Business Exit / Transition Readiness ANALYSIS

Prepared for: John Smith, XYZ Inc.

Today' Date
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Introduction

John, at some time in the future, your role in the business and your ownership of it, will be dramatically different than it is today!

How it will happen and when it will occur is very much up to you…

This report is an overview summarizing your current personal and business exit readiness, and the key action items you should consider based upon your responses to the EXIT/TRANSITION READINESS questions. This report is also intended t o stimulate your awareness of the issues that you and your businesses need to address enabling you to move towards action, based on your desire for a successful transition outcome.

The recommendations and activities suggested in this report can become an active part of the future, or be allowed to gather dust within the report that sits idly on the side, consigned to the scrap heap of other good ideas you may have had over the years. Ultimately, it's not the report itself that is important; rather, it's the next step after reading it, and then the next steps after that.

We urge you to make a commitment to yourself (and to your loved ones), and as you read through this report, we hope you would feel compelled to implement a plan toward a successful conclusion. We truly believe that after you have executed just a few steps, you will have gained enough momentum to move the process along towards your targeted outcome. The ultimate objective of every business owner is a smooth transition away from the business, with financial rewards and satisfaction being the outcome of one's life efforts.

Our mission is to assist business owners with successfully transitioning their businesses along with helping them move into new and exciting phases of their lives. Your opportunity is at hand. You can choose to act on a successful outcome, or you can choose to do nothing.

Reading this now indicates your preference to act. Most importantly, you will be getting closer to answering the three key critical questions facing all business owners: When? – To Whom? – and For How Much? Once commenced, you will embark on an interesting journey, learning more about yourself and your family's values, about your business and its importance to you and others in your life, what is needed to fund your lifestyle postbusiness ownership, and the creation of a lasting legacy.

When?

To Whom?

For How Much?

Disclaimers

No Opinion of Value. This document does not contain an opinion as to business or asset value. Any business value discussed in this document is merely an estimate of value, and does not indicate or guarantee the price at which a business or any interest in it can be sold. To determine more accurately the value of a business, we recommend that you engage a certified valuation specialist or certified business appraiser.

No Tax Advice. The information and ideas communicated in this document do not constitute tax advice or tax analysis of any kind. The tax consequences of any strategies or techniques discussed here can only be determined by a qualified tax professional specifically engaged by you to assess your unique circumstances.

No Legal Advice. We are not licensed to practice law, and therefore nothing in this document should be construed to be legal advice of any kind. You must seek the advice of an attorney licensed to practice law in your area and/or in any other relevant area before making any decisions.

Company Overview

Your responses to the Exit/Transition Readiness Questionnaire, tabled below, have been used in preparing this personalized report. The relevance of this report is tied to your responses and may not be an appropriate assessment of an owner's current position if certain information is inaccurate. Please take a moment to ensure that your information has been properly captured as indicated in the tables below. If you feel any changes are warranted, you may have to re-produce the report to reflect your current thinking.

Your Name:	John Smith
Company Name:	XYZ Inc
Ownership Information:	
Owner	John Smith - Non Majority
Active Owner in the business:	Yes
Other related owners or partners:	Yes
Employees related to owner(s):	Yes
Gross Revenue:	Average annual gross revenue of the Company over the past 3 years is between $5,000,000 - $10,000,000.
Annual Profits:	Average annual operating profits of the Company over the past 3 years is between $500,000 - $1,000,000.
Current Valuation:	$5,000,001 - $10,000,000
Valuation Date:	March of last year
Valuation Determined By:	Formal Valuation
Total Number of Employees:	6 to 20
Number of Management Roles done by current operational owners	3 — General Manager Purchasing Manager Office Manager
Number of Hired Managers with active management roles	5 — 5 COO or Operations Manager CFO or Accountant Sales Manager Distribution Manager Customer Service Manager

What Matters Most

An owner's Exit/Transition Objectives

PERSONAL REASONS FOR EXIT/TRANSITION

John, the reasons for exiting the business are critically important when evaluating the various exit options.

The purpose of your future business sale or transfer must be very clear to you, to your family and to other stakeholders. Clearly stating your objectives helps others to understand what you desire to achieve when transitioning and exiting from your business.

The personal reasons you selected in the questionnaire as important are:

Retirement

While retirement can be described as a goal for most people, entrepreneurs often approach this time of their lives with great apprehension. So, if you are feeling that way, you are certainly not alone. Like most owners, traditional retirement may not be fulfilling enough, and in order to truly motivate you to leave the business one day, you and if appropriate, your significant others, need to engage in this critical end-in-mind planning process to openly discuss where you are headed as opposed to what you are leaving behind. And consider this; studies have shown that over 60% of retirees suffer from depression within the first three years of retiring! We need to live active and fulfilling lives and a plan should incorporate that accordingly.

Health Reason

Unfortunately, declining health becomes a great motivator for exit planning. If you, your spouse or a close family member is affected by illness, life suddenly takes on a very different perspective. An accelerated course of action may be required. This is the time when there is a clear benefit to following a defined process and using advisors who have been there before, as there might be exit options available that would never have otherwise been considered.

Other Business Interests

The need to stay active, to develop new interests or opportunities is very typical for those who possess an entrepreneurial spirit. Whether this is your first time selling and starting something new, or your tenth time, you will benefit from following a planning process which will maximize your exit value, provide personal satisfaction, and validate your next venture.

Bring on the Management Team

One of the best exit planning objectives is the development of emerging leaders from within your company or alternatively the addition of expertise from outside the business. The first milestone for growing business value, is to reduce the business’s dependency on an owner. This objective alone can take 24 - 60 months to implement, but if done successfully, it will create a potentially lucrative exit strategy option: owning the business for a ROI, without having to run it with day-to-day involvement. We call this the graduate level of business ownership, but it requires hard work and the assistance of talented people managing on the inside, and at times, expertise advising the business from outside of the business as well.

