The Exit Playbook

A Practical Guide to Cashing Out

The Portfolio Partnership

Spring 2023

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Introduction

The Portfolio Partnership (TPP)

We are an operational consultancy that helps clients scale organically and by acquisition. It's fractional corporate development management through the lens of an operator. We seamlessly become an extension of your team and integrate at all levels to create shareholder value. We create a strategic plan together with our clients and design a set of actions aligned to that plan. We then assist in the execution of those actions to add significant experience and bandwidth to the team.

Ian Smith, BA, CA
Ian has spent the last 37 years transforming businesses in the US and in Europe. He has built and sold over 40 companies from the early years at Thomson Publishing as a young CFO, building one of the first corporate finance boutiques in Europe, turning around an IBM software business partner, and scaling the US operations of over a dozen New England businesses. Smith's mantra: Your business is either remarkable or invisible. He has held CFO, COO, CEO, and VP of Corporate Development roles. A natural educator he has published seven books covering entrepreneurship, MBOs, and private company acquisitions. He remains dedicated to his little hobby of track & field and has been a world ranked Masters athlete at 400m and 800m for nearly 20 years. Educated in Scotland, he holds a BA in economics from the University of Strathclyde and is a Chartered Accountant of Scotland. He has lived in Boston for over 20 years and is married with two daughters.

Kevin Young, BA, MBA
Kevin is an accomplished global senior executive with a track record of successfully managing P&Ls for multinational Fortune 500 companies such as Mondi, Avery Dennison, Sony, and Gillette. With over 40 years of experience, he has worked across a diverse range of industries including industrial manufacturing, specialty chemicals, medical products, materials, and consumer packaging. As a skilled operator, Kevin has held various leadership positions including President, COO, Senior Vice President, Vice President & General Manager, and Vice President of Corporate Development. His experience spans organizations with sales exceeding $500 million, over one thousand employees, and multiple global manufacturing locations. Additionally, Kevin has a wealth of international experience, having lived in Europe for four years and managing businesses on four continents. Kevin's educational background includes an MBA from Babson College and a BA in Economics from Boston College. He is also a certified Green Belt in Design for Six Sigma, demonstrating his commitment to quality and process improvement. He is an avid cyclist, married, and father of four daughters.

1
Am I Saleable?

1: Am I Saleable?

Here is the big picture. In the US there are 6.1 million enterprises that run a payroll and only 670,781 employ twenty people or more. Every year about 6,000 out of the 6.1 million or 0.1% exit for $10 million or more. (Source, US Census Data, and public M&A tables.) Now obviously not all 6.1 million businesses are trying to cash out at the same time. However, it's still a relatively rare event for a business to achieve an exit valuation of $10 million or more.

To assist owners of private companies, and assess their state of readiness for an exit, we created the Saleability Test. This is based on our past experience, over 40 years of buying and selling businesses in Europe and the United States, and the experience of many other investment bankers who close deals. The test in effect summarizes what buyers love about businesses. What buyers cherish might make you saleable and perhaps rare.

I've used this test as a predictor of the success of "cashing out" at attractive prices. Those companies scoring 60 or above were almost always sold at a premium valuation.

Give yourself a maximum score of 5 if you strongly agree with the assertion and zero if you totally disagree.

Saleability Test (15 Big Factors Driving Value)

1	**Your Compelling Story and results you achieve for customers are clear**
2	**Industry Peers see you as top 5 in the industry**
3	**Sales & Profits Growing at 25%**
4	**3 Year Horizon Shows Strong & High Growth Market**
5	**Current year trading and full year forecast > previous years**
6	**Legacy Products Don't Dominate Sales & Profits**
7	**Significant annual profits, EBITDA &10m scores 5**
8	**No One Customer Accounts for more than 5% of Sales**
9	**Top Ten Managers Regarded as World Class**
10	**Business is NOT dependant on owner**
11	**Highest Margins in Your Industry**
12	**Business Model Produces a sustainable Annuity Stream of Income**
13	**Accounts Audited Annually by Recognized Accounting Firm**
14	**Staff Moral and Engagement are High**
15	**Legal Contracts and Filings are in Good Order**

Notes to Help You Answer the 15 Big Questions

1. Use your judgment but be honest with yourself. Does your compelling story come through clearly? Is it obvious what your business does and how it benefits customers? Have you crafted a strong positioning statement?
2. Again, it's up to your judgment. Are you seen as a top player among your peers, or are you overlooked?
3. To rate sales and profit growth, give yourself 5 points for 25% or more, 4 points for 20% up to 24.9%, 3 points for 15% up to 19.9%, 2 points for 10% up to 14.9% and 1 point for 5% up to 9.9%.
4. While it's ultimately your judgment call, support your answer with market data that can be verified.
5. A high score is achieved if the business is on an upward growth trajectory and the current year's profit forecast indicates that growth will continue at the same rate.
6. It's another judgment call, but for the purposes of this assessment, "dominate" means 60% or more market share.
7. Rate yourself 5 points for $10 million in EBITDA, 4 points for $7million up to $10 million, 3 points for $5 million up to $7 million, 2 points for $2m up to $5 million, and 1 point for $1 million up to $2 million.
8. Rate yourself 5 points for up to 4.9%, 4 points for 5% to 9.9%, 3 points for 10% to 14.9%, 2 points for 15% to 19.9%, and 1 point for 20% to 24.99% and 0 points for 25% or more.
9. Judgment call. I would encourage a critical assessment of your second-tier management team.
10. Use your judgment to assess whether the business could continue to thrive for at least 12 months without the owner's direct involvement.
11. Base your answer on research rather than guesswork.
12. Use your judgment but consider what percentage of revenue you can confidently expect to receive over the next six months. A perfect score is achieved if 90% of that revenue is backed by contracts.
13. The key is to have your finances audited, but it doesn't necessarily have to be done by a big four accounting firm.
14. Your judgment is important here, but staff surveys can help support your answer. Gallup Research has shown that, on average, only 30% of employees are fully engaged at work.
15. Use your judgment, but make sure you have a good understanding of the terms and conditions of your contracts.

