Business Succession and Exit

Critical Issue Facing Our Communities

Goals for this session

- Examine the landscape of businesses
- What happens at retirement? (It's coming!)
- What can YOU do?
- Let's have a little bit of fun!

Who is this guy?

- Will Katz, MBA, CVA (That CVA stands for Certified Valuation Analyst)
- Center Director, ASBDC—Kansas, University of Kansas
- More than 13 years advising, more than 1800 ASBDC clients.
- Principal—Blue Owl Valuation
- In the last 4 years, I've done more than 300 valuations, many in support of lending
- Wide variety of industries, revenue ranges
- AMA, anytime.

100% OF BUSINESS OWNERS
WILL LEAVE THEIR BUSINESSES
AT SOME POINT
—WILLINGLY OR NOT!

*Source: Business Enterprise Institute, Inc. – Business Owner Survey 2014

(Can confirm; source verified)

You could call this a thesis statement

Business owners need to know THREE THINGS in order to exit:

- How much money they need in retirement. (They should probably consult with a financial planner.)
- How much money their business is worth.
- Their "Third Act"

The landscape

- Median age of a business owner in the US is over 50 (as of 2016).
- EPI reports that:
  - Baby Boomers own 63% of all businesses.
  - First Boomers turned 65 in 2011. Retiring at the rate of 10,000 per DAY!
  - Between 80% and 90% of their wealth is in the business
  - More than 75% plan to exit in the next 10 years
  - Total of 4mm businesses and $10 trillion in wealth
- Not sure I could prove this, but probably even MORE start in Kansas

The landscape

- 1/3 hope for a family member to take over
- 1/3 hope to sell
- 1/3 plan to sell down inventory, let staff go, and close
- 65% of family succession events fail (EPI statistic)
- 80% fail within 2 years!
- Top 20% of businesses are likely candidates to sell. They produce cash flows and can afford the right help.
- The middle 60% are a coin toss. Marginally profitable, limited growth, owner hopes that the sale will fund the rest of their life.

The landscape

What happens in our communities when businesses go the route of that last 1/3?

We are all more prosperous when this transition goes well.

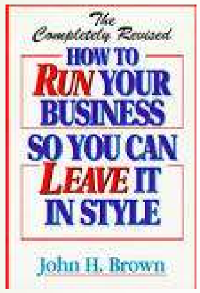
What happens at retirement?

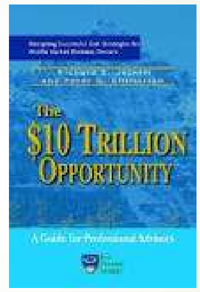
- Could be an internal transition—employees, family, partners, etc…
- Could be an external transition
- Identified/unidentified third party
- Liquidation
- Lots of possibilities. Owner has to figure out what motivates them:
  - Cash return
  - Legacy
  - Continued involvement vs. walk away free
  - Employment for staff
- Remember—100%!

What happens at retirement?

- Best outcomes are possible when the owner has a PLAN
- Relatively new category of professional service. At least a couple of certifications:
  - CEPA (Certified Exit Planning Advisor)
  - CExP (Certified Exit Planner)

What happens at retirement?





Best outcomes are planned

- Remember those three points in the thesis?
- Valuation of the business is super tricky. That is my personal specialty, but I'm going to shortcut that just a little.
- Happy to answer any questions, of course!
- But what happens when the value isn't enough?

Let’s step back in time a few years…

- Sub-thesis: Exit planning IS business planning
- Exit planning is about creating and preserving wealth using one’s most important asset.
- It’s about focusing on enterprise value…ALWAYS…and implementing good business practices
- Better business
- Better lifestyle
- WRITTEN plans are correlated to higher success rates

Do you know what your house is worth?

- You probably do.
- What makes it worth more? Or less? How would you think about that bathroom renovation?

Things that make a business worth more

- More revenues
- More earnings
- Efficient use of capital (not carrying excess inventory, for example)
- Trend of growth
- Somewhat predictable
- Key personnel in place
- Less reliance on owner
- Desired industry

More specifically…

- Grow sales. Many focus on KEEPING, not gaining. Buy a competitor. Expand to new markets.
- Improve COGS, labor cost
- Switch from warehouse to drop ship model
- Negotiate longer leases if you don't own real estate
- What are the value drivers?

Things that make a business worth less

- Declining revenues
- Declining earnings
- Massive swings and unpredictability
- Inefficient use of capital
- Upcoming capex
- Reliant on owner or key employees
- Uncertain industry

Example

Blockbuster

- Founded in 1985
- 1994: Acquired by Viacom for $8.4 billion
- As many as 9000 stores, 60,000 employees
- 1998: Sold for $115 million (down 98.5% in 4 years)
- 2000 decided NOT to buy Netflix for $50 million
- 2010: Chapter 11
- Carl Icahn: "Worst investment I ever made"
- Netflix on 10/31/2018: $131 billion market cap

Valuation is tricky

- Premise of value? Strategic, going concern, liquidation?
- Standard of value? FMV, FV?
- Approaches taken? Asset, Income, Market
- Valuation date? If so, when?
- If you don't see these things, it's probably not very useful
- Also, overly wide range of values…not very useful

What can you do?

- Recognize: community has a stake in the succession!
- This whole notion of confidentiality is actually ridiculous. Again…it's a 100% rate. You can talk about it…or people will talk behind your back. Culture change, not easy, but can you encourage?
- Brokers? Might be a challenge in some communities, but it can't hurt to have one in the Rolodex
- Develop succession candidates (you and also the businesses) that want to stay in the community
- Access to capital…revolvers, banks, etc…,
- CPA/legal support
- Inventory/assess/connect
- Educate owners

Not trying to sell anything here, but…

AMERICA'S SBDC KANSAS

NetWork Kansas
Resources for Starting and Growing Your Business

Do you know who is in your community?

Questions?

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