Other - Preserve the lagacy of the business as a community leader in job creation

Typically, there are many other underlying reasons, often difficult for you as an owner to easily express or embrace. It will always be important for you to give these reasons your serious attention, and ensure that the issues are clearly addressed when determining your objectives.

We found that regardless of the reasons for exiting, the next step is to identify your personal objectives, in order to make sure your transition or exit is aligned with your ultimate goal.

IDENTIFYING OBJECTIVES

We have seen first-hand how challenging it is for business owners to address issues involved with exiting their business. To active, productive, results-oriented individuals, the idea of leaving their business typically scares them. It's a major reason why they procrastinate on planning for it.

We address it head on and call it **"Activement®"** – a productive, fulfilling life that most satisfies an owner, while they are released from the day-to-day stress and responsibility of managing their business. Isn't that more appealing to them than the traditional concept of retirement?

There are so many things that owners may choose to do in their **"Activement®"** phase of life, including continuing to work in their business as they choose, exploring travel opportunities, spending more time with family, their place of worship, charitable or volunteer activities and much, much more.

I want to speed more time with family and friends!

I want an active and fulfilling lifestyle! Not retirement!

"Activement"® is what I can look forward to when my role in my business will be dramatically different than it is today

I want to do more of the things I really enjoy. And do them with the passion and dedication I've applied to my business!

I want to continue to play an important role in my community, even my industry!

In the process of identifying one's personal objectives, we urge all to begin with...

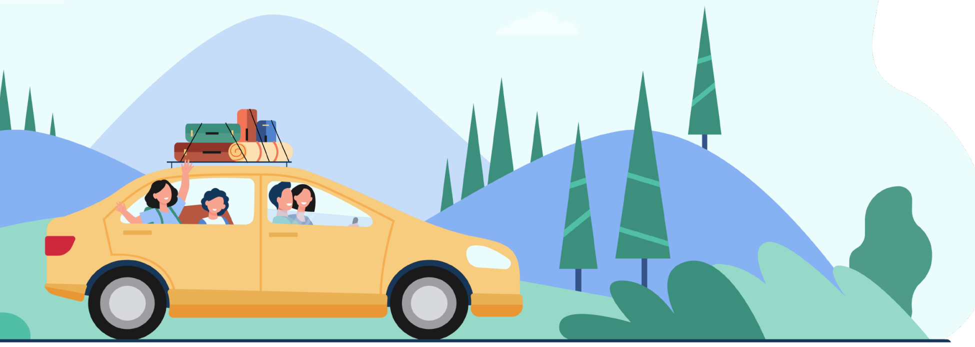
Daring to Dream

John, consider options that best describe your future. A few "general" examples that come up frequently in planning sessions we have conducted are:

- Focusing on hobbies
- Traveling more than three months/year
- Educating or learning
- Volunteering and/or community involvement
- Developing new talents
- Organizing family activities
- Addressing health or fitness issues
- Becoming more 'spiritual'

You can likely respond pretty quickly and quite intuitively as to what's important to you, and what your primary **Activement®** objectives and activities might include. But that's not enough. They must be integrated with a related financial plan that provides the complete picture of what life after business might be for you. Your 'Dare to Dream' objectives need to be reasonable, feasible, practical, and then you must make them a reality, or these objectives are simply dreams.

A Process of Discovery: What Matters Most?



> *A vision without a plan is just a dream. A plan without a vision is just drudgery. But a vision with a plan can change the world."*
>
> – Old Proverb

BusinessExit.com uses the Glass Door Process to visualize life "after business" – or as we call it "the other side of the glass door." At some point in the future – The Transition Date – you will move through that doorway to your post transition lifestyle. From your present vantage point, what do you currently see on the other side? Is it clear or is it hazy?

The Issues Every Business Owner Must Address

John, so far we've explained the need for identifying, evaluating and selecting your transition objectives, including our concept of **Activement®**. With the reasons for your exit and your transition objectives identified, you are ready to move on with the transition analysis process by addressing three basic questions every owner must face: When? To Whom? and for How Much?

WHEN?

Time is either your greatest ally or worst enemy when it comes to transitioning your business!

Wise use of your available time significantly increases the likelihood of a successful outcome. Putting off planning or the actions required to achieve a successful transition, limits one from being able to control the outcome. In other words, business transition is not a "last minute" exercise.

It is never too early to start planning for a business exit, and even though owners may have thought about when they would like to exit their business, being ready requires the successful implementation of a plan. The age old expression always remains true to form, in that "the best time to exit from the business is when you don't need to."

According to your answers, you intend to transfer your ownership . It is extremely important that the planning for your succession be done now, in order to use the available time to ready the business and yourself for the transfer of ownership. Keep in mind, that with a limited timeframe before exit, you may fall short of achieving all of your goals and objectives.

TO WHOM?

In the questionnaire, you indicated the desire to transition ownership of the company to management. However, your initial thought process may focus on one exit option without the benefit of analyzing all of the choices, or understanding which exit option can best attain your overall objectives. As you are reading this report, we hope you will keep an open mind and consider various alternatives or strategies with the ultimate goal of fulfilling the personal objectives of all owners.

When transferring ownership to management, there are financial considerations such as, lack of sufficient cash available, affordability issues, becoming dependent on management for on-going payments, etc. - all of which may vary the funds needed to support your retirement lifestyle. If funding for the management team is likely to be an issue, you might also consider exploring an ESOP (Employee Stock Ownership Plan) as an option.

