

Choosing the Right Path for You & Your Business

Selling Your Septic Business

Presented By

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Golden Circle Advisors
SELL SMART. BUY SMART

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Who is GCA?



Selling a
Business

M&A Advisory Services
Business Valuation Services
Franchise Sales
Business Auction Management

Buying a
Business

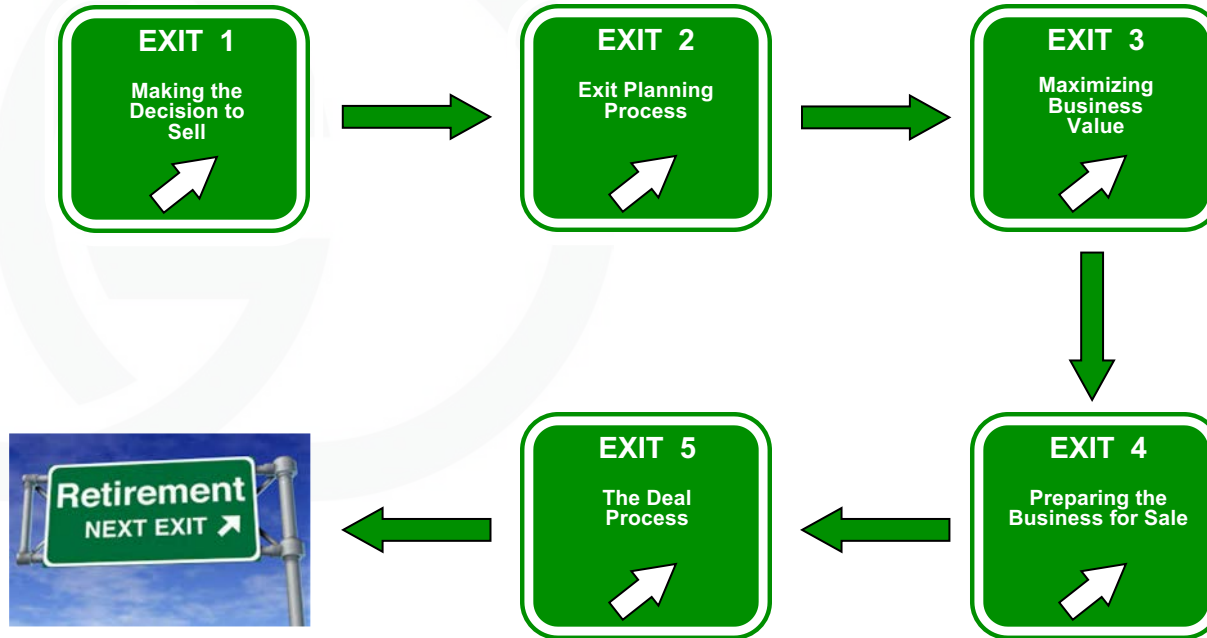
M&A Advisory Services
Financing Services

Office Locations
Traverse City
Plymouth



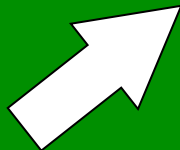
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Map to Your Exit Strategy



EXIT 1

Making the
Decision to Sell

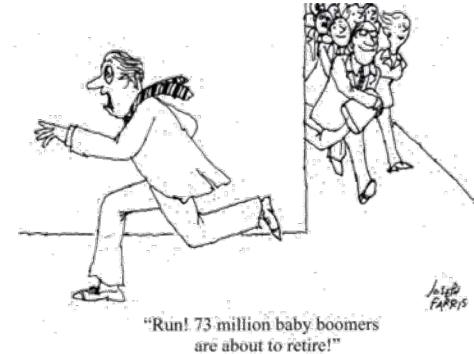


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Baby Boomer Statistics



- **70 million Baby Boomers**
- **11,000 Baby Boomers are turning 65 every day**, with the trend continuing for the next 18 years.
- **18.4% of the US population** will be more than 65 years old in 2020, which is a 34% increase since 2000.
- 9 million of the 15 million business owners were born in or before 1964, resulting in **one business owner turning 65 every 57 seconds**.
- Estimated that **12 million business will sell over the next 10 to 15 years**, with a large number of these owned by Baby Boomers.
- **70% of these companies are expected to change hands**.
- Retiring Boomer business owners will sell or bequeath **\$10 TRILLION worth of assets** over the next 2 decades.
- 55 to 64 year olds form businesses at the highest rate of any age group.
- There will be **as many Baby Boomers buying business**, as those that are selling.
- PricewaterhouseCoopers estimates that **40% of business owners EXPECTED to CLOSE** their business when they retire.
- There are **80 million Millennials in the US** (those under 35 years old)



