

MENTOR

CAPITAL PARTNERS LLC

*Achieving
Entrepreneurial
Wealth*

SIX STEPS TO A MORE SUCCESSFUL BUSINESS SALE

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Entrepreneurial success does not necessarily result in an exit that is at the owner's chosen time and price. In order to exit your business on your terms, consider these six steps:

1. Integrate Your Exit Strategy with Your Operating Strategy
2. Reach for Valuation Inflection points
3. Choose the Right Time
4. Maximize Buyer Demand
5. Be Prepared
6. Use the Sale Process To Your Advantage

Step 1: Integrate Your Exit Strategy with Your Operating Strategy

Exit strategy is essentially an extension of operating strategy. The wealth created by business ownership includes the value of annual distributions (wages, dividends, etc.) over the period the company is owned plus the net proceeds from the sale of ownership. Because annual distributions are in most cases taxed as ordinary income and the net proceeds at sale are taxed at the lower capital gains rate, and because the way in which you operate the business over time will affect both market value and liquidity (how readily it can be sold) your exit expectations should be significant factor in your major operating decisions.

Step 2: Reach for Valuation Inflection points

There are more buyers for larger companies, and buyers pay more for the best performers. Few financial buyers are interested in buying companies with less than \$1MM operating cash flow (EBITDA) and the majority target companies with \$3MM or more. Even strategic buyers are increasingly reluctant to undertake small deals. The result is that, as a general rule, companies that have achieved faster growth, higher profit margins, diversification and size sell for relatively more (higher multiple of earnings). During the first quarter of 2011 the median multiple for companies that sold for \$100MM to \$250MM was 33% higher than for those that sold for \$10MM-\$50MM. During the same period, above average performers (measured by EBITDA margin and revenue growth) accounted for 72% of completed deals.

Step 3: Choose the Right Time to Sell

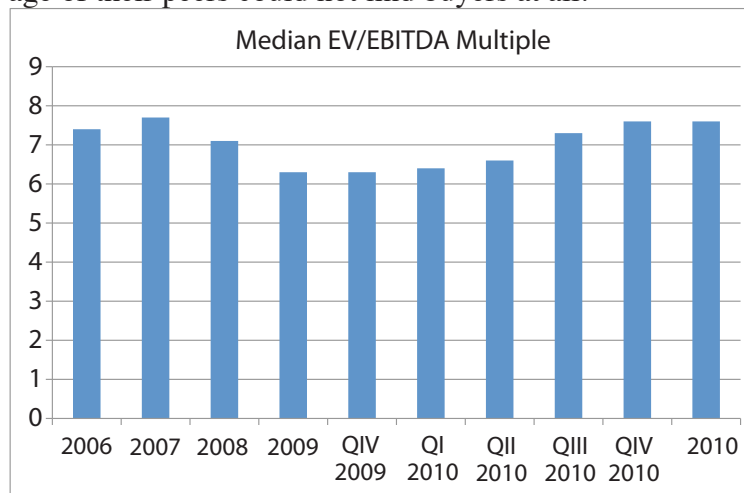
The right time is virtually never the point at which you want to retire. Just a couple of the factors that can impact the success of a business sale are M&A market volatility, changes in industry fundamentals, and earnings momentum.

M&A Market Volatility

M&A markets are volatile. From 2007 to 2009 the number of middle market transactions declined 21.2% and the median multiple (EV/EBITDA) dropped 1.4 turns (18.2%) to 6.3X..

Purchase Price	Premium To 3rd Quartile	1st Quartile	Median	3rd Quartile
\$1MM	36%	5.3	4	3.9
\$5MM	27%	5.7	5	4.5
\$10MM	40%	7	6	5
\$25MM	42%	7.8	6	5.5
\$50MM	7%	8	7.5	7.5

The median multiples would have declined further except that companies that were performing below the average of their peers could not find buyers at all.



Changes in Industry Fundamentals

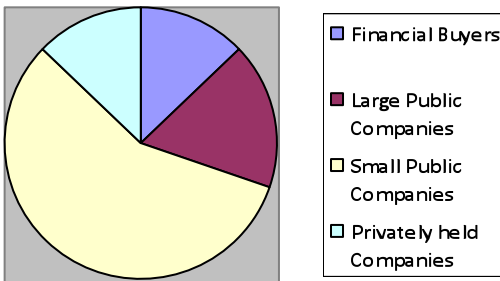
The increased rate of technological innovation and more intense global competition have led to more rapid changes in the future outlook for many industries and in the value of the companies engaged in them.

Earnings Momentum

Business sale prices tend to be expressed in terms of a multiple of last year's or last twelve months' earnings, but that price is really based on the buyer's expectations for future performance. The importance of revenue and earnings momentum at the time of sale therefore cannot be under-estimated. There is no better way to ensure your deal closes on your terms than to have a 3-5 year record of historical growth and especially to continue to report gains during the months the deals is being negotiated.

Step 4: Maximize Buyer Demand

Valuations using Discounted Cash Flow, Comparables, and other methodologies are used to estimate Fair Market Value, but the sale price at which a business is actually sold is substantially determined by relative supply and demand at the time. It's important therefore to make your company attractive to as many buyers as is practical. Depending on size and industry these proportions vary, but last year financial buyers (private equity firms) accounted for 16.5% of all deals closed (for large middle market deals the proportion was much higher and in some industries they accounted for nearly half), large public companies 25.1%, small public companies 27.9% and privately held companies 30.5%.



Step 5: Be Prepared

The right preparation can provide a substantial competitive advantage over other sellers:

- 2 in 3 don't not have a formal operating plan;
- 2 in 3 don't have a succession plan;
- 6 in 10 don't have a recent third party valuation;
- 7 in 10 aren't prepared for buyer's due diligence.

While we believe that the best outcome for owners is achieved by operating the business over years with a view to your exit objectives, some of the factors that determine market value can be affected relatively quickly and with modest investment in time and money. A few examples are:

- Ensure financial transparency;
- Validate future growth opportunities;
- Audit the quality of assets;
- Hone the company's reputation;
- Evaluate key employee performance.

Step 6: Use the Sale Process to Your Advantage

Selling your business can be time consuming and frustrating, but the process offers opportunities for owners to improve the probability of achieving a successful outcome.

- Know what comparable companies have recently sold for;
- Understand the motivations of prospective buyers;
- Know "how much is enough" to fund your goals after the sale;
- Document your successes / demonstrate how you have mitigated risks
- Remain objective;
- Don't divert your attention from running the business;
- Get the advice of an experienced M&A professional.