It is unusual to receive a full cash payout at closing, and you might need to participate in partially financing the transaction through a "take back note" or an earn-out. An earn-out agreement may provide the opportunity to ultimately realize additional value, while at the same time reducing the risk to the acquirer, of overpaying for the business.

All too often, those selected by you, may not be at the same stage in planning for your own career development, or they may fear the unknown without your active leadership. Retaining and developing key employees during the transition process, is a key factor in business sustainability. The team's individual career objectives must be addressed in the planning stage, to ensure both your commitment to the succession process, and to the continued growth and development of the business.

Finally, note that the needs of all owners must be taken into account in designing their succession or exit plan. Each of their agendas can influence and/or complicate a seemingly straightforward transaction or transfer, and as a result there can be a greater probability the transfer will not go through, or that it may fail over time.

FOR HOW MUCH?

Why are you in business? When all is said and done, moving beyond just working to make a living, as many business owners are doing, you are in business to create wealth – and to extract some of that wealth now while operating the business and eventually upon your exit. It is important to diversify your holdings and reduce your financial dependency on a future transaction.

Business Wealth Transfer Options:

- While operating the business
- Upon exit
- A combination of the above

A key step in developing your transition plan is to identify all the specific financial objectives you wish to achieve by selling or transferring ownership of your company and understanding how it fits in with your wealth transfer circumstances. Below you will find a list of the personal and financial objectives identified by your responses to this question.

- Provide income for my retirement
- Set aside money or assets for future generations
- Minimize disruptions and ensure survival of the business
- Keep the business with my management and/or team
- Keep the business in our community

If you have not yet done so, you should consider completing a "financial needs analysis." This analysis provides you with a comparison between the amount of proceeds you will eventually require from the business to fund your desired future lifestyle, and the value gap based on their current assets and sources of income, including the present value of their business.

Any "value gap" identified, must be addressed during the implementation phase, and should be done well before exiting, in order to put the odds in your favor that you will have enough money to fund your lifestyle objectives.

Current Business Value

Proper planning allows you to manage this value gap between now and your transaction date

Value needed to refund the retirement

Exit/Transition Readiness SCORECARD

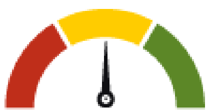
A business can be among the greatest assets of a business owner. Owners depend on their businesses to support them today, and more importantly, they depend on them to support their families, their retirement, and their way of life in the future. What assurances do you have that this will happen as planned? Reports have shown that 8 out of 10 business owners do not know what they need to do today in order to have a successful business transition in the future.Because of this, only 2 out of 10 will get the amount they expect to receive when they transition their companies. Why is the percentage of successful transitions so low?

The lack of knowledge about the exit/transition process, which is not a one-time event, prevents business owners from profiting on all those years of hard work, and ultimately diminishes their plans for retirement. We cannot stress enough the importance of PLANNING and IMPLEMENTING the necessary steps in advance, to help ensure that an owner's value will be enough to meet their personal financial objectives, Will you, as an owner, and your company be ready?

An effective way for business owners to view their current business situation is by reviewing their Exit/Transition Readiness Scorecard.The scorecard highlights the degree of readiness in a number of key areas that if addressed ahead of time, can enable a smooth and successful exit and transition from the business. This evaluative process drives an accurate perspective of a company's readiness, and helps owners and their advisors identify the areas that need improvement, to help ensure they successfully reach their financial goals and other personal objectives.

The Exit/Transition Readiness Scorecard on the next page is a visual representation of a company's readiness based on the information you have provided.

Areas that need to be addressed and could be value inhibitors or potential impediments to an owner's exit and transition, are shown as RED.



Areas that are partially addressed for an owner's exit and transition, are shown as YELLOW.

Areas that are currently in "good shape" and adequately "in process" for an owner's exit and transition, are shown as GREEN.

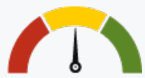
Your Business Exit Readiness Scorecard

Financial Reliance on the Business

This measures how much of an owner's financial goals depend on monetizing the value they built in the business. Red indicates overreliance and green indicates proper financial diversification.

Customers

This measures a company's focus on its' customer relationships. Having strategies that are updated and monitored regularly, will ensure customers remain throughout the sale/ transition process.



Time to Implement

Generally the more time owners have before exiting their business, the more time they will have to achieve their goals and financial objectives.

Desired Control Post Transition

A desire to maintain control post transition will reduce the number of exit options available to an owner

Clearly Defined Goals

Having clear goals is one of the critical indicators to determine an owner's personal readiness to exit or transition the business.

Company Size

Often times the size of the company determines the risks associated with the business, and the likelihood of buyers' interest.

Profitability

Buyers not only measure the level of profitability but also look carefully at the consistent level of profit and growth over time.

Business Valuation

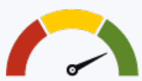
This measures whether or not owners took the first step to understand their business value.

Strategy

Execution of the strategy based on a clear vision, indicates whether the business can remain sustainable through transition.

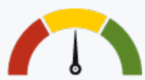
Management Team

The ability to develop a management team that can run the business without an owner, is a key indicator to the business readiness.



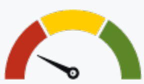
Contingency Plan

This measures how well owners have prepared a contingency plan in case something happens to them prior to a planned exit.



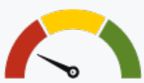
Vision

Buyers seek businesses with a clear future vision & direction, which helps ready the business for transition.



Value Drivers

This measures the value drivers already existing in the business.



Business Weaknesses

This measures critical weaknesses existing in the business.

Owner Overall Readiness Score

This represents an overall score on a scale of 1 to 100. In order to ensure a successful exit or transition from the business, one should strive to achieve a score of at least 75%. We also offer a full page in-depth assessment including action steps needed to improve the readiness scores.

