



YOU CAN GET THERE FROM HERE
THE EXITMAP[®] ANALYSIS

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Provided courtesy of:

MPN Inc.

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KEY AREAS OF EXIT PREPAREDNESS



Finance



Planning



Revenue



Operations

This Report

This 40-page Analysis offers specific, custom feedback on each of your responses in the Assessment Questionnaire. The combined possibilities of 110 answers to the 22 questions allow for a total of 2,384,185,791,015,625 (2 quadrillion) possible variations, so the likelihood that your report is exactly like anyone else's is pretty slim.

For the purposes of this report, the questions are rearranged in groups by area of preparedness and ordered by challenge index.

Areas of Preparedness

As the icons above indicate, the report is broken down into four areas of preparedness. Remember, preparedness isn't necessarily an indication of value. It is a measure of how ready you are to present your company to a buyer or transfer ownership to successors.

Finance: You can be very prepared in Finance, for example. Knowing your market value, prospective buyer, tax ramifications, and industry benchmarks shows that you are prepared, but it doesn't impact the price you will receive for the business. Of course, it may give you targets that would impact value.

Operations: These areas have a direct impact on value, but preparedness is more a factor of how you want to transition than for "How much?" If you are planning your succession to employees or family members, delegation and mentoring are going to be key areas. If you plan to sell to a third party, managerial retention strategies and current technology are more important.

Revenue/Profit: Naturally, increasing profitability and a more diversified customer base are always good. These are simple measures, and typically well understood by any business owner. That is why, as important as they are, they have the fewest questions of the four areas.

Planning: This is the most important area, and the one where your Advisor is focused. That's why he or she asked you to complete the Assessment. Understanding your options, and choosing the one that best meets your objectives, will impact how you run your business for the rest of your journey.

Your Score

Entrepreneurs are competitive. They enter most activities with an intention to win. This isn't that kind of "test." Improving your readiness will inevitably increase value, but value often isn't the primary objective of exit, succession or transition planning. Think of it like a comprehensive blood analysis (which most folks call a blood test.) Your doctor may tell you that some things could be better, but there is no "pass or fail" score. The objective is to improve.

Overall Exit Preparedness



Your Preparedness Score is 58.2%.

Although you probably have some areas of operational strength, your overall Assessment score indicates substantial obstacles lie in the way of leaving your business with the value you want in the time frame that you anticipate. One or the other, and perhaps both of these may need to be reconsidered. Carefully review each functional category in the Assessment. Those with a higher urgency score should be prioritized for improvement. Those with the highest difficulty score will require more of your time and attention to implement. A debriefing of the Analysis with your Advisor can provide valuable guidance on specific areas to prioritize.

Exit Preparedness Overview



The above illustration shows your score broken down into four functional areas. This will help you and your advisor discuss which areas should receive the most attention or be addressed first.

Throughout this report you will see urgency and difficulty ratings. The urgency scores are greatly affected by your time frame for transition. The difficulty scores are an indicator of the things that will take the most work to improve.

Many owners ask what they can do to improve their score right away. This Assessment is like getting a physical from your doctor. He says you need to lose weight, eat better and exercise more. You don't go home, eat a salad, run ten miles and go back the next day for another physical. The ExitMap helps you focus on the activities that will improve your transition outcome. If you want to take it again after making changes, that is fine but no score guarantees a specific value or result. The objective is just to get better.



Time Frame Questions: (modifiers)

These are your responses to the modifier questions regarding your schedule for exit. The first, stepping back from day-to-day responsibilities, modifies the difficulty rankings for management development issues. The second, your time frame for complete departure from the company, modifies the urgency rankings for planning responses.

Modifier 1

Q: I would like to step back from day to day management of my business:

A: In 3-5 years.

Modifier 2

Q: I would like to walk away from my business completely:

A: In 5-8 years.