Baby Boomer Opportunities



With Current Conditions of:

- Interest rates still very low historically
- Low inflation
- Historically low capital gain taxes
- Higher overall business valuations
- Capital availability from the SBA that also considers business cash flow, not just hard assets



Now is the time to cash in & enjoy what you have worked so hard for.

In Real Estate it is all about "Location, Location, Location."
In Business it is all about "*Timing, Timing, Timing.*"



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Is this the right time to sell?



- Have you achieved your goals you set for yourself and the business?
- How much longer do you want to work in the business before retiring or moving on? _____ years
- What annual after-tax income do you want during retirement (in today's dollars)? \$_____
- To whom do you want to transfer the business?
 - Family?
 - Co-Owner?
 - Key Employee(s)?
 - Outside party?
 - ESOP?



Are you stuck in your business?

- No vision or strategic plan for the business
- Having too much of our wealth tied up in the business
- Using the business as a personal “piggy bank”
- Your personal identity is linked to the business
- Have not developed other interests and hobbies
- Tiredness, lack of passion
- Wearing too many hats
- Paralyzed from too much stress
- “Firefighter” mentality – Always putting out fires
- Being scared to make changes or got too comfortable
- Working “ON” and not “IN” your business
- Are there other motivating factors for me? Do I want the business to retain its name and identity following my exit?
- Is it important that my business retain its independence?
- What is the right time to leave my business?
- Does my business have all the necessary managerial expertise required to be successful in the future?
- Does the business have an appropriate capital structure and access to further funding to enable it to take advantage of the future opportunities?
- How do I ensure that I meet all of my future goals and expectations?



The Reality For Business Owners



- Exiting your business is inevitable and the largest value detractor is often what the owner IS or IS NOT doing.
- 80% of business owners exit their business to retire, they are not *serial entrepreneurs*.
- Their principle fear is “will I have enough money so that I can fund my retirement lifestyle without running out of money.”
- Other considerations may include wealth transfer to the next generation, charitable giving and minimizing taxes.
- Most business owners have only an anecdotal perception of the value of their business.

“My brother in law knew a guy who had a business like mine that sold for...”

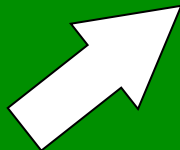


- Typically 50% - 75% of a business owner's net worth is in their business assets. The balance is in their personal real estate & financial investments.
- Business owners typically only have ONE chance to monetize their largest asset.