Financial Reliance on the Business

An ROCG survey indicates that 84% of business owners rely on some or most of the proceeds from the sale of their business to fund their retirement. Regardless of the objectives that you have identified to this point, or the desired future disposition of your ownership interest, a completed and updated 'Financial Needs Analysis' is a critical part of any exit plan.

Based on your responses, the 'Financial Needs Analysis' might need to be revisited. As we discussed above, completing a personal 'Financial Needs Analysis' is an important step in verifying what is the necessary wealth and annual income amount required for your post exit lifestyle. We recommend that a financial advisor be brought in to work collaboratively with exit/transition advisors, to tie in your personal financial planning, and to ensure your exit objectives and wealth accumulation requirements are in line.

You have indicated that 30%-70% of your retirement lifestyle will be funded by the expected proceeds received from the business transfer. This score indicates that the proceeds from the sale of the business, are somewhat important to your retirement lifestyle needs. It's good that you are not overly reliant on the business's sale proceeds to fund your retirement lifestyle needs, however, you still carry some risk with having this percentage of dependency

To help minimize the associated risk of having the business's value play such an important part in funding your retirement lifestyle, the exit and transition plan should look to protect and grow the business, to help ensure the required value is there when you decide to exit. This should include careful consideration being given to economic and industry timing considerations, that could impact the value of your business in the future.

Additionally, after completing a 'Financial Needs Analysis' to determine specifically what percentage of reliance you have on the sale proceeds, with the assistance of an exit/transition advisor, you can develop a personal plan to reduce the risk by continuing to create financial liquidity and diversification outside the business.

On our Exit/Transition Readiness Scorecard this would typically be viewed as a YELLOW signal, indicating that there is still some work necessary to help ensure that your exit and transition from the business is successful.

Based upon my reading of this section future action step(s) are:

- ☐ ______________________________
- ☐ ______________________________
- ☐ ______________________________

MAINTAINING CONTROL – "I WANT TO CALL THE SHOTS!"

Maintaining control and influencing the business culture are important drivers to an owner operating their business. Paradoxically, at exit, a high degree of control and undue influence on the culture by the owner actually reduces the value of the business!

Less daily involvement of the owner equals more value, which may seem contradictory; however, a buyer values the fact that you employ a day-today operating manager, or management team, who will potentially stay on under new ownership. This provides less risk to the buyer, which results in a higher business value to an owner.

For virtually all business owners, the task of turning the business operations over to others is the most difficult challenge they will face. Yet, in order to maximize the business value, or to create the most seamless internal (family or management) transfer of ownership, a business owner must implement a plan for reducing their daily influence on the business. Careful attention needs to be placed on replacing oneself as chief strategist and visionary, because those skills are the hardest to replace.

You have indicated your preference is to maintain control over the process, even if it means not maximizing the value of the business. As such, it will likely be much easier for you to execute an internal transition to family members, management, other current partners, and/or employees.

If you are fortunate enough to find an outside acquirer who shares your business philosophy, and who agrees to leave control with you over a period of time, you can likely stay in control of things that are truly important to you.

However, finding such a buyer will be a difficult task. Many buyers will want to assume control from the owner. On the other hand, a financial buyer may relieve you, as the existing owner of ownership, but be prepared to leave operating control with you over a period of time.

A business exit/transition specialist will be able to guide you, as the existing owner, on ways to best prepare for identifying and securing that the best potential successors are part of your exit planning process.

Based upon my reading of this section future action step(s) are:

- [ ] ______________________________
- [ ] ______________________________
- [ ] ______________________________

DEFINING PERSONAL OBJECTIVES

Based on your answers, it's great that you, as a business owner, have a plan. However, after reading through this report, you may better understand the full scope of business and transition planning, and see the need for additional consideration. Once you have your plan finalized, it is important for you to start the implementation, if you haven't already done so.

Give yourself some interim goals to accomplish, such as spending less time devoted to your business affairs, and/or more time devoted to the activities that will become your primary focus post transition. Plan to do this regularly and sequentially; a trial Activement® per se.

It is important for you to determine if these activities will truly provide you with sufficient personal fulfillment. If you find that they might not, rather than apply more of yourself to the business, seek other alternatives that may ultimately prove to be more rewarding. Keep in mind that developing new interests can take time.

Given the fact that there is a plan in place, you are in an excellent position to re-evaluate and possibly accelerate your time frame for a business exit. Either way, you're certain to have created more peace of mind for yourself and for your loved ones, knowing that this important personal issue is being dealt with appropriately.

It's great that you, as a business owner, have discussed your objectives with your loved ones. Knowing why loved ones do not agree with some of your desired goals, will allow you to re-evaluate and refine your thinking in some important areas, or point out the need for you to better define and explain your objectives, and why they are important to you as you move forward.

Often achieving unanimity of support on everything is difficult, but only your loved ones can provide you with "honest" feedback and questioning that can be truly useful for you in creating more peace of mind for yourself and for them, knowing that this important personal issue is being dealt with appropriately.

If you and your family members have conflicting objectives, there are family counsellors experienced in working through business transition issues. Family emotions, unrelated personal agendas, and lifetime feelings often complicate the primary objective of getting the family co-ordinated and in agreement with the plan for the eventual transition of the business. Where possible, seek such outside assistance early in the process before locked in positions and hurt feelings make congruity even more difficult.

Based upon my reading of this section future action step(s) are:

- ☐ ______________________________
- ☐ ______________________________
- ☐ ______________________________

COMPANY SIZE AND PROFITABILITY

The size of the business is often defined by its revenue, whether derived by service or product sales. It acts as an important barometer to the extent and complexity of the business's operations and its value. In service industries, the value of the business is often directly related to multiples of revenue.

