculation of Value

- Agreed upon valuation approaches and methods resulting in a calculation of value (NOT A CONCLUSION)
- Pros:
  - Cost-effective when compliance requirements are not needed
  - Utilizes similar valuation methods as a Conclusion of Value
  - Provides in-depth industry and economic research
  - Useful for negotiating the sale of a business
  - Assists in drafting a buy-sell agreement
  - Aids in preliminary estate planning
  - Create an economic balance sheet and financial needs analysis
- Cons
  - Does not meet compliance standards for official purposes
  - Limited reporting compared to Conclusion of Value
  - Results may vary from those in a Conclusion of Value
- Considered primarily in the advanced stages of exit planning

Conclusion of Value

- Qualified appraisal resulting in a conclusion of value
- Pros:
  - Provides a deep dive into the company's financial position, considering all factors impacting the business
  - In-depth industry and economic research
  - Offers comprehensive reporting with a detailed valuation report
  - Meets compliance standards for official purposes (suitable for attachment to gift/estate tax forms)
  - Often include application of DLOC and DLOM
- Cons
  - Can be costly
  - Extensive data collection is necessary
  - Time-consuming, requiring significant commitment from the management team to complete
- Considered primarily for compliance purposes or when a comprehensive report is needed

MERGERS & ACQUISITIONS

Valuation Assessment Differences & The Sell Side Process

M&A – Value Differences

What are some of the factors a BUYERS uses to value a business?

Quantitative

- Profit
- Assets
- Liabilities
- Capital Requirements
- Forecast/Projections
- Cash Flow
- Working Capital Requirements

Qualitative

- Market & Economy
- M&A Activity
- Suppliers/Vendors
- Customer Base & Diversity
- Capital Requirements
- Forecast
- Intangibles: Patent, Copyright, Brand, Trademark
- Operational Efficiency
- Void of Risk
- Management Strength
- Processes (repeatable)
- Culture
- Intellectual Capital
- Competitive Landscape
- SWOT

The Value Gap

There are at least 2 definitions that are relevant to selling a business:

1. A **Value Gap** typically is present in the difference between what the seller thinks their business is worth and the actual value in the marketplace.
   A. This frequently occurs when the owner uses a market multiple heard on the golf course.
2. Another **Value Gap** is common as the difference between the actual value of a company and the ultra high performing companies.

Adjusted EBITDA Multiples over time by Deal Size – All Industries

	2020	2021	2022		2023		2024
Total Transaction Value (TEV) Average - All Industries	Closed in 2020	Closed in 2021	Closed in 2022-1H	Closed in 2022-2H	Closed in 2023-1H	Closed in 2023-2H	Active in 2024-Q1
< $4M	4.7	4.6	3.6	3.9	3.2	4.2	4.2
$4.01M - $10M	4.9	5.8	5.6	5.6	5.1	5.3	5.6
$10.01M - $25M	6.1	6.3	6.0	6.1	6.7	6.8	5.8
$25.01M - $50M	7.0	8.1	6.1	6.7	7.2	8.8	6.6
$50.01M - $100M	7.5	7.2	8.8	8.7	7.2	7.3	6.5
$100.01M - $250M	8.8	n/a	10.5	10	n/a	8.5	10.0

Larger companies command higher multiples because they are

- **Better diversified**
- **Operationally efficient**
- **Have less inherent risk**,
- **Produce more cashflow**
- **Produce greater ROI**

Tale of Two Companies

Company A	
$ in Thousands	
Revenue	$50,000
Annual Growth Rate	12%
Gross Profit	$17,500
Gross Margin	35%
OpEx	$13,000
Net Income	$4,500
Net Margin	9%
EBITDA	$5,400
Value at 10x EBITDA	$54,000

Offer $51,300

Company B	
$ in Thousands	
Revenue	$50,000
Annual Growth Rate	12%
Gross Profit	$17,500
Gross Marg	35%
OpEx	$13,000
Net Income	$4,500
Net Margin	9%
EBITDA	$5,400
Value at 10x EBITDA	$54,000

Offer $35,100

Companies A & B have the exact same financials. Company A receives an offer $16.2m more than Company B. Why is that?