Conclusions

1. A score of 60 or above implies you own a highly saleable business.
2. A score below 60 but above 46 implies a quality business with a few grooming issues worth addressing.
3. A score below 46 but above 30 implies a good business but contains problems that need to be addressed to ensure the maximum exit value.
4. A score of 30 or below implies a business that needs to address some fundamental issues to ensure that shareholder value is not eroded in the short to medium term.

Fixing some of these issues can be a long process, but the reward is a more stable and prosperous business, whether or not you decide to keep it.

2

What Operational Actions Can I Execute To Transform Value?

2: Operational Actions That Transform Value

It’s very tempting to compare the buying and selling of houses with businesses. Be car ful. For example, buying another business is like buying a house but only if you include the family inside it!

Selling a business is similar to selling a house in some ways, such as the importance of preparation in securing a good price. However, many businesses are put up for sale before they are fully prepared, which can negatively impact their value. It’s essential to scale and professionalize your business, build a strong team, and focus on key aspects of your business over several years. Doing so will make your business more valuable, whether you sell it or not.

So here is the Road map. As suggested, the Saleability Test is a great place to start. You are looking for weaknesses through the lens of a buyer. Remember it’s the buyer that perceives value in your business. All you can do is aspire to price. Keep in mind that only around 6,000 out of 6.1 million businesses registered in the US Census Data exit at $10 million or more, so the odds of a successful sale are not great.

To prepare your business for sale, create a 100-day action plan to methodically tackle key agenda items. These can include:

1. **Repositioning:**
    - Revisit the fundamental business you are in.
    - Reevaluate your target audience.
    - Develop concept statements that represent your current positioning as well as several new alternatives.
    - Evaluate them for market potential, differentiating qualities, believability, and relevance.
    - Examine your competition, unique skills, and value proposition.
    - Define the exact set of activities that will allow you to excel in a specific market, one in which you can become a global player over time.

2. **Marketing:**
    - Ensure that your current internal and external marketing communications align with your positioning. Define the voice of your company – the unique narrative that will be remembered by prospects and motivate them to act.
    - Identify the pain points that your prospects are feeling.
    - Craft a compelling story that explains how your service addresses those pain points.

3. **Sales:**
    - Define a comprehensive sales process that aligns your messaging with sales scripts. This will help you have meaningful conversations with prospects.
    - Train sales professionals to adopt a business-like tone, quantify the costs associated with problems, and identify signs of live issues with serious consequences.
    - Educate your sales team to be curious and aware of a prospect’s world and to speak in their language.

- Develop engagement strategies tailored to each customer/prospect to establish stronger connections between your offering and their improved performance.
- Focus on speaking with the right person at the right account to increase your chances of success. Sales professionals should see themselves as career builders and understand how their offering can address the challenges of their prospect's role (e.g., a CMO). Understand the "need behind the need" by continuing to ask questions until you reach the core issue. Consider the client's client as well.
- Building a business case is more effective when you measure the cost of the status quo rather than just the positive ROI of your product. However, research from the book "JOLT", shows that prospects are more concerned about making mistakes than missing out on opportunities.
- Agonize over how you phrase questions to engage prospects and avoid sounding too salesy. "What are the ripple effects of "a specific" challenge to your business?" is far more powerful than "how does that impact you?"
- Stay informed about changes in the industry and in the prospect's business, as this can make or break the deal. Start every call with "what's changed since we last spoke?"
- Tailor your approach to discovery calls based on whether the deal is inbound or outbound. With outbound deals, start with a brief narrative about how you can solve market pain and then ask about their specific challenges.
- Sell the hell out of next steps. Don't assume your buyer will show up just because they showed up to the first call. Clearly explain the WHAT, the WHO, and the WHY of the next step you're proposing.
- Listen carefully to what the buyer is saying and ask follow-up questions based on their responses to build a stronger relationship. The best questions are not pre-planned but are based on the buyer's input. LISTEN.

4. **Products:**
   - Ensure that your product portfolio aligns with your positioning.
   - Bring together the right people in a continuous cycle of innovation to build top-notch products. Foster a culture of continuous improvement within your business that is always challenging itself to stay ahead of the curve.
   - Adopt a DSMO approach to product development and launch by aligning Development, Sales, Marketing & Operations to ensure the product or service is market-ready on the launch date.
   - Build a new innovation approach by aligning development teams with marketing, sales, and operations teams. This guarantees that the whole company is prepared for every product/service launch, including the post-launch integration into your systems.

5. **Talent:**
    - From PepsiCo to Facebook to local world-class players that are not household names; the problem of talent acquisition and retention is huge.
    - To improve your odds in the Talent War, create a series of low-cost actions.
    - These tactics could include creating internal universities to train your workforce, designing innovative incentive schemes, and building new organizational structures that focus on driving projects instead of departments.
    - Additionally, develop a new approach to recruitment that allows you to capture the best talent when you need it. Always be recruiting for your bench.