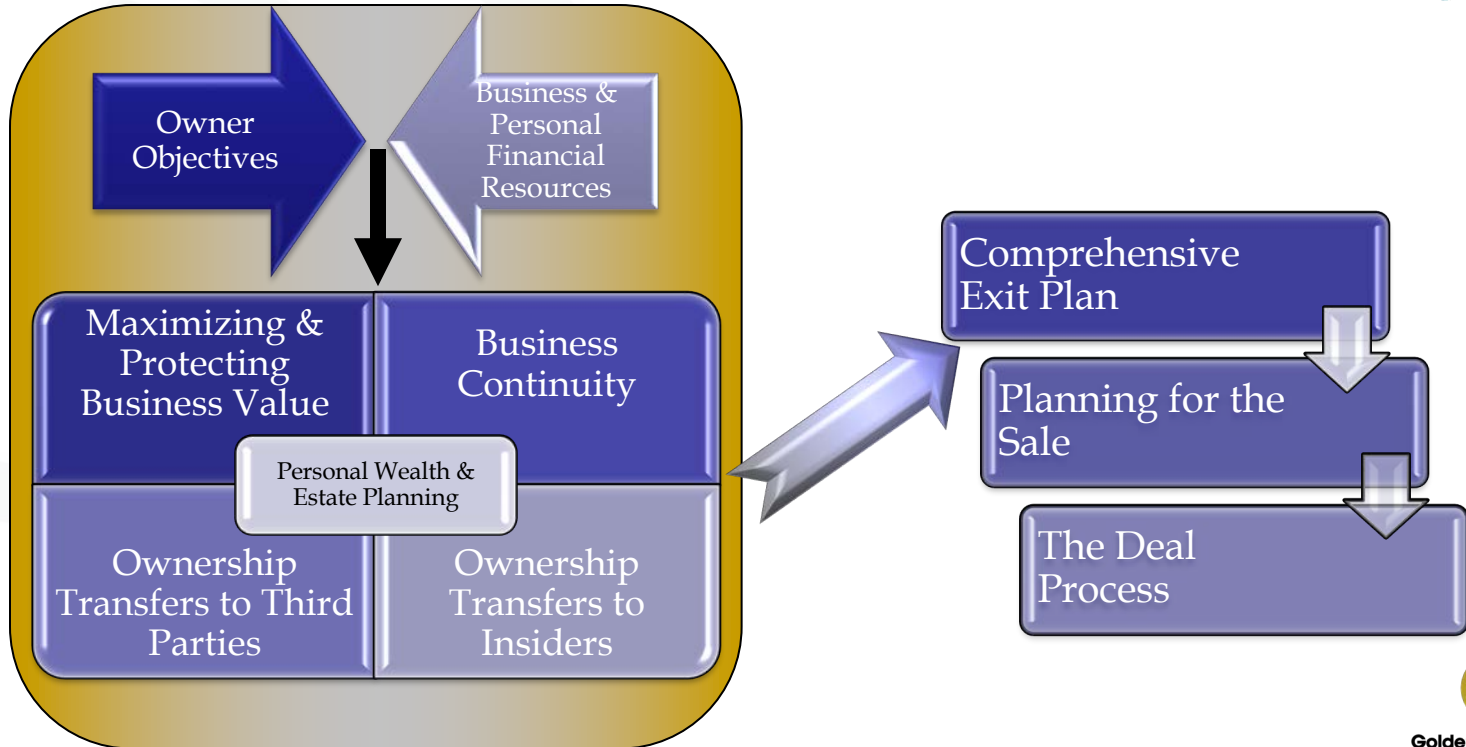
EXIT 2

Exit Planning Process



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The Exit Planning Process



Most business owners spend more time planning a family vacation than how to build value and exit from their business.

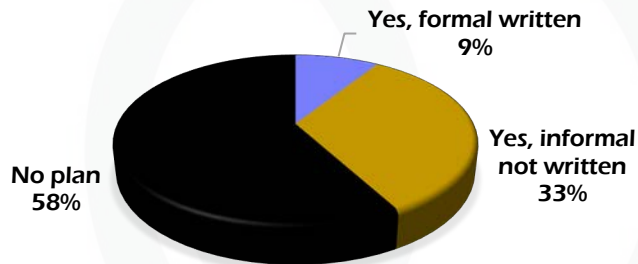
*This is not due to a lack of desire or intelligence.
It is simply because they don't know how or where to begin.*

The average business owner spends 80 hours preparing a business plan and only 6 hours preparing for their exit.

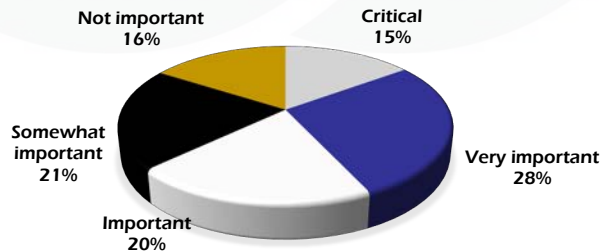
*"If you don't know where you're going you could end up
someplace else."* Yogi Berra