M&A – Value Differences Tale of Two Companies

Offer $51,300

Comapy A - Operational Assessment:
Strong document and repeatable sales process.

Experienced management - highly skilled

Annual strategic planning process

Diverse marketing channels with multiple revenue sources - no concentration risk

Long term employees, low turnover, strong internal training process and excellent benefits.

GAAP compliant financial reporting, clean annual audits, excellent financial and KPI monthly management reporting

No past legal issues, corporate governance all in order and up to date

Overall Risk Assessment 5%

Company B - Operational Assessment:
Owner is primary sales person. Sales process is based on carnal knowledge - no documentation.

Primarily new management team due to high turnover.

No strategic plan.

80% of revenues come from 1 customer.
High concentration risk.

High employee turnover.
Mostly part-time employees without benefits.

Questionable accounting practices.
No annual audit.

Prior employee and customer law suits
Entity registration not compliant in all states.

Overall Risk Assessment 35%

Offer $35,100

Company A has low risk of consistently producing future cash flows. Company B has several potential risks that could go wrong. **Operational Risk Lowers Value!**

Operational Effectiveness Assessment

By creating a roadmap of recommendations and initiatives using a detailed analysis of 250 different qualitative metrics in 8 functional areas, companies can increase their value 20% to 30% within a 2–3-year period with the same level of revenue and EBITDA.

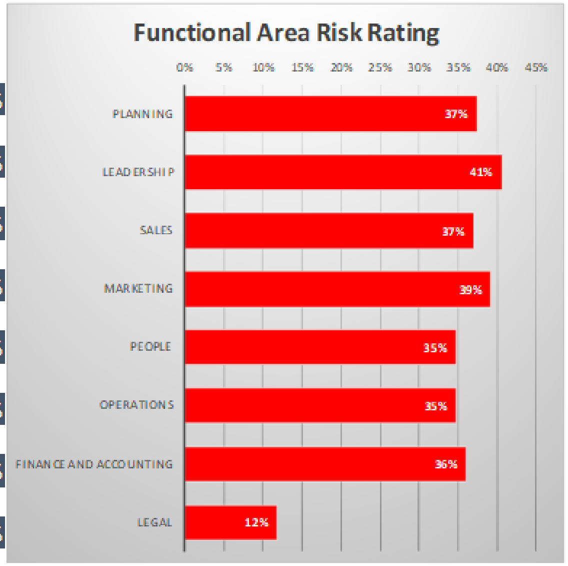
VALUE MAXIMIZER PROFILE

PREPARED FOR:

Moss Corporation
5895 Harper Road
Aolon, OH 44139

Value Score 66%
Higher is better

Risk Adjustment 34%
Lower is better



Quality of Earnings Analysis

What is the quality of earnings?

- Taken as a whole, the quality of earnings can generally be summarized as the degree to which earnings are judged by the buyer about the “certainty” of current income and the prospects for the future.

Some Key Points Provided by QoE Analysis

- Cash Earnings vs Non-cash earnings
- Recurring Earnings vs Non-Recurring Earnings
- Normalized historical run rate EBITDA
- Adjustments to EBITDA (adjusted EBITDA x market multiple is used to determine value)
- Revenue recognition and AR management efficiency.
- Concentration Risk
- Margin Stability
- Compensation structure compared to industry standards
- Cash management and Working Capital Needs
- Customer Lifetime Value
- Inventory efficiency
- Accounting estimates – aggressive or conservative

When a buyer contemplates an acquisition of a company (the target), obtaining confidence in the quality of the target’s financial information and an understanding of historical trends is critical in the decision. Both can materially affect forward-looking analysis and the target’s perceived valuation.