6. **Metrics:**
    - Thanks to today's technology, we can now measure numerous key performance indicators (KPIs) quickly and accurately, something that was only a dream a decade ago.
    - Use data visualization technology to keep track of your essential KPIs, stay focused, and up-to-date.
    - Remember that who you are is what you measure, so clearly define your positioning and create a set of financial and non-financial KPIs that measure the right stuff.
    - By building on your existing metrics, you can create an enhanced reporting system that generates clear actions required.
    - Doing so allows you to monitor the signals, keeping management agile and alert.

7. **Business Models:**
    - When considering an acquisition, buyers tend to prefer companies with a stable and consistent revenue and profit stream.
    - Therefore any business model that aims to maximize exit value should focus on achieving predictable sales and earnings growth.
    - Examine the various ways of bringing your product to market and assess the economics of each approach.
    - Even if you have no plans to sell your business, secure investment, or obtain long-term financing, building a more reliable business has no downsides.
    - Continuously review, test, and improve your monetization strategies, from simple contract improvements to entirely new business models.

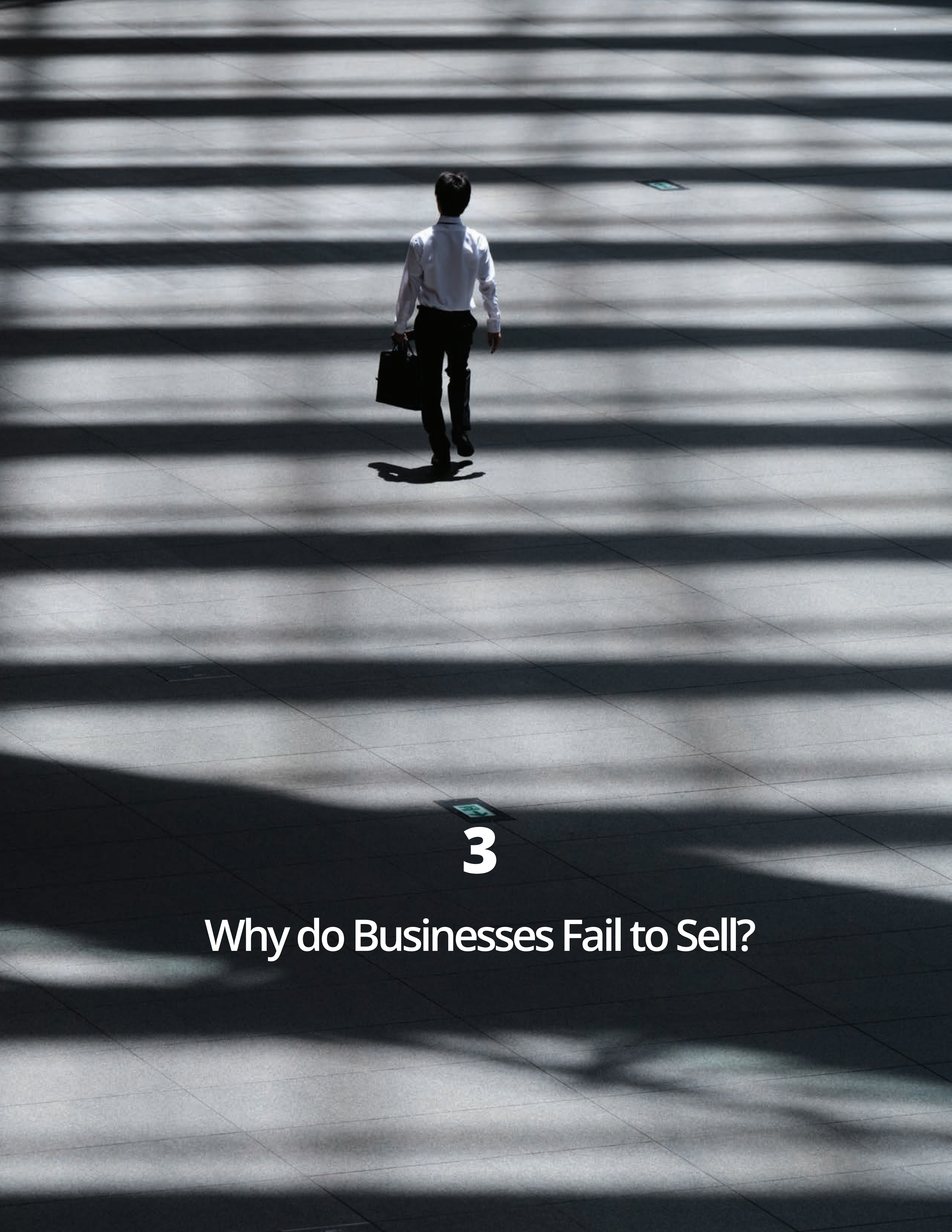
8. **Operations:**
    - When selling a business, potential buyers will consider a variety of factors related to the company's operations.
    - Safety: Buyers will want to know that your business is operating in a safe environment for both employees and customers. You should have safety protocols in place and

provide documentation of safety inspections and training.
- Environment: Environmental concerns are becoming increasingly important to consumers and investors. You should have policies and practices in place that minimize the environmental impact of your operations, such as waste reduction and energy efficiency measures.
- Sustainability: Buyers will want to see that your business is sustainable in the long term. This includes measures to reduce costs, increase efficiency, and minimize waste. You should be able to demonstrate that you have a plan for continued growth and development.
- Health: Health concerns have been brought to the forefront due to the COVID-19 pandemic. Buyers will want to see that your business has policies and practices in place to ensure the health and safety of employees and customers.
- Manufacturing or Service Operations: Buyers will want to understand the manufacturing or service operations of your business. This includes factors such as supply chain management, inventory control, and quality control. You should be able to demonstrate that you have a well-defined process for delivering your products or services to customers.
- It's important to be transparent about your operational practices and provide documentation to back up your claims. By demonstrating that your business is operating efficiently, sustainably, and safely, you can increase its value and make it more attractive to potential buyers.