PLANNING QUESTIONS OVERVIEW:

To quote Stephen Covey, "Begin with the end in mind." More prosaically from the Cheshire Cat, "If you don't know where you are going, any road will get you there." Too many business owners are unprepared for the time, effort, and distraction of a sale transaction. Whether you sell on the open market or pass the business on to insiders, a successful (full market value) transfer requires advance consideration of target buyers, advisors and life after the sale.

BUYERS:

Misinformation regarding the value of a small company is ubiquitous. Colleagues, consultants and professionals who have little background in business transactions are too quick to proclaim "standard" valuations. "All companies in your industry sell for about..." is simply untrue. All companies sell based on their profitability and cash flow, and purchase price multiples vary widely by the type of buyer you attract.

ADVISORS:

The structure of an external sale is largely negotiated around tax implications for both buyer and seller. For an internal sale, the price of equity and financing terms are arranged to minimize taxes. Tax planning may include Non-Qualified Deferred Compensation (NQDC), trusts, charitable bequests, installment payments, discounted equity and other tactics driven largely by the current tax code.

POST-SALE PERSONAL PLANNING:

A number of databases exist that track business profitability and sale prices by industry and size of company. This information is sold on a subscription basis to banks, accountants, business brokers and investors. A smart buyer will research this information before making an offer.

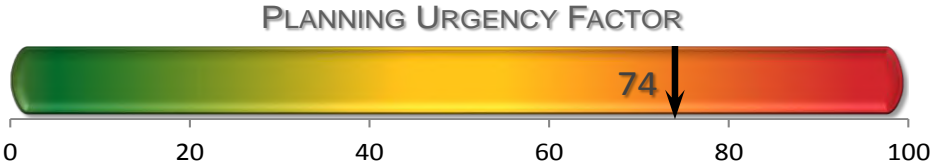
PLANNING PREPAREDNESS



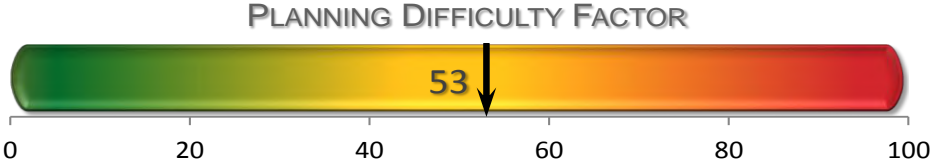
Your ExitMap Planning Preparedness Score is 58.136%.

Planning is at the core of any transition process. Regardless of how much you currently plan for business operations, the biggest financial event of a lifetime warrants careful thought and preparation. Planning preparation scores are derived from your answers regarding timing, objectives, and your post-exit vision for yourself and your company. You've put some thought into how an exit might work, but it is time to start gathering facts and making more substantive plans.

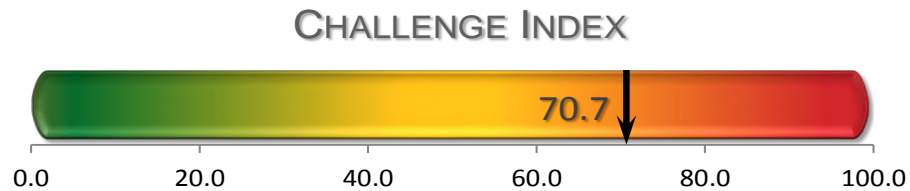
EXITMAP CHALLENGE INDEX:



If you have a number in mind, make certain that you are considering the post-tax proceeds. Some owners make an assumption of proceeds for retirement, and conveniently forget that the IRS may take up to 50% of it. If you are still central to your daily operations, there is a serious issue with developing management in time for a lucrative exit. Developing a Personal Vision for life after the sale takes some thought, but it is critical to any successful transition. Employees seldom have a comprehensive picture of how to maintain value without you. Discussing it enhances everyone's security. Preparing your company for a successful sale requires complete documentation of all systems and processes.