Overview of the Sell-Side M&A Process

1 – Market Prep → 2 – Marketing → 3 – Due Diligence → 4 – Negotiate/Document → 5 - Integration

- Every company is uniquely different. The process of selling a company will need to be modified for the unique character of each company.
- There is a proven methodology that when followed will:
  - Increases the likelihood of a company obtaining a premium value
  - Increase the probability of Closing the Deal
- In general, the Sell-Side M&A Process can be broken down into 5 areas.

Overview of the Sell-Side M&A Process – Market Prep

1 – Market Prep | 2 – Marketing | 3 – Due Diligence | 4 – Negotiate/ Document | 5 - Integration

Phase 1: Market Preparation (month 1-2)

Preparing a company for sale can take 1 to 2 months on average. However, once the current value is estimated, the seller may need to go into VALUE BUILDING mode. This can take 1 to 3 years.

VALUATION

- Indication of Value and Marketability Assessment – From the Buyer's perspective, Look at:
- Industry Multiples,
- Industry Forecast,
- Industry M&A Activity
- Company Financial Health,
- Company Financial Forecast &
- DCF Valuation Model.
- Operational Effectiveness Assessment – This measures operational effectiveness where risk factors are quantified.
- Value Build and Preservation Initiatives.

SOLID FINANCIALS

- Review accounting, identify adjustments for sale, trend analysis for clean and simple presentation.
- 3rd Party Confirmation via Audit, Review, or Quality of Earnings Analysis.
- Trend Analysis (revenue, GP, net income, cash, working capital).
- Risk Analysis (customer/vendor concentration – AR management, debt management.
- Compile NORMALIZED FINANCIALS – which identifies and adds back: One-Time Expense or Income, Owner's Discretionary Expense (Salary, Benefits, Allowances, Memberships, Non-Business Travel)

Overview of the Sell-Side M&A Process – Market Prep

1 – Market Prep → 2 – Marketing → 3 – Due Diligence → 4 – Negotiate/ Document → 5 - Integration

Phase 1: Market Preparation Month 1-2

Preparing a company for sale can take 1 to 2 months on average. However, once the current value is estimated, the seller may need to go into VALUE BUILDING mode. This can take 1 to 3 years.

COMPANY PROFILE AND ANALYSIS

- Key Employee and management profile.
- HR analysis, benefits, employee retention, risks.
- Competitive Analysis & differentiation.
- Barriers to Entry.
- Revenue/GP/Customer analysis.
- Sustainability and Scalability.
- KPI trending.

PRELIMINARY DUE DILIGENCE

- Organize Data and Documents.
- Set up secure online data room.
- Legal review.
- Corporate compliance review.

The better you are prepared with clean financial data and organized files, there is a greater chance you will:

- **PASS DUE DILIGENCE**
- **REDUCE PERCIEVED RISKS**
- **MAXIMIZE VALUE**
- **CLOSE THE DEAL**

Overview of the Sell-Side M&A Process – Market Prep

1 – Market Prep | 2 – Marketing | 3 – Due Diligence | 4 – Negotiate/ Document | 5 - Integration