9. **Capital structure:**
    - Examine your capital structure and ensure you have the necessary funds to execute your plan.
    - Review your budget and determine what you need to fund the business.
    - Are you funding the long-term needs of the business with short-term capital? If you are, this implies you need to recalibrate your plans and bring in an external equity partner.

10. **Risk:**
    - Conduct a risk assessment to ensure you're agile enough to handle changes.
    - Review the material risks within your business using SWOT analysis and scenario planning.
    - Develop a strategy to mitigate risks, whether they relate to financial matters, succession issues, contract exposures, customer dependencies, internal control gaps, accounting treatment, or forecasting ability.
    - Establish simple processes to ensure compliance, regulatory, and control issues are addressed in day-to-day business operations.

Regularly conduct a Saleability Test, preferably every six months, to assess your progress in building value. Evaluate whether your index has gone up and whether you have addressed your weaknesses. Determine if you are working on the business or in the business. By measuring this index periodically, you will gain valuable insights into your ability to build value.



3

Why do Businesses Fail to Sell?

3: Why do businesses fail to sell?

The US Census Bureau defines baby boomers as individuals born between 1946 and 1964 or currently 59 to 77 years old! Many of these individuals own businesses and plan to sell them in the next five years. A remarkable few will achieve their goal. Below we've listed 20 reasons why business owners fail to exit.

20 Reasons

1. Acquirers prefer businesses with a profitable niche and a compelling story.
2. Customer dependency, one customer accounts for more than 25% of your sales, leading to risk aversion.
3. Growth has stalled and the acquirer loses interest rather than adjust the price.
4. The business is too dependent on the owner.
5. Margins are weak relative to the competition.
6. Pre-tax profits are too small to justify a meaningful price.
7. Expectations of the seller are totally unrealistic given the size of the company.
8. Shareholders can't agree on a common valuation.
9. The business model does not generate a sales annuity stream to support sustainable earnings growth.
10. The owner waited too long.
11. Accounting records are weak, documentation weak, cash flow forecasting weak. Seller fails due diligence.
12. Having too many non-core activities can confuse buyers.
13. Lack of product innovation and reliance on legacy products can make the business less attractive to buyers. Weak staff engagement and lack of internal training can make buyers concerned about retaining employees.
14. A complicated shareholding structure can make the business less appealing to buyers.
15. Weak second-tier management can make buyers nervous about the company's ability to reach the next level without expensive intervention.
16. Outdated or poorly documented intellectual property rights, patents, and trademarks or not owning the technology can decrease the business's value.
17. The total value of the market may be too small to interest acquirers.
18. Declining lead generation and sales pipeline can deter buyers.
19. Past losses can undermine the business's credibility and make buyers want to see several more years of profits.
20. Limited processes and protocols to scale to the next level and weak alignment between departments can be a hindrance to buyers.

Conclusion

The next 2 to 5 years present business owners with a unique opportunity to scale a remarkable business, that will attract a premium valuation on exit. Think of it as an options strategy not an exit strategy. You don't have to sell but it would be nice to have the option.

4

Why Do Owners Need to Reconcile Their Personal & Business Life?

4: Why Do Owners Need to Reconcile Their Personal & Business Life?

We are told in articles, blogs, seminars, and books to find a balance between our personal and business lives and not let work consume us. Well, the Covid pandemic blew that up. Personal and business life merged more than ever. Certainly, at the date of this e-book, we are moving quite quickly to a hybrid model of working from home and in the office.

We propose a contrarian idea for owners of private companies: stop separating personal and business priorities, and instead merge them. Your business is likely responsible for over 70% of your wealth and is a key component of your personal happiness. Owners need to ask themselves what they are trying to achieve for the rest of their life whether they are 35 or 75?

To align your personal objectives with your business strategy, we've listed questions below to help clarify your goals. The CEO of a division in large corporations such as GE, Apple or Google rarely gets the chance to do this, but as the owner of a private company, you have this opportunity. It's one of the key perks of being a business owner! Although you may need help to answer these questions, you will at least be focusing on the right issues.

