Ready to Sell: A practical Guide to Preparing Your Business for Sale

Rachal McCarthy

~~Presid Global~~

Capitalist Hippie

Rachal McCarthy

- Bachelor’s degree and teaching at college before legal drinking age.
- Started work on first patent at 16 years old.

- **As President of NTI Global:**
  - Opened 7 distribution locations
  - Expanded manufacturing to second US location, Texas
  - Added IP in USA, China, and Canada
  - Bottom line, top line, employee tenure, and employee engagement all increased

- Elected President at 25 years old
  - Slept at the office.
  - Tried, failed, changed, and pivoted
  - Closed divisions, opened divisions
  - Bought and sold business segments

- Understand and use the word “NO”
  - ‘Yes’ isn’t always right

- **Recognize the challenges we face**
  - Family businesses and Single owners
  - Small business
  - Understand accounting & valuations
  - Growing business

As business owners, stakeholders, or key leadership…

PRACTICAL guide

- Are you mentally prepared to sell?
- Is your business ready to be sold?
- Are you selling YOUR business or a VIABLE business?
- Worth vs Want? Determine your financial dependance

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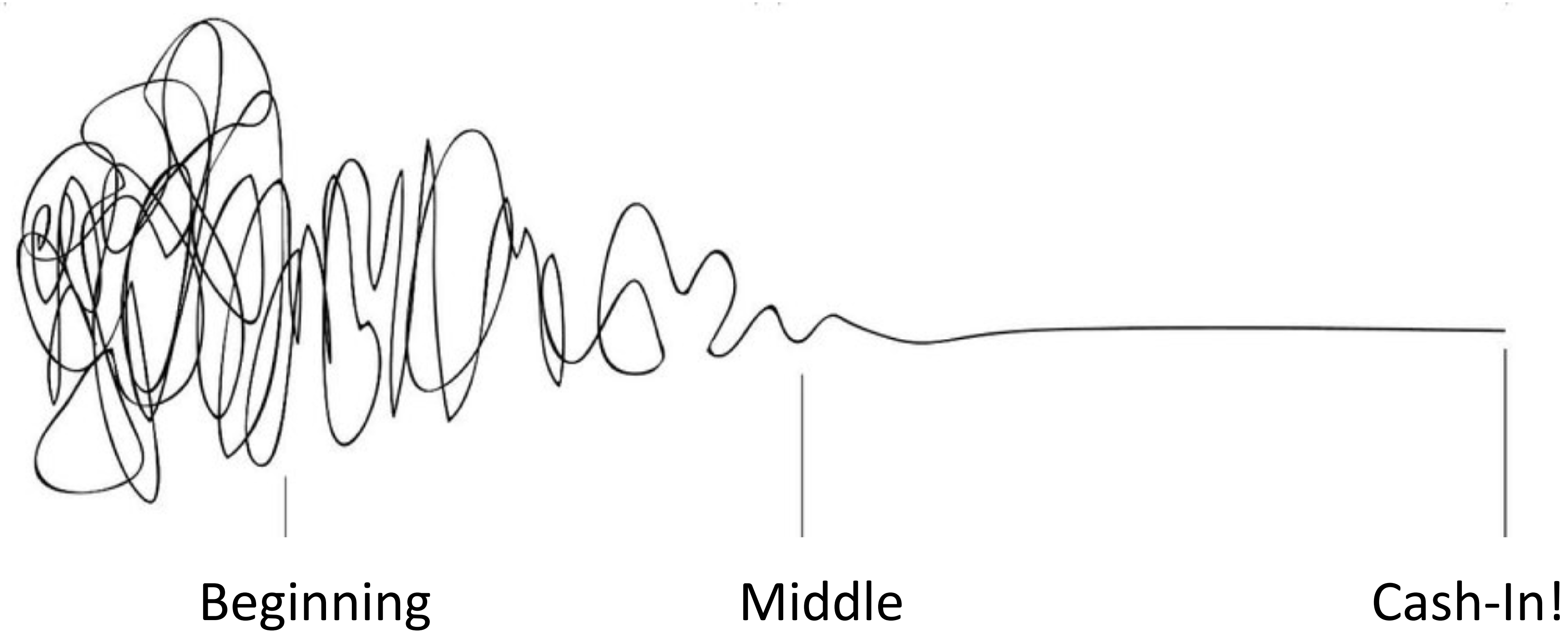
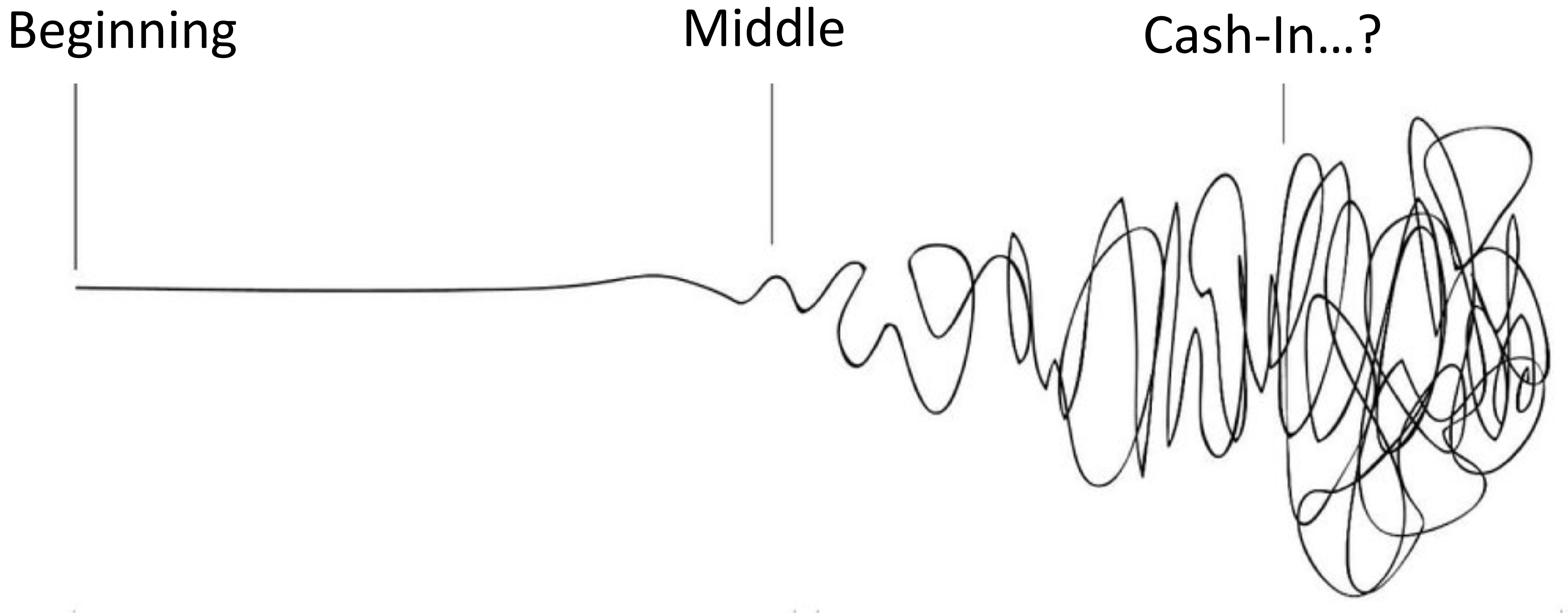

Beginning
Middle
Cash-In!


Beginning
Middle
Cash-In…?


Value or Valuable
Emotional connection
Determining your wingspan
Financial dependance VS independence


Emotional connection

Emotional connection

- Are you mentally prepared to sell?

Are you HELPING or HAUNTING?

Emotional connection

Are you mentally prepared to sell?

“You can’t sell your house but keep the keys.”

Value or
Valuable

Value or Valuable

Is your business ready to be sold? Do you need to edit, audit, and review your people, processes, and products?

- We’re vertical…
- …because it is profitable?

Value or Valuable

Is your business ready to be sold? Do you need to edit, audit, and review your people, processes, and products?