Phase 1: Market Preparation Month 1-2

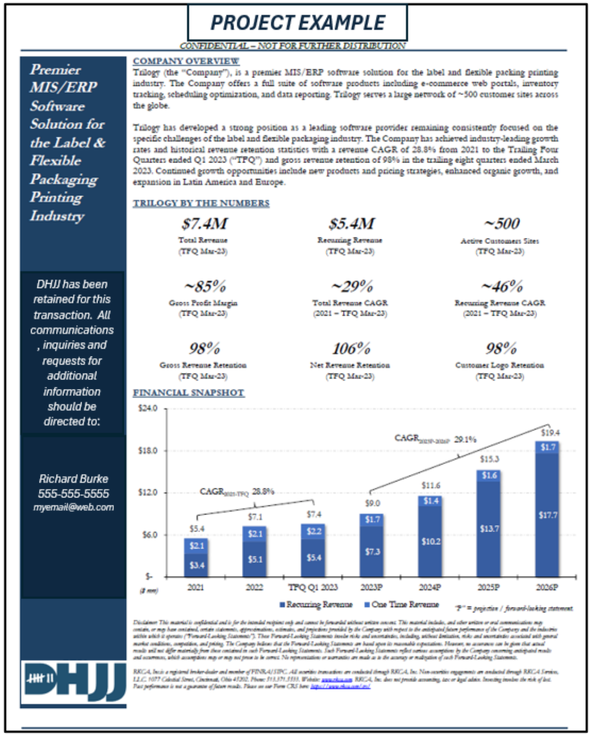
Preparing a company for sale can take 1 to 2 months on average. However, once the current value is estimated, the seller may need to go into VALUE BUILDING mode. This can take 1 to 3 years.

DEVELOP MARKETING MATERIALS

- Teaser Profile
- Confidential Information Memorandum "CIM"

TEASER INCLUDES

- The teaser is the first formal document that is published to the M&A advisor's group of identified **prospective buyers**.
- The selling company is anonymous.
- It is a one- or two-page document that highlights the following:
  - Business overview and industry.
  - Financial summary and (historical and projected) performance.
  - Investment highlights.
  - Discloses M&A representation and contact info.



PROJECT EXAMPLE

CONFIDENTIAL – NOT FOR FURTHER DISTRIBUTION

Premier MIS/ERP Software Solution for the Label & Flexible Packaging Printing Industry

COMPANY OVERVIEW

Trilogy (the "Company"), is a premier MIS/ERP software solution for the label and flexible packing printing industry. The Company offers a full suite of software products including e-commerce web portals, inventory tracking, scheduling optimization, and data reporting. Trilogy serves a large network of ~500 customer sites across the globe.

Trilogy has developed a strong position as a leading software provider remaining consistently focused on the specific challenges of the label and flexible packaging industry. The Company has achieved industry-leading growth rates and historical revenue retention statistics with a revenue CAGR of 28.8% from 2021 to the Trailing Four Quarters ended Q1 2023 ("TFQ") and gross revenue retention of 98% in the trailing eight quarters ended March 2023. Continued growth opportunities include new products and pricing strategies, enhanced organic growth, and expansion in Latin America and Europe.

TRILOGY BY THE NUMBERS

$7.4M Total Revenue (TFQ Mar-23)	$5.4M Recurring Revenue (TFQ Mar-23)	~500 Active Customers Sites (TFQ Mar-23)
~85% Gross Profit Margin (TFQ Mar-23)	~29% Total Revenue CAGR (2021 – TFQ Mar-23)	~46% Recurring Revenue CAGR (2021 – TFQ Mar-23)
98% Gross Revenue Retention (TFQ Mar-23)	106% Net Revenue Retention (TFQ Mar-23)	98% Customer Logo Retention (TFQ Mar-23)

FINANCIAL SNAPSHOT

DHJJ has been retained for this transaction. All communications, inquiries and requests for additional information should be directed to:

Richard Burke
555-555-5555
myemail@web.com

Overview of the Sell-Side M&A Process – Market Prep

1 – Market Prep | 2 – Marketing | 3 – Due Diligence | 4 – Negotiate/ Document | 5 - Integration

Phase 1: Market Preparation Month 1-2

Preparing a company for sale can take 1 to 2 months on average. However, once the current value is estimated, the seller may need to go into VALUE BUILDING mode. This can take 1 to 3 years.

CONFIDENTIAL INFORMATION MEMORANDUM (CIM)

A CIM is the primary marketing document for the sell-side M&A process. The purpose is to provide enough detailed information to prompt the buyer to make a qualified offer.

The potential buyer will sign a Non-disclosure agreement.