In your answers, you indicated the average annual revenue, of your business, over the last three years was between $5,000,000 – $10,000,000. Businesses of this size typically have established systems and processes that enable the business to operate independently of the owner for delivering services or products to customers. A well planned and executed growth strategy, whereby all elements are being addressed in allowing the business to successfully operate at the next level, becomes an important consideration for a potential acquirer or internal transfer of the business. Success in these areas typically improves business value.

The profitability of a business in proportion to its annual revenues, is usually a significant factor in assessing the value of the business. Consistency and sustainability of earnings provides higher valuation multiples than earnings results with high degrees of variability or decline. A buyer typically sees that there is less risk associated with sustainable results, and is therefore usually willing to pay a higher price for a more predictable investment return.

This is not to say there aren't buyers interested in acquiring companies not experiencing sustained growth or predictable profitability performance. A prospective buyer's own financial and strategic situation may often be the critical determinant in their degree of interest in acquiring a company with these profitability patterns. Acquiring development stage or distressed companies, are primary examples where a buyer's interest is targeted at less profitable businesses.

John, you indicated that the average profitability level of your company over the past three years was between $500,000 - $1,000,000. Keep in mind, there are many other factors that go into what value a buyer is willing to attribute to a business within this range of profitability. A few examples are; the industry, strength or weakness of the management team, cash flow history, earnings modelling, risk factors and the ownership of proprietary assets or attractive contractual agreements that may or may not be reported on the balance sheet. Because each individual business is different, we recommend caution in applying any standard rule-of-thumb valuation.

You have also indicated that the average profitability level over the past three years has seen insignificant changes. When a company's profitability has insignificant changes, careful consideration must be given to the specific reasons why earnings have been flat. You should determine whether the profitability pattern is similar or not, to that experienced by the industry at large, and develop a plan accordingly. This plan should also include strategies to generate 3-5 years of increasing profitability in order to demonstrate a positive growth pattern and attract a higher multiple.

Based upon my reading of this section future action step(s) are:

- [ ] ______________________________
- [ ] ______________________________
- [ ] ______________________________

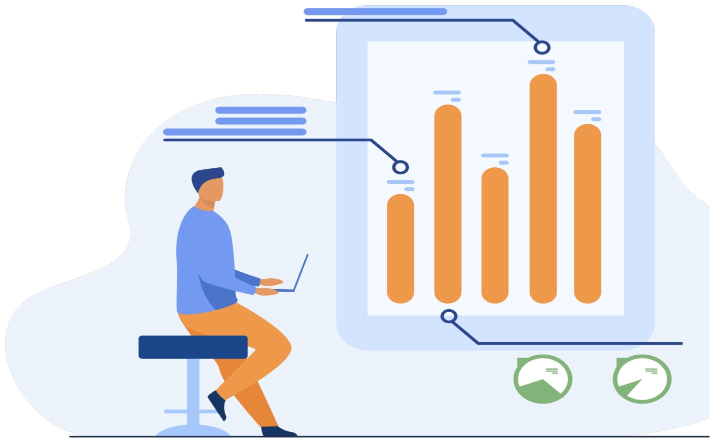
Value & Value Building

You indicated in your answers that you know the estimated value of your business.

We strongly believe it is important to obtain a valuation from an outside specialist, (if you haven't already done so), in order to accurately determine the value of the company for purposes of transition planning.

This can be a formal opinion of value or an "informal" valuation. The latter - "An Approximation or Calculation of Value" - is a less expensive, informal valuation alternative, for an owner attempting to get an independent assessment of the value of his/her business. These are frequently used in conjunction with early transition planning and assessing preferred exit options.

It is important to note that there over a dozen different business values (owner value, buyer value, fair market value, collateral value, etc.) and an independent calculation done by a professional may be needed to add integrity to the 'Financial Needs Analysis' and value gap analysis which we discussed earlier in this report.



In conjunction with your answers, the following list represents many of the key items buyers look for when evaluating a particular acquisition target, and can be used as your checklist to complete, in order to maximize company value prior to putting the business on the market:

- Can this business operate independently of the owner?
- Does the business have a unique industry differentiator that sets it apart from all others?
- Is the business generating sustainable profits?
- Is the customer base diversified and capable of further business development?
- Is there an untapped market for its products or services?
- Are its systems and processes considered first rate for its industry?
- Do you have the right team in place for growing the business?
- Are there proprietary assets that have future value?
- Does the business have contracts with key stakeholders – customers, suppliers, employees, other coowners?
- Are there potential liabilities that could damage the future value of the business?
- Is there a business plan in effect that demonstrates the potential growth in business value past the date a buyer would take over the business?

Lastly, based on your responses in the questionnaire, we have listed the key business deficiencies you identified. These items should be addressed to build the value of the business, and to help you meet your exit/transition objectives successfully:

- Management depth is not adequate.
- People and cultural issues.
- The business requires access to capital in order to run it successfully.
- The business relies on me being there to run it.
- Other - Attracting talented people to move to our community is a significant challenge.

Based upon my reading of this section future action step(s) are:

- ☐ ______________________________
- ☐ ______________________________
- ☐ ______________________________

BUSINESS SUSTAINABILITY

Vision & Strategy

The vision of a business provides a picture of the company sometime in the future, and suggests outcomes the owner intends to achieve. A vision statement defines the business's goals, which provides the framework for all strategic planning.

A clearly communicated business vision will generate ideas for business strategies, and the ability to these ideas, so that team members buy into the vision and join owners on the journey.

In your answers, you have indicated the lack of a clear and formal vision in the company. As a result, owners should define a vision with key management, and then clearly communicate it throughout the organization. A business with a vision that is communicated and understood throughout the organization, is usually more focused, better structured and more profitable. These attributes add value in the eyes of prospective buyers.