Exit timing is a major issue, regardless of your health. You should have a practical plan already in place. An outside, objective valuation is one of the foundation stones of any rational plan. You should consider addressing this basic starting point immediately. Business owners who can't see past their last day of work are seldom successful sellers. Start writing down what your life will look like in its next iteration. A fire sale brings little value. Consider documenting a rational approach to a sale with a list of targeted, qualified buyers. A third party sale is a one to three year process, assuming that you have your value drivers in place before starting.



Planning Question 1

Q: In the event of my sudden absence from the business, my documented contingency plan for operations includes:

A: We do not have a documented contingency plan.

Urgency Weight: 5 | Difficulty Weight: 4

Baby Boomers make up 25% of the U.S. population, yet own 60% of its businesses.



Your family and employees deserve a rational, documented plan in the event of your misfortune. Employees seldom have a comprehensive picture of how to maintain value without you. Discussing it enhances everyone's security.

Having a plan for emergencies is not just a good idea, it is required by many lenders, insurers, and major vendors. The urgency of your response is ranked very high because clearly some of the events that would require implementing a plan for your absence can come literally without warning.

Risk management to preserve the value of the business in your absence can and should be a multipronged approach. Relatively inexpensive term insurance can secure a lump sum payment for either the company (to hire a replacement for you) or directly to your heirs. More complex insurance instruments can balance the cost of coverage between the business and your family, and give tax advantaged treatment to any payout.

Client Notes:

Tool Box:



Help the owner write a letter whose envelope would be titled "If the plane goes down" in which his or her family is instructed as to the long-term desires for decision-making, treatment of the employees, and eventual disposal of the business.

About Exit Planning

An Exit Plan is simply a strategic business plan with a defined time frame. It is the process of preparing for a transfer of a business owners' responsibilities. He or she may wish to step back from day to day operations, start a succession path for employees or family members, or perhaps divest the business from his or her asset base entirely. Regardless of the motivation, in order to facilitate a successful transition and control the process, you're going to need to do some planning.

There are three key reasons to engage in exit planning:

1. Because it will change the way you run your business.

For example, who you hire and how you train them will be very different depending on if you are grooming successor owners, or if you are trying to put a stable team in place for a new owner from outside the company.

2. Because it is never too soon.

"I spent too much time planning." said no business owner *ever* after transitioning. Transferring the business may be the biggest financial event of your life. If you want to maximize the results, it is going to take some time.

3. Because planning isn't implementation.

If you're driving across the country, you map out a route and choose the highways you'll take. No one confuses that with starting the car and putting it in gear. Having a plan lets you choose what to adjust with changing circumstances, and just because you have a plan in place it does not mean that you have to implement it. It means that you will be ready when the time comes.

Q: Why should I work with a qualified Advisor?

A: We know from working with thousands of busy owners that coordination with an Advisor helps you stay on track, and measurably increases your chances of success. The Advisor who provided you with access to the Assessment is a trained professional who joined the exit planning community to collaboratively work with other Advisors to develop complete and coordinated plans. Your custom Analysis will help keep the whole team on track.

Q: What if I am not ready to exit yet?

A: Sooner or later every business owner leaves the business. You can choose to do it on your own terms and in your own time frame, or let it be a surprise. Once you understand your options, you will find the strategy that you choose affects all of your future business decisions. Hiring, capital expenditures, new marketing approaches and management development will all be done with your eventual buyers (whether internal or external) in mind. Having a concrete game plan allows you to better control the timing, process and results when you decide to execute it.

Q: What is the single most important component of my exit strategy?

A: Your exit strategy shouldn't be driven by just one factor. Tax planning, legal documentation and risk management all have a place at the table, but none of those areas are the sole path to success. When the time comes, work with your Advisor to assemble a professional team that will help you pursue and achieve your goals.

Tool Box Index

Tool Box suggestions are provided throughout the client's Analysis report. The number and variety of tools suggested are outside the scope of most business owners' skill sets. Unless a prospect is committed to a DIY planning process, the Tool Box Index is intended to reinforce the need for professional advisory help.