The CIM is sent which is typically a 70-to-85-page document including the following sections:

- Executive Summary
- Company overview and history
- Products, services, customer profile and vendor profile
- Industry overview
- Growth opportunities
- Financial overview (with detailed financial data book as an attachment.
- Key investment considerations.

Overview of the Sell-Side M&A Process – Marketing

1 – Market Prep | 2 – Marketing | 3 – Due Diligence | 4 – Negotiate/ Document | 5 - Integration

Phase 2: : Marketing (find qualified buyers) Month 3-4

- Execute Marketing strategy.
  - Develop marketing strategy (broad based or targeted)
- Obtain NDA Send CIM
- Advisor held Q&A calls with buyers.
- Vet buyers
- Invite select buyers to send letter of interest or intent.
- Evaluate initial bids IOI or LOI.
- Prepare management presentation.
- Coordinate management presentations.

WHAT IS THE DIFFERENCE BETWEEN IOI and LOI?

Indication of Interest (IOI) says:
"I'm a serious buyer interested in your business. I'd be willing to place an offer on your business on these general terms"

Letter of Intent (LOI) says:
"I'm a serious buyer interested in your business. I am willing to pay X and agree to Y terms provided due diligence goes well"

Overview of the Sell-Side M&A Process – Due Diligence

1 – Market Prep
2 – Marketing
3 – Due Diligence
4 – Negotiate/ Document
5 - Integration

Phase 3: Due Diligence Month 4-5

- Select one buyer and sign exclusivity.
- Facilitate buyer diligence and data room access.
- Respond to diligence inquiries with the selected buyer
- Develop and attend management presentations.

TYPICAL COMPONENTS OF DUE DILIGENCE

FINANCIAL | LEGAL | OPERATIONAL | TAX | HUMAN CAPITAL

- An acquisition is the biggest corporate transaction that any business will undertake.
- The Due Diligence process provides buyers with information on value, risks, synergy, and details on what they want or don’t want.
- This process can add significant value for the seller or flush out weaknesses (or red flags) and significantly decrease the offering price or even withdrawal of an offer.
- 50% of deals fail in this stage.

Overview of the Sell-Side M&A Process – Negotiations/Documentation

1 – Market Prep → 2 – Marketing → 3 – Due Diligence → 4 – Negotiate/ Document → 5 - Integration

Phase 4: Negotiations and Documentation Month 5-7

- Enter negotiations with the selected buyer
- Negotiate specific terms, conditions, structure, representations, included/excluded assets and liabilities.
- Legal prepares a definitive agreement – still negotiating at this point (APA/SPA).
- Finalize documentation
- CLOSE TRANSACTION

The Most Common Negotiating Items

Price	Seller representations, warranties and indemnities	Tax impact and benefits based on asset/stock purchase
Hold Back amount	Working Capital Adjustment calculation	Real property sale/lease/or sale & leaseback
Escrow and interest for hold back	Earnout provisions	Deferred Revenue – working capital adjustment or debt (in Debt Free/Cash Free structure)

Overview of the Sell-Side M&A Process – Integration

1 – Market Prep → 2 – Marketing → 3 – Due Diligence → 4 – Negotiate/ Document → 5 - Integration