You have also indicated that documented strategies are in place to achieve the vision for the business. You have completed an important step in creating a sustainable business and providing a roadmap for the team to follow.

To ensure that the vision is adopted and executed by the team, there must be a set of established strategies with specific objectives to track and measure progress toward achievement.

Business owners are often so preoccupied with immediate issues, that they lose sight of their ultimate objectives. That's why a strategic plan is needed, and without it, a business is much more likely to fail. A sound strategic plan should:

- Serve as a framework for decisions or for securing support/approval.
- Provide a basis for more detailed planning.
- Explain the business to others in order to inform, motivate & involve.
- Guide benchmarking & performance monitoring.
- Be separated from day-to-day work.
- Stimulate change and become a building block for the future.

What you can measure, you can manage! Developing an effective strategic plan is only "half the battle." Getting it implemented is the other, and generally the tougher half. Monitoring the implementation of a strategic plan is important. It helps to assure that efforts conform to the plan, and that the results owners achieve, align with their anticipated results.

Identifying quantifiable elements to evaluate, monitor, and control a strategic plan, begins with establishing shorter-terms goals. Establishing these quantifiable goals that must be met within a certain time frame, gives owners context within which to evaluate whether their plans are bringing in enough leads, profits, or the other critical success factors that you defined. Based on whether they are on track to meet their short-term goals or not, owners can adjust their plan accordingly.

You have indicated in your answers that owner strategies are regularly monitored. It is the mark of a wellrun business that regularly monitors and takes the necessary corrective action steps. The steps already taken will ultimately add value to the business.

Having documented strategies is important, but unless people are held accountable, little is likely to happen. An activity should be uniquely traceable to an individual with a clear deadline, so that it does not become neglected by the organization.

Management & Emerging Leaders:

The strength and depth of experience, along with the number of years a management team has been working together, can provide significant added-value to the business. To the extent that these characteristics may be lacking, business value decreases accordingly. In fact, many private equity investors prioritize the management team's capabilities high on their top five list of "must haves."

To help maximize the value of a business, any people weaknesses and future depth needs, should be integrated into the company's long-term strategic business planning, in order to fill positions in advance o f reaching established milestones. Having such forward thinking as part of an on-going business strategy, will help ensure that a buyer recognizes and values its ongoing sustainability.

Your exit planning should consider the benefits and consequences of creating a stay bonus agreement with the key managers who are integral for the business, to ensure that they will stay with the new owners for a minimum amount of time after the sale, or upon an owner's pre-mature death.

Identifying and developing the next generation of leaders is a key management succession issue.You need to address this in your strategic planning. You have indicated that the company's emerging leaders have yet to be identified and/or developed. Having a leadership development program designed to improve the leadership skills of selected employees, is a critical step to ensuring the likely continued success of the business. This is an important matter to potential future acquirers, and is a high priority that should be addressed.

CUSTOMERS

Creating "highly perceived value" for customers should be a goal of all businesses. Understanding the priorities of the customer can help a company determine the usefulness, importance, or general worth of a particular product or service. If the systems and processes are aligned with delivering high perceived value to the customers, the retention rate and satisfaction rate among the customers will greatly contribute to the success of the business.

You have indicated that your business has systems and processes to deliver high value to its customers. This shows the company has taken an important step in achieving high customer loyalty. The cost of attracting new customers can often be many times higher than marketing and selling to your current customers, so it pays to hang on to, and continue to sell to your current customers. This will ultimately add value to the business.

It is important to know what customers really think about the business. Customer feedback comes from a growing number of channels, including in-person, phone, comment cards, surveys, email, Web, social networking and more. In addition, a number of individuals and departments within the company, should also be collecting informal customer feedback on a regular basis.

As you indicated in your answer, the company formally monitors customer feedback. Monitoring customer feedback is important and should be a continuous improvement effort. The goal of maintaining customer loyalty and the existing customer base is achieved by understanding and delivering to meet their needs. By having a formal customer feedback monitoring system in place, the company is acquiring valuable information to increase its competitive advantage and the value of the business.

Having a customer service strategy ensures a positive experience anytime your customer interacts with the organization. You might find that several processes in the organization have been set up for your convenience, rather than making it easy for customers to do business with the company.

By establishing a customer service strategy to ensure a consistent approach to customer needs throughout the organization, the company reduces the chances for missed future revenue opportunities, lost productivity, and poor relationships with customers. This will increase the chances for business success, sustainability and enhanced business value.

Based upon my reading of this section future action step(s) are:

- [ ] ______________________________
- [ ] ______________________________
- [ ] ______________________________

BUSINESS CONTINUITY AND CONTINGENCY PLAN

WHAT HAPPENS IF?

Transition planning addresses both a voluntary exit and an involuntary exit from the business. Most business owners have some form of insurance in place to provide for their family in the event of death or disability. All too often, this is considered the contingency plan for "what happens if I go missing?"

If an exit strategy gets derailed by changes in circumstance, what's the plan? More importantly, who is going to step up to stabilize the company until a buyer is found, or a decision to continue to operate the business is made?

Most importantly, your financial circumstances may be dramatically different in this scenario. The Company may be less saleable or transferable without you being available to help with the transition of management and ownership.

Addressing the "What Happens If" circumstance is a necessary component of the transition planning process. There are actually several items which must be considered in order to ensure the business and family needs are all attended to, if you are not around to manage the business. Your succession planning process should address contingencies in conjunction with your Preferred Exit Option. You have indicated that some items were completed to-date, but those indicated and/or excluded, might need to be revisited:

- Shareholders agreement
- Life insurance with spouse/family as ultimate beneficiaries
- Power of Attorney
- Owner's Will
- Disability insurance

There are also other agreements and areas of responsibility you may need to consider as part of your contingency plan. The important areas should be looked into and assessed again as your succession plan is completed to ensure that the contingency plan is aligned with your overall succession objectives.