- We’re vertical…
- …because it is profitable?
- We’re the only ones…
- …who haven’t figured out why everyone else stopped

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Value or Valuable

Is your business ready to be sold? Do you need to edit, audit, and review your people, processes, and products?

- We’re vertical…
- …because it is profitable?
- We’re the only ones…
- …who haven’t figured out why everyone else stopped
- He’s my nephew…
- …who will do great somewhere else

Value or Valuable

Is your business ready to be sold? Do you need to edit, audit, and review your people, processes, and products?

- We're vertical…
- We're the only ones…
- He's my nephew…
- That's what we're supposed to do…

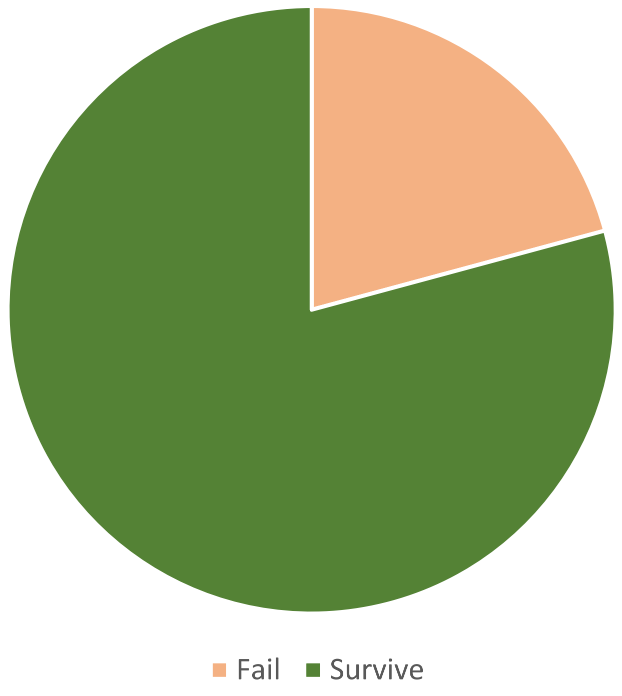
- …because it is profitable?
- …who haven't figured out why everyone else stopped
- …who will do great somewhere else
- …according to an article written by someone who has never run a business

Know your business, don't be afraid of it.

Determining
your wingspan

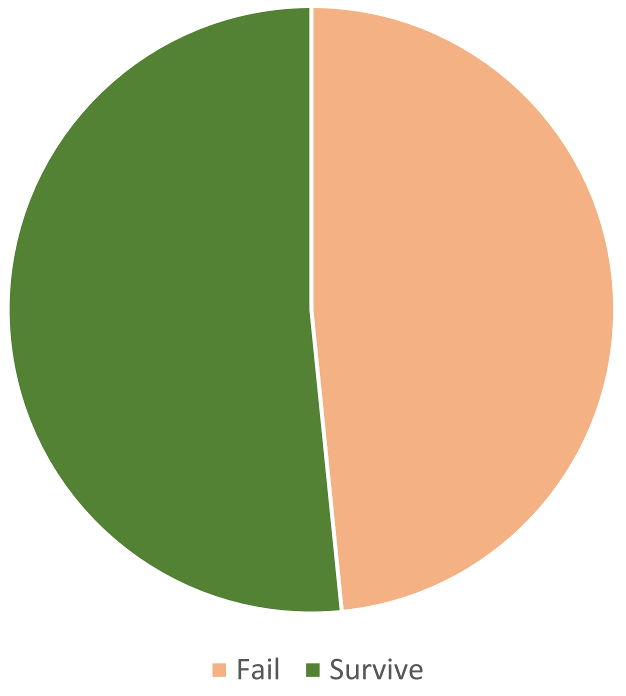
Percentage of Businesses that fail

- 20.8% of private sector businesses in the U.S. fail within the first year.