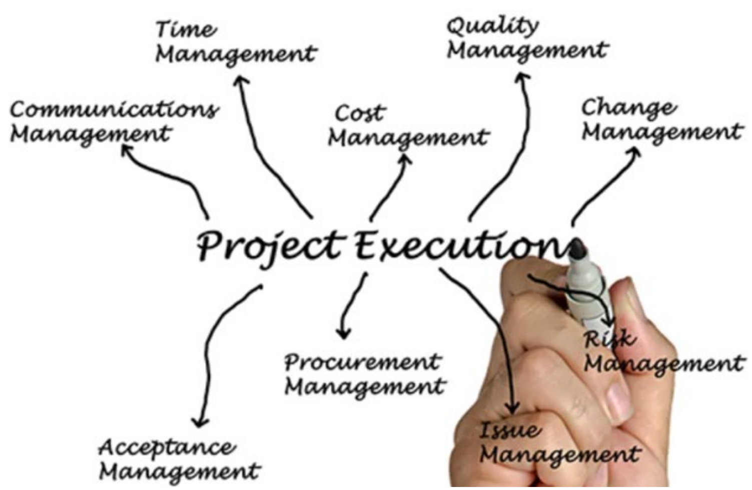
Phase 5: Integration

The integration phase is typically dictated by the buyer.

It is a key component to carefully plan how business will continue under new ownership.

Little to no involvement by M&A Advisor, if Seller remains employed, they will assist.

- Company Announcement
- Employee Transition
- Operational Changes
- Supplier Changes
- Technology integration
- Culture Changes



TAX ON THE SALE OF A BUSINESS

Taxable Transactions, S Corporation Strategies, Use of LLCs, C Corporation Considerations

DHJJ

Ryan Stewart, CPA

Tax Senior Manager

Tax Treatment

- Taxable Transactions
    - Stock Sale
    - Asset Sale
- S Corporation Strategies
- Use of LLCs
- C Corporation Considerations

Taxable Transactions

- Seller Objectives
  - Long-term capital gain
  - Minimize state income taxes
  - Defer gain recognition on rollover equity (through section 351 or 721 exchange)
  - Defer gain recognition on deferred payments (installment sale)
  - Obtain tax benefit of transaction expenses.
- Buyer Objectives
  - Obtain step-up in tax basis of acquired assets
  - Avoid breaking S-Corp election (proper basis step-up planning)
  - Maintaining target FEIN

Taxable Transactions

- Stock Sale
  - Buyer purchases shares of company
  - Carryover tax treatment of underlying attributes
  - Installment sale
- Asset Sale
  - Purchase price allocation
  - Capital gains vs ordinary income
    - Hot assets
  - Installment sale

S-Corporation Strategies

- Stock Purchase (not making Section 338(h)(10) election)
- Stock Purchase (making Section 338(h)(10) election)
- Asset Purchase
- Pre-Closing F Reorganization

Stock Purchase No 338(h)(10) Election

- **Seller Benefits**
  - Long-term capital gain
  - State income taxes apportioned
  - Potential deferral of gain on rollover
  - Deferred gain recognition on deferred payments
- **Buyer Benefits**
  - Maintenance of FEIN

Stock Purchase 338(h)(10) Election

- Seller Benefits
  - Portion of gain is long-term capital gain
  - Transaction expense benefit
- Buyer Benefits
  - Step up in basis of acquired assets
  - Maintenance of FEIN
- Installment Sale Trap

Asset Purchase

- **Seller Benefits**
  - Portion of gain is long-term capital gain
  - Potential deferral of gain on rollover
  - Deferred gain recognition on deferred payments
  - Transaction expense benefit
- **Buyer Benefits**
  - Step up in basis of acquired assets
  - Avoid S-Corp risk
  - Maintenance of FEIN

Pre-Closing F Reorganization

Seller Benefits

- Portion of gain is long-term capital gain
- State income taxes apportioned
- Potential deferral of gain on rollover
- Deferred gain recognition on deferred payments
- Transaction expense benefit

Buyer Benefits

- Step up in basis of acquired assets
- Avoid S-Corp risk
- Maintenance of FEIN

Use of LLCs

- Seller Considerations
  - Portion of gain is long-term capital gain
  - Partnership interest sale is treated as asset sale
  - Hot asset considerations (generally defined as unrealized receivables, depreciation recapture, and inventory)
  - Gain based on outside basis of partnership interest
- Buyer Considerations
  - Substantial additional complexities