Business Transition Planning

Prepared a Transition/Succession Plan

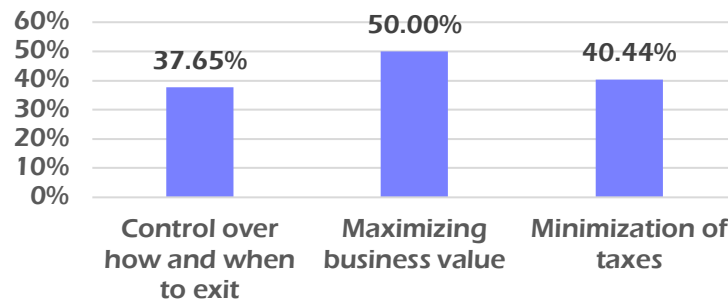


Importance of Transaction Proceeds for Retirement

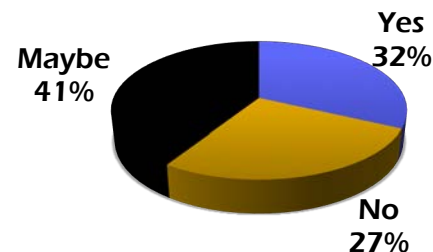


Source: ROCG Business Transition/Succession, October 2008

Most Important Component



Will Finance Deal to Get Increased Value



Building a Team of Professional Advisors

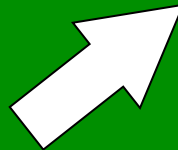
Working with a Team of Advisors

- No one professional has all the answers.
- Diverse skills and talents are necessary.
- Team approach minimizes time and cost.
 - If properly facilitated and led.



EXIT 3

Maximizing
Business Value



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First Step – Get a Business Valuation

- Provides valuable data for an Exit Planning Process
- Provides a baseline for business value
- Allows you to monitor progress toward your stated objectives.
- Identifies what is being sold
 - Inventory, Equipment, Real Estate, Stock
- Establishes profitability & cash flow
- Assesses risk
- Identifies value drivers
- Scans marketplace
- Considers financing strategies
- Establishes relationship between earnings and value
- Should be done regularly with business planning

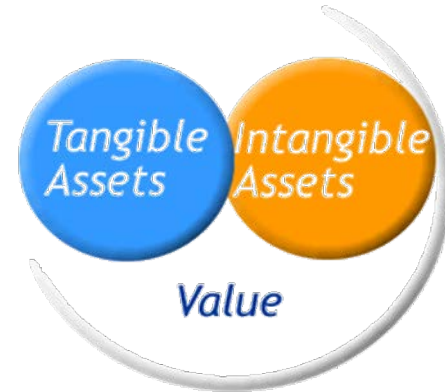


What Is Valued?

- Tangible Assets
 - Leasehold Improvements
 - Equipment, Furniture & Vehicles
 - Inventory, Accounts Receivable

Intangibles

- Goodwill (vs. “Blue Sky”)
- Patents & Copyrights
- Controlled Territories, Product/Service Niche
- Customer & Supplier Contracts



Value is in the eye of the beholder



- Individual / Lifestyle
- Financial Buyer / Private Equity
- Strategic Buyer
- Related Parties
 - Family
 - Key Employees

Value Drivers & Detractors

Drivers

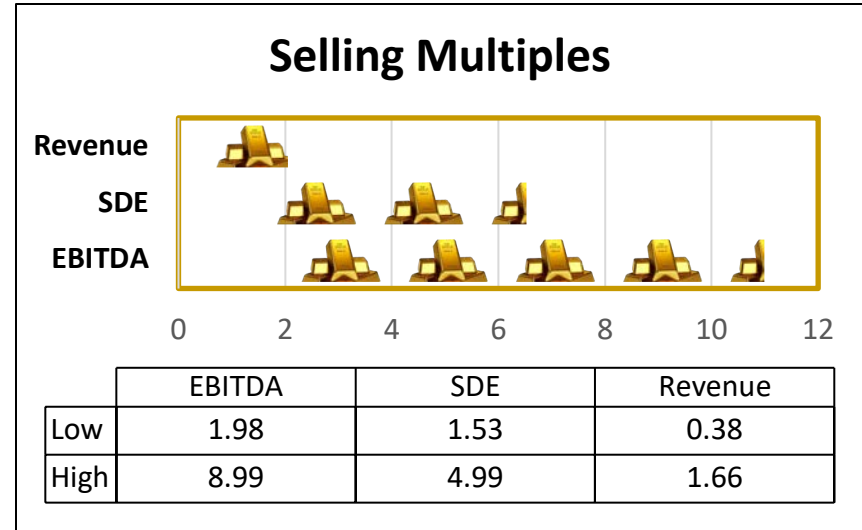
Holding Tank with Exception – DEQ Part 117
Permits & Sites for Land Application
Local Municipalities with Low Cost Disposal
Owned Wastewater Treatment Facility
Diversification – Pumping, Portables & Waste
Positive Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
Excellent Customer List
Product Differentiation
Defensible Market Positioning
Dominant Market Share
Technology and Proprietary Processes
Location

Detractors

Requirement for Disposal at High Cost Municipalities
High Level of Unreported Income
Lawsuits for Previous Acts, Products Produced or Services Rendered
Loss of Customers
Outdated Technology, Products, etc.
Labor Force/Employment Issues
Vendor Relationships
Government/Tax Issues
Industry Changes
International, National and Local Economies
Competition

How much is my Septic/Portables business worth?