A letter to someone whom you trust should be considered, discussing the business details if you are not around; whom you should trust and whom you shouldn't, who should run the company, and where to find important documents or passwords, to name but a few. This document may or may not be available, or opened, until you deem it necessary. An attorney or someone of trust (not in the business), should be aware of and have authorized access to the letter when the information contained is needed. Lastly, this letter should be reviewed and updated regularly

Based upon my reading of this section future action step(s) are:

- ☐ ______________________________
- ☐ ______________________________
- ☐ ______________________________

GROOMING YOUR REPLACEMENT

It's a fact! A business that operates independently of the owner is more valuable than a business that relies extensively on the owner for its success. Maximum business value can only be realized when a buyer acknowledges that the business is able to operate successfully, independent of the owner(s) being directly involved in the business.

Introducing new operational leadership during the succession process may appear to conflict with the objective of maximizing the business value. However, to maximize business value, the owner must strive to concentrate on working on the strategies of the business, while mentoring others who are managing the daily activities. Devoting time to successfully replacing owners at the operating level, will minimize business risk and increase the value accordingly in the eyes of prospective buyers.

Knowing that there is someone who can step in and take over an owner's leadership role and operational responsibilities, is critically important to the future sustainability of the business. It is necessary that this one individual, or this group of individuals, have the necessary management experience and knowledge of the industry to take over. If not, then the transition plan should address the training and mentoring needs of an owner's chosen successor(s).

You have indicated that there might be someone who can take over if something happens to the owner(s). It is important for the company to notify this individual of an owner's intent, and then provide them with a plan whereby they will be groomed appropriately to assume the owner's responsibilities. They should also see in the owners plan, the contingencies that will allow them to feel sufficiently equipped and/or externally supported in providing for the future leadership and survival of the business should something tragic and unforeseen occur to the owner(s).

Along with the owner(s), sucessors must commit the time to this gradual transfer of knowledge along with the personal development of their skills. It should require continual focus, attention, and re-evaluation as the business develops, and this must form an integral part of the regular performance review process of the designated individual(s). Owners cannot afford to run the risk that an individual will be unable to carry on the business in their absence, and in so doing, quickly destroy the value that the owner took many years to build.

Based upon my reading of this section future action step(s) are:

- ☐ ______________________________
- ☐ ______________________________
- ☐ ______________________________

Family Considerations

(if applicable to an owner)

FAMILY IN THE BUSINESS

Many business owners dream of the day when their children, spouse or other close relative takes over the business. The thought often brings great joy as they perceive providing their family members a golden opportunity created through many years of hard work; leaving a true family legacy!

However, deciding to pass the business to one's family can be one of the most challenging decisions they will have to face as a related owner. For the transition to be successful and to give the business a fighting chance to continue long into the future, impartiality is critical in addressing the emotional family issues that come into play and help ensure that the right decisions are made.

Ask yourself, what happens if 'little Johnny' or 'little Susie' simply are not qualified to run the business? Who's going to tell your spouse? Who's going to tell them? How will the other family members react? How will these uncomfortable conversations go over? It's an emotional issue that most related owners will put off and avoid as long as possible. That's why an outside impartial advisor experienced in family transitions would provide valuable insight and help guide owners, and other family members through this planning process.

It is important to note that successful transitions to the next generation don't have a great track record of success. A study by the Family Firm Institute reports that:

Only a little over	With just	And only
30%	***12%***	***3%***
of all family owned businesses survive into the second generation.	**remaining viable into the third generation.**	**operating into the fourth generation.**

There are of course several reasons for such dismal outcomes. Often, it's just assumed that the family members want the business. Vice versa, the family members might believe it is an obligation to take over, and don't want to let the related owner down. Without a deep commitment to the business, how could they muster the stamina and determination to successfully work through adversity? Your planning will require frank conversations in this area.

The timing of a business transition to family is everything. Sometimes owners leave too soon, and sometimes they hang on far too long. Each circumstance is different and needs to be weighed carefully to help ensure success.

There are many situations where family members who have been working in the business, believe they can run the business and are overly anxious to take over. It's a lot of: "we or I can do this, it's time you retire, and it's my or our turn." So much so, that it becomes uncomfortable, and some related-owners leave too soon in order to simply keep the peace, or leave from a false sense of security that everything will work out in time; never having set up training and coaching programs, or having the family members take a 'test' run at operating some of the management levers.

Then there are also situations where the related owner elects to hang on for too long. They've never taken the time to plan the next fulfilling chapter of their own lives. There is nothing motivating them to move toward transitioning management control. If a family member decides to continue hanging in there and waits, he or she can find themselves well on in years, and soon having to possibly face their own transition issues.

As you work through the details of your transition/exit plan to any family members, you should also fully explore each question in the three planning checklists below.

Next Generation Considerations

- [ ] Are they ready?
- [ ] Do they have the necessary skill set and experience?
- [ ] Are they truly up to the obligation and challenge?
- [ ] How do you know?
- [ ] Have they been tested under fire?
- [ ] Do they have a fanatical passion for the business? A burning desire?
- [ ] Is there a false lure of a comfortable life without great efforts and personal sacrifice that can spoil successors?
- [ ] What happens if they do fail?
- [ ] Have they thought about the consequences for Mom and Dad? Rest of family?
- [ ] Can they handle the pressure of failure?