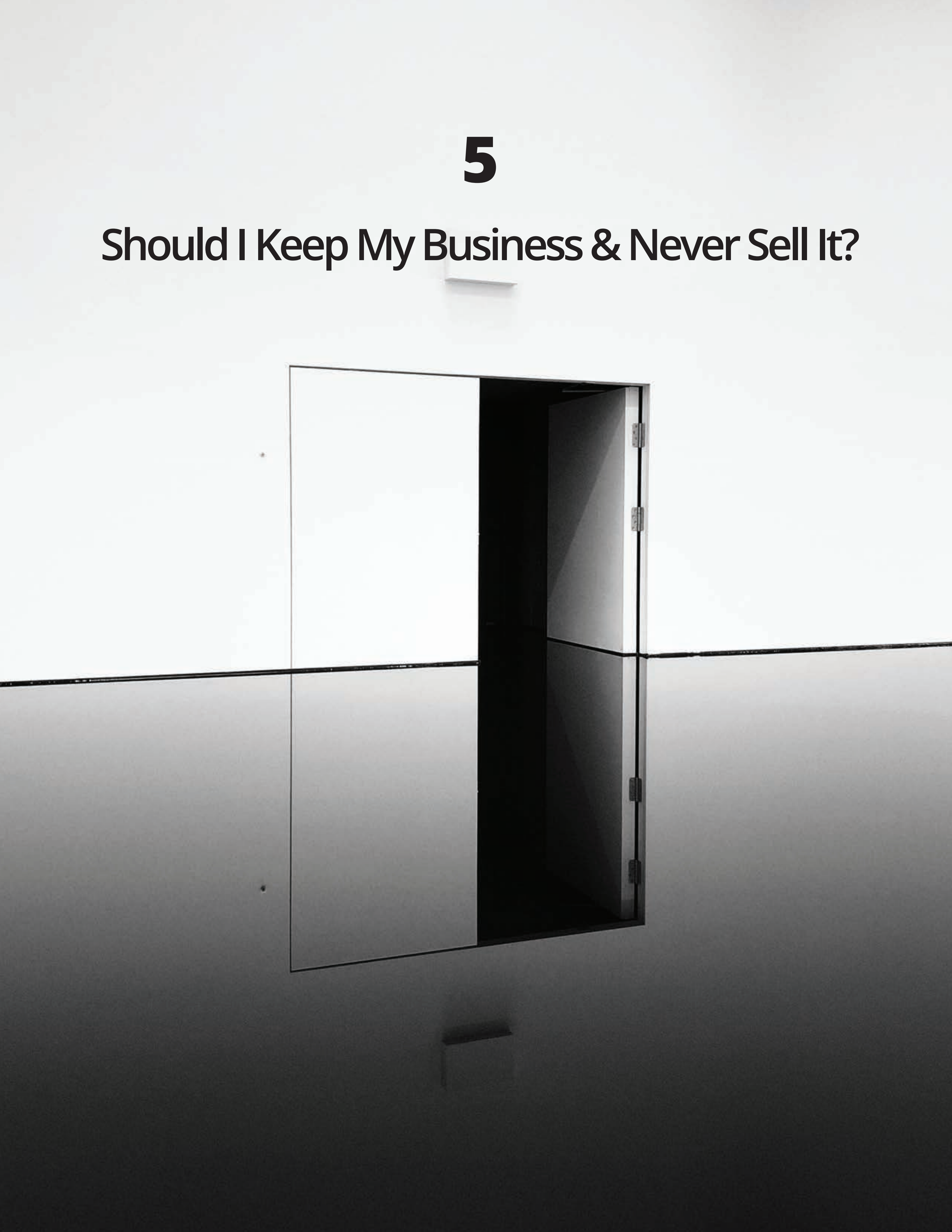
Personal Objectives

1. Is it wise to keep the majority of your wealth in a single company?
2. Are there any compelling personal events arising in the next 3 to 5 years that need to be aligned with an exit or partial cashing out?
3. Do you want to buy out your non-executive family member?
4. Does your personal tax situation affect the timing of an exit?
5. Do you need some cash now to purchase a property?
6. Do you want to accelerate the execution of your company's strategic plan? Increase the pace?
7. Are you looking for a change and interested in pursuing other activities such as investing in other businesses, pursuing hobbies, or traveling? (of course, these ideas may confirm to you that managing your business is exactly what you want to do).
8. Are you keen to start a new company in a new sector?
9. Are you bored being the CEO?
10. Do you want to earn significantly higher bonuses or dividends?
11. Are you focusing on the wrong things within your business?
12. Does your staff understand what motivates you?

By answering these questions, you can create personal and corporate solutions that make sense. Regularly aligning personal objectives with corporate strategy can avoid disappointment and confusion between shareholders, management, and employees. This alignment will bring renewed energy, passion, and commitment to all stakeholders, driving them toward a common goal.

5

Should I Keep My Business & Never Sell It?



5: Exit s vs. Keep It Strategy

Is there a difference between running a business to sell it Vs running it to keep it forever? Absolutely. If you plan to exit in the next 24 months there are preparation steps you should take which we have listed below. However, every owner needs to run their business as if they want to sell it someday. Even if you don't plan to sell, maximizing your business's potential gives you the option to sell if you choose to. Think of it as an options strategy. By taking action to increase the value of your business, you're giving yourself the option to sell if the opportunity arises.

To help you achieve this, we've compiled two lists. The first outlines value drivers to maximize your business's potential in the long term. The second lists key items to execute 24 months prior to a potential sale to ensure a smooth transaction and successful due diligence.

Value Drivers - Top 10

1. The web site spells out a compelling story that demonstrates how my life will change with your product.
2. Consistent increase in market share within your sector, aiming for a top-five slot.
3. Sales and profits are growing at 25% after adding back owner benefits.
4. Regularly launching successful new products to avoid reliance on legacy products.
5. You are driving the business towards significant EBITDA with the potential to reach $5-$10 million.
6. You are managing the dependency on big customers to ensure the impact of losing any one customer is less than 10% of annual revenue.
7. Nurturing and recruiting great talent with a repeatable blueprint.
8. A company's success is no longer dependent on the owner.
9. Your sales and cash flow forecasting models are getting better over time.
10. Measuring the right metrics to track success and identify areas for improvement.

The Exit Strategy Checklist

If you're planning to sell your business in the next 2 years, consider the following additional steps:

1. Hire an advisor to project manage the sale process.
2. Keep the finances clean, minimize personal expenses, pay market salaries, and use dividends wisely.
3. Use a respected auditor with expertise in your sector. File clean, timely accounts in accordance with GAAP.
4. Divest any non-core activities.
5. Consider investing a little more aggressively in innovation and keep it tightly linked to your compelling story. Be brutal about mistakes.
6. Buyers don't like a long shareholder tail. Be careful with ESOP schemes and sophisticated structures. Tidy up the shareholder list if possible.