The suggestions here are neither sophisticated nor comprehensive. Most advisors have processes that can improve on or replace many of these. The ExitMap is a client engagement tool. Details of project implementation are left to the advisor.

Due Diligence Tool:

Action Checklist: Make a list of documents and processes that may be requested by a buyer.

Finance Tools:



Sellers Discretionary Earnings: List all expenses and benefits realized from the business.

Net Proceeds: Model various pricing and buyer scenarios, and the impact of taxes on sale price.

Market Value: Compare the differences in pricing between individual and investment purchasers.

Industry Comparison:

Compare the company's performance to the overall performance of the industry.

Risk Assessment:

Examine how responsibilities, cash flow and income will be addressed in the client's absence.

Planning Tools:



Post Exit Statement: Write a statement describing the client's life after exiting.

Professional Advisors: List the client's professional Advisors and their exit planning qualifications.

Triangulation:

Reconcile the financial status, distance to the goal and anticipated transition timeframe.

Buyer Match:

List the selling features and weaknesses that might impact the attractiveness of the business.

Generational Suitability:

Analyze the features of the business as viewed by potential acquirers of different ages.

Revenue/Profit Tools:



Customer Sales Analysis: Create a historical report of company sales organized by customer.

Power of One: Provide insight on ways to improve the client's bottom line.

Growth Curve:

Compare the growth rate to what will be required to reach the client's financial objectives.

Competitive Strengths Analysis:

Identify the differentiation factors of the company and ways they may be improved.

Operations Tools:



Owner-Centric Scoring: Prioritize the key areas of management development.

Process Documentation Matrix: Verify the completeness of the operational documentation.

Employee Deferred Compensation:

Establish incentives for tenured employees following an ownership transition.

Key Employee Retention Incentives:

Define the level of responsibilities and appropriate compensation systems for key employees.

"If the Plane Goes Down":

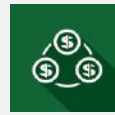
Build written instructions of actions required should the client become incapacitated.

Technology Capital Cycle:

Analyze the life cycle of company owned technology (hardware and software).



KEY AREAS



Finance



Planning

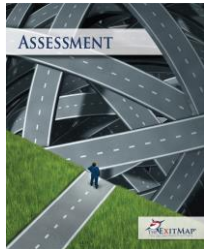


Revenue



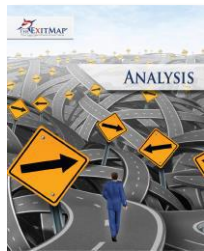
Operations

THE EXITMAP PROCESS



THE ASSESSMENT:

The ExitMap Assessment provides a Custom Summary Report on the readiness of an owner and company for succession implementation, focusing on four key areas: finance, planning, profit/revenue and operations.



THE ANALYSIS:

Your advisor has received the ExitMap Analysis to share with you at your debriefing. The Analysis is a 40 page report with specific feedback on each of your responses. It provides your advisor with a comprehensive look at the business beyond his or her specific area of professional expertise, so that no area of potential value enhancement is ignored.

Any transition, whether to family, employees or via a sale to a third party, will maximize your returns with planning and preparation. The ExitMap Analysis includes a ToolBox suggestion for each of your responses. ToolBox ideas are practical process improvement and tracking techniques that can be implemented for each area of your business.

Every tool that you complete benefits not only your plan toward exiting, but also provides valuable documentation for any potential acquirer.



THE DEBRIEFING:

Setting up a meeting with your Advisor to review the Assessment and Analysis is a critical step in the ExitMap process. Professional Advisors use the ExitMap tools to identify areas with the greatest impact on the value and transferability of your business. They are committed helping owners transition their businesses on their own terms, in their own time, and with the highest return achievable. Just a few years advance planning can have a dramatic effect and radically change your lifestyle in retirement.