Dad and Mom Considerations

- [ ] Do the future leaders understand the 'business connection' need?
- [ ] Do the future leaders understand the transitional process of knowledge transfer?
- [ ] Do the future leaders understand the emotional issues of transition out of a business? That it's not as simple as 'Up and Out'.
- [ ] Do the future leaders understand there is a transitional process for the planning of 'life after' the business?
- [ ] What impact will the transition have on the customers? The business?
- [ ] What financial risk will you be taking on?
- [ ] What financial risk will the Company be taking on?

Future Leaders Vision, Strategy, and Contingency Planning Considerations

- [ ] What is the future leader's vision for the business?
- [ ] What are the future leader's own ambitions?
- [ ] What role do the future leaders see Dad/Mom taking?
- [ ] Who will run the Company and make final decisions?
- [ ] What will be the separate roles/responsibilities of each party? Who will determine them?
- [ ] How will business conflicts be handled?
- [ ] What will the Management Structure look like?
- [ ] What happens if leadership fails in the transition process?
- [ ] What is the contingency plan?
- [ ] Who will make that determination?
- [ ] How will that determination be made?

Family transition requires a lot of careful planning to ensure that owners get through the many emotional areas; many of which could be potential landmines that would stop or derail your plans right in their tracks. Mentoring and coaching programs, as well as clear milestones, may be necessary to measure your family member's management capability progress. 'Rules of Engagement' may also be needed to distinguish what role you are in when communicating with each other; is it parent-child, husbandwife, shareholder-shareholder, owner management, or management-employee? You and your family's individual circumstances will dictate exactly what's needed.

In the end, if you put in the time and plan things properly, you will be in the position to enjoy family holiday dinners together, regardless of the difficulties.

Based upon my reading of this section future action step(s) are:

- [ ] ____________________
- [ ] ____________________
- [ ] ____________________

MovingOn Action Steps

The ultimate value of any plan rests with your commitment to executing the identified Action Steps. Some of the areas you will need to address, are detailed below and are provided with the hopes that you will dedicate time to work with the proper advisors in order to successfully meet your Exit/Transition Objectives.

The process of transitioning a business can introduce stress and unexpected issues. Since this is a unique process, an owner doesn't normally have a lot of experience to draw upon, in order to appreciate the significance that any one issue may have on the overall plan.

EXIT/TRANSITION PLAN

You've taken the initial steps by completing the questionnaire in order to understand your readiness through this report. As business exit and transition specialists, we would be happy to work with you to build from this report, and create a more comprehensive exit plan based on your personal exit objectives, and assist you with the critical step of implementing it successfully.

The clarity of objectives is critical! If you are not absolutely clear on what you intend to accomplish, and the emotional payoff you will receive upon its accomplishment, then the transition stage will suffer. We can help you in several ways, each of which is uniquely designed to provide resources and expertise, which can guide you towards completing your business transition successfully.

BUSINESS SUCCESSION

The process for improving the effectiveness of your key team members, will support and advance your Exit/Transition objectives. An effective team that functions independently, will be one of your most valuable business assets, and in essence allows you to focus on areas of the business that are the best use of your time, to be away from the business when you wish, and to ultimately increase the value of your business.

BUSINESS VALUE

In order to accurately determine the value of your business for purposes of an overall 'Financial Needs Analysis' post exit, you may need to obtain a value calculation from an accredited business valuator. A business value calculation does not have to be the first step, but will become more important as you begin to determine the 'Value Gap'; or in other words, the current value of the business, compared to the value needed from the business to properly fund your post exit lifestyle.

PREPARING THE BUSINESS FOR EXIT OR TRANSITION

As you begin to prepare the company for your exit or monetizing event, regardless of your exit strategy, your goal should be to maximize the positive impact of "Value Drivers" on the business. Here is a summary of items earlier mentioned in this report:

- A stable, management team which is running the business.
- Operating systems that improve sustainability of the business.
- A solid, diversified customer base.
- A realistic growth strategy and action items to accomplish it.
- Effective financial controls and management reporting systems.
- Good and improving cash flow.

TAX PLANNING

Taxes are often unavoidable. The real question is whether you can pay less or defer payment into the future. As part of a regular analysis, we suggest you review the financial and tax issues related to the business. It will become critically important for you to understand the tax consequences of your exit plan, and then revisit it in order to take advantage of changes in the tax laws, as well as changes in your business circumstances. Ultimately it is not what you get for the business, but what you get to keep!

WEALTH MANAGEMENT

An important step in creating a Transition/Exit plan is to resolve the issues related to preserving your wealth, funding your post exit years, managing it and perhaps passing assets to your heirs. For business owners the issue of funding their post business lifestyle is normally complex, because as our surveys indicate, a large portion of an owner's total estate is tied to the value of the business and therefore not liquid. Your goal, with the help of qualified advisors, should be to create a strategy to manage your pretransaction investments and coordinate the post transaction proceeds in accordance with your objectives.

ESTATE PLANNING

Coordinating your estate planning will help ensure that your legal documents are aligned with your current financial and legacy plans. It will also you to then plan for a contingency, in case your exit is premature and/or 'involuntary'. These circumstances should be reviewed in conjunction with your current legal documents, in order to identify required changes and any new documents that may need to be drafted by an attorney.

CONSEQUENCES OF DOING NOTHING

The alternative to the MovingOn Action Steps is to do nothing. Some of the more frequently mentioned unintended consequences are:

- Risk of insufficient funds to support owners and his/her family through retirement.
- Pay too much in taxes.
- Transition at the wrong time.
- Family and stakeholders don't know what owners are thinking.
- Risk of selling for less than it's worth.
- Risk of not realizing an owner's business and personal goals.
- Not having the chance to enjoy life without the day-to-day responsibilities of the business.
- Creating issues of continuity, which could affect employees, customers and suppliers.

So step back, take it all in, and get ready to launch yourself to the next exciting part of your "life"....

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