7. Tax planning: it is never too early to consider the tax position of shareholders and to plan accordingly.
8. Build a collection of due diligence files over time, covering all the data that acquirers need.
9. Tidy up Intellectual Property Rights, patents, and trademarks as quickly and as efficiently as you can.
10. Address any long-term litigation issues.
11. Consider reasonable non-competes and incentives for key staff.
12. Double down on creating a constant buzz around your brand. Customers and acquirers buy for emotional reasons!
13. Consider more meetings/alliances than usual with the bigger players who may form a buying list one day.
14. Establish realistic expectations on value with all shareholders!
15. One year prior to your ideal sale date, hire an appropriate corporate finance adviser.

6

Exit Checklists

6: Exit Checklists

Both of the Portfolio Partnership Partners have experience as operators. One has built two investment banks in London, turned around a leading software business, scaled over a dozen New England businesses and lead the divisional corporate development team of a public company The other has over 30 years of leading divisions of Fortune 500 companies. To understand our operational experience over the last 40 years, please refer to our resumes in the introduction.

We have created two essential checklists for you. The first is a 24-month operational checklist to be completed before exiting your business. If executed skillfully, it could significantly increase your exit value. The second is a checklist of items that your corporate finance adviser will execute in the 6 to 12 months prior to completion.

Operational Checklist (ideally 24 months pre exit)

1. Craft a compelling story that conveys your unique value proposition.
2. Identify new areas where your expertise can be applied.
3. Reduce your dependence on any one customer to no more than 10% of sales.
4. Ensure your lead generation is process driven, based on activities you know work and is aligned with all marketing initiatives.
5. Build a reliable sales process that does not rely on recruiting superstars to succeed.
6. Develop HR strategies to build a comprehensive management team to ensure the business is NOT perceived as a one-man band. Buyers will be nervous that the company can reach the next level without expensive intervention. Buyers don't have a warehouse full of spare staff.
7. Implement processes that gradually increase margins each quarter.
8. Adapt business models to generate recurring revenue streams that support sustainable earnings growth. Improve accounting and operational systems to pass diligence tests with ease.
9. Establish a metrics-driven culture that measures the right things and takes the appropriate action based on the results.
10. Develop a more aggressive approach to New Product Development and ensure that they get launched successfully.
11. Create simple and effective internal training programs to demonstrate the ability to scale your team.
12. Document and protect intellectual property rights, patents, and trademarks.
13. Maintain a record of competitive positioning over time and analyze the reasons for successes and failures.

Corporate Finance Adviser Checklist (probably 12-month period pre exit)

1. Determine the value of your business and establish a realistic range of values achievable from potential buyers.
2. Create an Information Memorandum that summarizes why your company is remarkable.
3. Customize additional information packets for each shortlisted buyer highlighting the strategic benefits of owning your business.
4. Understand motivations/strategic plans of buyers in your industry.
5. Research the most appropriate strategic and financial acquirers.
6. Manage a confidential controlled auction.
7. Handle unreasonable information requests from potential acquirers.
8. Manage communication between potential acquirers and the shareholders of the selling company.
9. Negotiate the terms of the deal.
10. Structure the deal to maximize your exit proceeds.
11. Structure the earn-out formula if necessary.
12. Identify and address any potential problematic commercial issues in the sale and purchase contract (Clearly this will be one of the main tasks of your M&A lawyer).
13. Oversee the deal to completion.

7

What Advisors Do I Need And What Are Their Roles?

7: What Advisors Do I Need And What Are Their Roles?

There has been an explosion of consultants who offer some form of Exit Planning advice. The number of advisors involved in the sale of a company often depends on the size and complexity of the transaction. Most have some value to add to the process. However, to guide you through the landscape of services available to you, I've highlighted the key roles to achieve the following:

- Improve the probability that the deal will close, at an attractive price.
- Ensure that shareholders have achieved the most tax efficient deal structure.
- Ensure that shareholders can sleep at night without worrying about horrendous warranties and indemnities.
- All shareholders are happy with their roles in the business post completion.

We are assuming the business has trailing revenue and profits for the previous 12 months of at least $10 million and $1 million respectively. (We're not saying businesses don't sell at figures way under this, because they clearly do, but my advice here is aimed at the $1million profit and above market.)

Let's break the advisors down into different functions for a better understanding. It is important to determine who the client is in each case. For example, the personal tax advisor of the main shareholder cannot be appointed by the company. However, the Board of the company, representing all shareholders, should appoint the Corporate Finance advisor to sell the business. It is important to be aware of any conflict-of-interest issues and clearly define who is appointing which advisor.

Functions – Preparation prior to corporate finance adviser appointment – 24 months Pre- Sale

1. **Tax Advisor -** provides advice on the tax implications of the sale and helps structure the deal to minimize tax liabilities for the seller. Please note:
    a. As the main shareholder, the earlier you can review tax planning options, the more you can reduce the risk of overpaying taxes. Time is tax planning's worst nightmare and best friend. The longer the runway the better.
    b. When choosing a tax advisor, it's important to find someone with experience in structuring M&A deals, particularly with regards to the tax implications of earn-outs. While you may have a great tax advisor for day-to-day operations, the world of M&A and selling your company requires specialized knowledge that comes from years of experience.

2. **CPA -** provides financial due diligence and helps ensure that the financial records are accurate and up to date. They may also advise on tax planning and structuring the deal to minimize tax liabilities. A recognized regional firm with experience of the exit process is essential. And ideally have them complete two full year-end audits prior to the appointment of the corporate finance advisers.