- **Not making any money?**
 - Worth the Fair Market Value of the Assets
- **Making some money?**
 - It depends on the Drivers & Detractors
 - Higher the earning, the more valuable the business is
 - Ballpark value



Ways to Improve Business Value



- Focus on profitability over revenue growth & tax avoidance
- Reduce/eliminate reliance on owner throughout business
- Reduce/eliminate dependencies
- Good & accurate record keeping
- Document all processes, policies, operations & personnel
- Formalize employee training, development & mentoring
- Increase employee tenure & reduce turnover



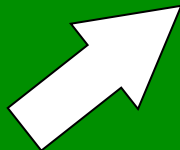
- Continue preventive maintenance
- Continue exploiting technological advanced & web presence
- Develop & enhance competitive advantages
- Increase customer retention & loyalty
- Limited customer concentration
- Enhance marketing strategy & plans
- Resolve all litigation, regulatory or insurance issues



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EXIT 4

Preparing the
Business for Sale



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Information Needed

- Business overview
- Products & services
- Company history
- Customer information
- Sales & marketing plan
- Competition & competitive advantage
- Industry information
- Organization
- Owner involvement
- Financial information with support documents
- Future expansion
- A/R
- A/P
- Gross profit margin
- Income & expenses
- Litigation
- Areas of improvement
- Environmental – physical plant & property
- Regulatory compliance considerations

Preparing Your Business for Sale

1. Start early
2. Address key dependencies – customers, vendors, employees & yourself
3. Look for cost efficiencies & trim the fat
4. Have strong financial controls & processes
5. Recast financial statements
6. Identify excess assets & convert them into cash
7. Articulate your vision
8. Analyze your staff
9. Develop a growth plan that is realistic & supportable
10. Separate family issues from business issues
11. Working capital: understand it, manage it, reduce it!
12. Tackle any “Deal Killers” now
13. Determine what are you selling
14. Timing is key – sales levels, market conditions, etc.
15. Seek professional advice



Entity Structure is Important



Asset Sale

- Buyer
 - Avoids entity liabilities and risk exposures
 - Step up in basis of assets (higher depreciation/amortization)
 - Purchase price allocation required
- Seller
 - Different tax treatment between C corporations and pass-throughs
 - No continuing liability
 - Transition may be secured by employment continuation



Stock Sale

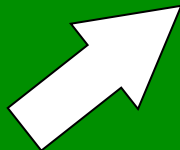
- Buyer
 - Takes entity liabilities and risk exposures
 - No step up in basis of assets (lower depreciation/amortization) absent § 338(h)(10) election when eligible
- Seller
 - Capital gains
 - No continuing liability
 - Transition may be secured by employment continuation
- May be required by current contracts not being assignable



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EXIT 5

The Deal Process



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Recent Survey of Business Sales



Who is Buying?

First time buyers outnumbered all other types for under \$1MM and \$2MM - \$5MM

Strategic Buyers dominate sector of businesses valued \$1MM - \$2MM

Half of all businesses valued \$5MM - \$50MM were acquired by Private Equity firms, with the balance split between Strategic Buyers & existing business owners

Success Rates

78% of business valued under \$500,000 do NOT sell

1 out of 4: Overall Success Rate of ALL Businesses

1 out of 3: Success Rate for Businesses with Sales of \$10MM

1 out of 2: Success Rate for Businesses with Sales Over \$10MM

The Deal Process



Common Preparation Pitfalls



1. Going solo
2. Not having the right professional advisors
3. Starting the process with unrealistic expectations
4. Getting the timing wrong
5. Incorrectly valuing your company
6. Not spending enough time on preparation
7. Preserving confidentiality
8. Pre-qualifying prospects
9. Providing accurate sales and financial data
10. Seller can't let go – emotional tie to business

Thank You...

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