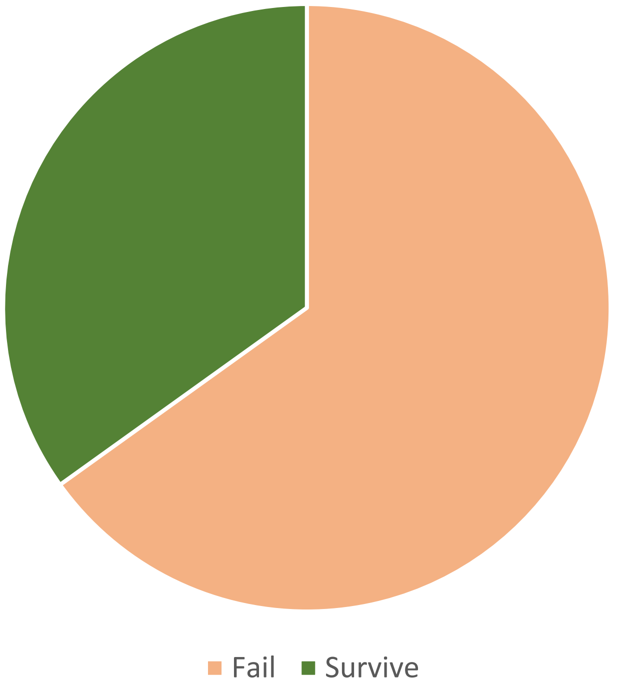
Percentage of Businesses that fail

- After five years, 48.4% have faltered.



Percentage of Businesses that fail

- After 10 years, 65.1% of businesses have failed.



Determine your wingspan

Are you selling YOUR business or a VIABLE business?

- I do it better
- …should you?

Determine your wingspan

Are you selling YOUR business or a VIABLE business?

- I do it better
- It’s faster for me to do it
- …should you?

Eat dinner out?

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Determine your wingspan

Are you selling YOUR business or a VIABLE business?

- I do it better
- It’s just faster for me
- I don’t know how to start teaching what I know

- …should you?
- …I’ll take a steak medium rare.
- …stop doing

Determine your wingspan

Are you selling YOUR business or a VIABLE business?

- I do it better
- It's just faster for me
- I don't know how to start teaching what I know
- They'll fail

- …should you?
- …I'll take a steak medium rare.
- …stop doing
- …we all did at one point

Determine your wingspan

Are you selling YOUR business or a VIABLE business?

Eat The Pancake

Financial dependance VS independence

Financial Dependance or Independence

Your financial dependance on the sale of your business will dictate:

- Terms of the Sale
- Time of the payments
- Your direct or indirect involvement

CASH OUT

Cash Out

Determine your financial dependance on the sale of your business

- Terms: Lump Payment
- Time: One interaction
- Involvement: Zero

- <u>Recommend for:</u>
  - No family involved
  - Family involved, but
    - Contentious or Unwilling/unable to operate as a business
  - Prepared to spend a month on a yacht
  - Financially dependent on the business.

Cash Out

- Leave the keys.
  - Run the dishwasher and mop the floors.
- Pay for a premium attorney and accountant
  - It’s ok to bring in a prize fighter.
- Don’t leave your tenured staff to the whims of a new owner.
  - This is your last act.

Cash Out - $$

- Expect a slightly **lower multiple/total payout.**
- Prepare to have a **strict non-compete, or a claw back.**

CONSULT OUT

Consult out

Determine your financial dependance on the sale of your business

- Terms: Down payment, Salary and Quarterly
- Time: You dictate (estimate: 3-5 years)
- Involvement: You dictate (estimate: stepping down from 60% to 10%)

- <u>Recommend for:</u>
  - Still excited about business
  - Ready to teach
  - Some family involvement or interest
    - Positive environment
  - Financially stable