3. **Operational Consultancy & Quarterback role -** provides strategic advice and guidance on how to improve the operational and financial performance of the company in preparation for a sale. They work closely with the company's management team to identify areas of improvement, develop and implement action plans, and

monitor progress.

a. This is one of the few external advisory services, alongside tax advice, that can potentially add millions of dollars to the final sale price. As an advertisement, this service is a core offering provided by The Portfolio Partnership.
b. Working closely with the company's management team and other advisors they ensure that the sale process runs smoothly and that the company achieves its maximize sales values
c. It is important to avoid making superficial changes to the business just prior to buyers looking at it. This is often referred to as "putting lipstick on a pig". This is a major red flag to an acquirer.
d. Through a short but sharp Discovery audit, conducted by experienced operators (over 50 transactions completed within the team) it is possible to identify the value drivers that make-or-break deals. However, the challenge for owners isn't just knowing what these drivers are, but how to change them. This requires know-how obtained through operating global businesses along with deep M&A experience.
e. We believe that with a light touch the operational consultancy can also act as the project manager of the exit process and the steward of all the roles needed. The quarterback role requires a firm hand and individuals who have completed many transactions, is sensitive to the objectives of the client, the skillset of each advisor, and the significance of the timing of great advice.

4. **Wealth Management/Financial Advisor** - helps the owner plan for their financial future after the sale.

    a. It is likely that all the main shareholders will have existing trusted financial planners and wealth management advisors. However, they need to be brought into the discussions early on. Your financial advice needs to be holistic.
    b. Their goal is to help the owner achieve their financial goals and ensure they are well-positioned for the future.

Functions – 12 Months Prior to Sale

1. **Corporate Finance Adviser -** provides strategic advice on the sale process and identifying potential buyers. They help the company to prepare its financial statements and other documents, conduct market research, value the business, and negotiate with potential buyers. They also help to structure the deal and ensure that the sale is completed smoothly and efficiently. Overall, their goal is to maximize the value of the company and achieve the best possible outcome for the owners.

    a. You are looking for key characteristics to make the experience successful and enjoyable.
    b. Build your own checklist by all means but ensure you get answers to these questions
        i. How many deals have you completed in my specific industry?
        ii. Who will personally lead the assignment?
        iii. Do I feel comfortable as the main shareholder with the

deal leader, especially in terms of chemistry? You will be spending significant time together.
    iv. Did you achieve premium exit valuations, and if so please explain?
    v. Which deals have you handled that didn't sell and why?
    vi. How many deals does the firm close in a year?
    vii. What is the average value of your deals?
    viii. Can I have three references that I can telephone if I regard you as my preferred choice?
    ix. Do I understand their methodology for finding appropriate buyers?
    x. What's their approach to confidentiality?
    xi. What are your fees under all circumstances?
    xii. What happens to fees if I change my mind?
    xiii. How are you rewarded for the earn-out portion of the deal, if any?
    xiv. What's your involvement in the due diligence process?

2. **M&A attorney -** provides legal advice and support throughout the sale process. They assist in drafting and negotiating the sale and purchase agreement, as well as handling any legal issues that may arise.
    a. Again, most owners have their trusted attorney in place. However, the need for really specialized M&A advice is key. Experience in cross-border deals is essential because it is likely that the buyer could be foreign.
    b. It is important that the M&A attorney has access to specialist lawyers who can handle employment, contract, real estate, environmental, intellectual property, and other issues that may arise in the sale of the business. For example, an employment attorney may be required to assist in negotiating employment agreements, reviewing collective bargaining agreements, and advising on the transfer of employees to the new organization.
    c. The timing of this appointment can wait until after the sales process has started. Once it is clear that a few strategic/trade buyers are interested, it's time for the M&A attorney to be appointed.
    d. A similar checklist should be drawn up as in Chapter 6 above, to ensure the transaction is successful and enjoyable.

3. **Unique Specialists -** there are several unique specialists that may be required depending on the specific circumstances of the sale. Some examples of these specialists include:
    a. Intellectual property (IP) attorney: If the business has significant intellectual property, such as patents, trademarks, or copyrights, an IP attorney may be required to ensure that these assets are properly protected and transferred to the buyer.
    b. Environmental consultant: If the business operates in an industry that involves potential environmental risks, such as manufacturing or oil and gas production, an environmental consultant may be required to assess and mitigate any environmental liabilities associated with the business.
    c. Regulatory specialist: If the business operates in a highly regulated industry, such as healthcare or finance, a regulatory specialist may be required to ensure that the sale complies with all relevant

regulations and laws.

d. Human resources (HR) consultant: An HR consultant may be required to ensure that all employee-related matters are properly handled during the sale process, including issues related to benefits, pensions, and severance packages.
e. Cybersecurity expert: If the business has significant digital assets, such as customer data or proprietary software, a cybersecurity expert may be required to ensure that these assets are properly protected and transferred to the buyer.
f. Real estate specialist: If the business owns or leases significant real estate, a real estate specialist may be required to ensure that all associated legal and financial matters are properly handled during the sale process.
g. IT consultant: the IT systems and infrastructure of the company are important assets that need to be evaluated and potentially improved to maximize their value in the sale. An IT consultant can assess the current systems and recommend upgrades or changes that can make the company more attractive to potential buyers. Additionally, they can assess the current cybersecurity measures and recommend improvements to ensure that the company's sensitive data is protected during the sale process.

It is important to get ahead of the curve and complete necessary housekeeping long before the buyer starts investigating the business in detail.