C Corporation Considerations

Seller Considerations

- Double taxation of C-Corp
  - Stock vs asset sale
- Section 280G considerations
- Potential tax-free reorganizations
  - Type A – Merger
  - Type B – Stock for Stock
  - Type C – Stock for Assets
  - Type D – Spin Off, Split Off, Split Up
  - Type E – Recapitalizations

THE EXIT PLAN

Next Steps

DHJJ

Exit Plan – Team of Professionals

M&A Advisor

- Manages Entire Team and Process
- Prepare Materials for Presentation
- Negotiate Deal
- Handle Investment Banking

Accounting & Tax

- Clean Financials, process and reliability
- Manage Audit – 3rd party verification
- Transaction tax planning
- Analysis and presentation
- Financial Forecasting

Legal

- Create Documents (NDA, CA, Sale Agreement, Employment Agreements
- Legal Due Diligence (ownership/title/liens)
- Negotiate to reduce legal risk

Financial Planner

- Seller's Retirement Analysis/Plan
- Investment Plan
- Estate, Trusts and Tax Planning
- Financial Independence
- Lifestyle Target Planning
- Create Legacy

How DHJJ Can Assist

PRE-TRANSACTION SERVICES

Quality of Earnings Analysis
Gain clarity on financial performance to identify risks and support sustainable earnings.

Operational Effectiveness Assessment
Optimize efficiency with a comprehensive 250-metric review, boosting value by up to 30%.

Indication of Business Value
Get a buyer's perspective on your business's value, perfect for exit planning.

Recapitalization Strategy
Restructure your capital to fuel growth with tailored debt and equity solutions.

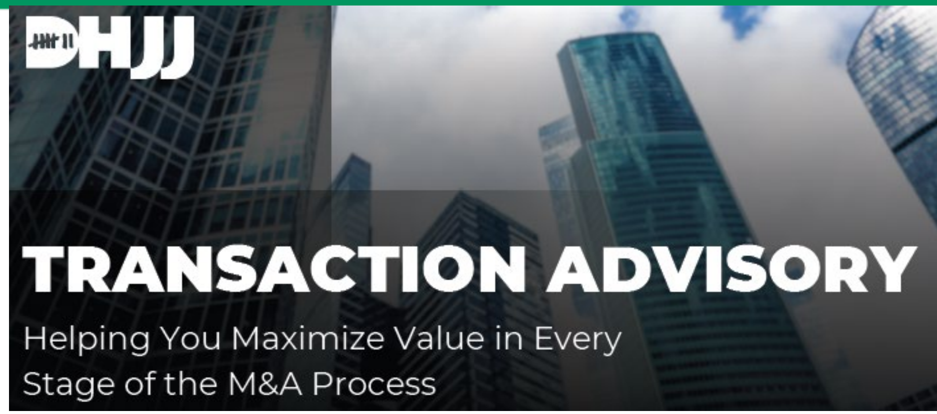
Pitchbook & CIM Preparation
Present your business compellingly with expertly crafted sales documents.

Acquisition Strategy Development
Accelerate growth by acquiring complementary or similar businesses.

Financial Forecasting & Strategic Planning
Use scenario planning to enhance growth strategies and company value.

ESOP Feasibility
Explore Employee Stock Ownership Plans as a tax-smart exit strategy for businesses with strong cash flow.

How DHJJ Can Assist



TRANSACTION & POST-TRANSACTION SERVICES

Valuation Services

Access precise, qualified valuations for exit planning, tax, estate, legal, or court needs with our expert team, using advanced valuation models for reliable results.

Benchmark Analysis

See how you measure up to competitors, identify improvement areas, and optimize staffing and resources to achieve "best in class" status.

Post-Acquisition Integration

Ensure seamless integration across teams and systems for optimal ROI.

Transaction Tax Strategy

Structure deals to reduce tax burdens and maximize post-transaction gains.

Due Diligence Management

Avoid costly errors with comprehensive, efficient due diligence support.

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THANK YOU

Q&A Session