4. **Due Diligence**

a. This is an area often underestimated by sellers. Remember that your management team will be stretched during the sales process. They need to deliver historically high profits and sales at the very point that the buyer is asking questions 24/7!
b. At The Portfolio Partnership we have experience handling buyer enquiries and the due diligence process from the seller's perspective. As your fractional corporate development team, we allow the management team to focus on driving the results and delivering on the sales, cash flow and profit forecasts. Buyers need to be policed. Some questions are fair, and some are out of bounds. Due diligence is about buyer's really seeing how the management team can cope under pressure and whether their post-acquisition is credible.

In the next chapter we explore how to ace the due diligence test.

8

How Do I Ace The Due Diligence Test?

8: How Do I Ace The Due Diligence Test?

As the owner of a private company, you may have decided that this is the year you are going to cash out. You may have heard from friends about the sales process. Hopefully this short e-book has given you some insight into the preparation needed to execute a sales process with confidence.

To achieve a successful exit, it's important to pass through a rigorous process called Due Diligence. To prepare for this process, it's recommended to take certain steps before embarking on the exit process. The previous chapters have given you a great background to help you beat the odds. As a quick summary, the following steps should be taken by a seller:

1. Organize financial records: Ensure that all financial records, including balance sheets, profit and loss statements, tax returns, and other relevant financial documents, are properly organized and up to date.
2. Clean up the business: Ensure that the business is in good standing by addressing any legal or regulatory issues, settling any outstanding debts, and resolving any pending lawsuits or disputes.
3. Review contracts and agreements: Review all contracts and agreements, such as leases, customer agreements, and vendor contracts, to ensure they are up-to-date, accurate, and in good standing.
4. Conduct a self-due diligence review: Perform a self-due diligence review to identify any potential issues that may arise during the buyer's due diligence process. This includes reviewing employee records, intellectual property assets, customer contracts, and any other areas that may be scrutinized during the process.
5. Hire the appropriate specialist to help you achieve the above.

Once you have a potential buyer for your business, all the preparation work you have done will finally pay off. The next step is to organize all of your information into a comprehensive virtual data room. This is essentially a summary of all the moving parts you have been working on to increase the value and attractiveness of your business for sale. We call this The Data Room Project.

The goal of this project is to bring together all the relevant facts and figures into a cross-referenced filing system of key documents and metrics. It should contain all the information that potential buyers will be looking for during the due diligence process. It is important to approach this project from the perspective of an experienced acquirer rather than an in-house accountant. Here are some of the advantages of having a well-organized and detailed data room:

1. You will be able to produce evidence in a timely manner to support all assertions and representations made to the acquirer. This will cover strategy, marketing, sales, metrics, forecasts, processes, assets, IPR and patents, employment contracts, insurance, leases, cash flow, balance sheets, history, roles, accounting records, competitors, shareholding structure, customer contracts etc.
2. You will be able to release validated data to a shortlist of acquirers with the knowledge that everything is reconciled, cross-referenced and justified.
3. You will complete the due diligence process in record time with your preferred acquirer without disrupting the performance of the business.
4. This approach will allow your team to focus on executing the current years objectives without being distracted by numerous requests from various acquirers, investment

bankers, and lawyers. If you think about it, due diligence often distracts your management team, preventing them from running the business, just at the point where you need their best performance.

5. It will give you the opportunity to assess any exposure that exists within the business and correct it, long before an acquirer gets the chance to leverage that weakness.
6. It can demonstrate your professionalism and attention to detail to potential buyers, which can increase the likelihood of a successful sale and increase the perceived value of your business.
7. Even if you decide not to sell your business this time, The Data Room Project will give you great insight into your business and how it can be improved over time.

9

Clear Next Steps

9: Clear Next Steps – How Can We Help You Navigate Your Exit?

Exiting a business can be overwhelming and it's hard to find objective advice. There are so many aspects to a successful sale.

Where can you find impartial advice? It's best to seek guidance from someone with experience in managing and selling businesses. You should aim to learn about the current standing of your business. Can it be sold? What's its value? Is it attractive to buyers? What are the available choices?

That's why The Portfolio Partnership is offering owners of private companies a unique opportunity to help them with the process. Here are the steps:

1. A free exploratory Zoom or phone chat with Ian and Kevin to review your current situation.
2. If all parties agree, meet face to face with Ian and Kevin. During this no obligations meeting, subject to some basic fact gathering, we aim to provide you with the following four things:
    a. Our observations on your current positioning and storytelling.
    b. An estimated valuation range for your business.
    c. A candid discussion about your exit ambitions.
    d. The best way forward including how we could work together.
3. Our Discovery Report is a comprehensive report that we produce within 3 weeks of appointment. It answers key questions to help you to take stock of your business and it maps out operational roadmaps to build a business with a high probability of achieving your ideal number. The ideal cashing out figure reflects the reward for the years of risk taking and decision making you have executed.
4. This report will be a key ingredient to answering the question, when is the best time to sell?
5. Assuming that we all believe that an exit can happen in the next one to three years, the next stage would involve assembling the team that will help make the project a success.
6. A successful sale requires good project management skills. You need to coordinate multiple tasks to finish at the same time. As the owner or CEO, you and your team need to keep running the business. At TPP, we can manage this process under your guidance. We work alongside your team, making changes to help scale the business.
7. And since we're hands-on with the business, we can free up more time for you and your team. This means we can also handle the due diligence process for you. Our Data Room Services create thorough and reliable data rooms and we oversee the disclosure of information during the sale process. This way, you can stay focused on running the business and achieving another great year!

CONCLUSION

We hope you found this e-book useful. If you want to learn more and discuss your current situation, please don't hesitate to schedule an introductory chat with Ian and Kevin. We have successfully managed dozens of exits, and we'd be happy to share some of our stories with you.

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The Portfolio Partnership