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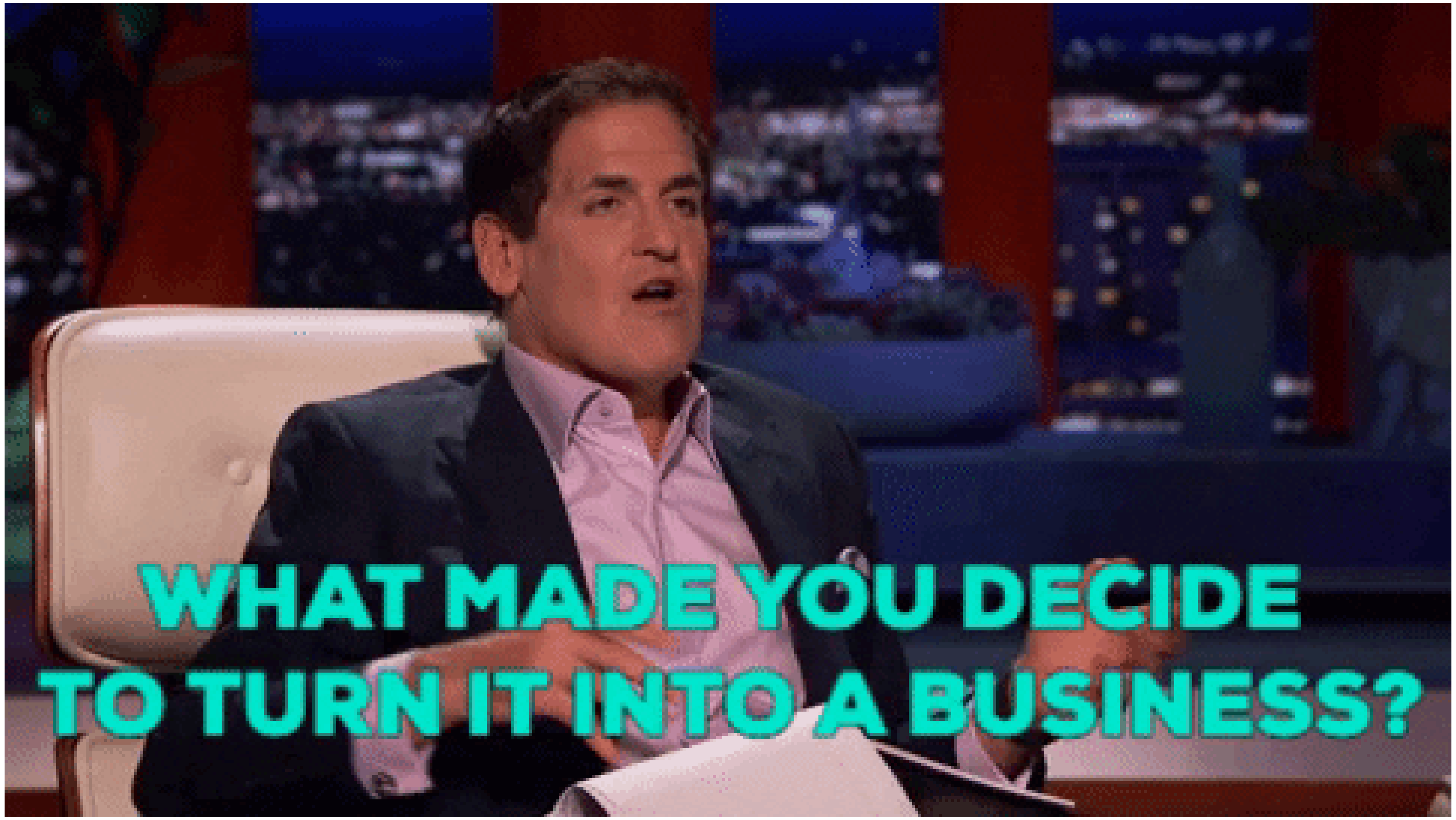
Consult Out

- Consider yourself a seasoned tenant.
  - Show them the roof leak, the special kick to get the mower going.
- Pay for a premium attorney
  - Define the relationship you want to have with the new owner(s)
- Involve the staff (increase your wingspan), set them up for a career not a job.
  - Let them know you’re there to facilitate success.

Consult Out - $$

- Request a **nonrefundable downpayment**.
- If receiving traditional financing, expect your debt to be subordinate to the bank.
  - Ensure you are **removed from all debt** in every capacity.
  - 51% min transfer of ownership.
  - If your existing bank can finance the transaction – even better.
- While consulting, **receive commensurate pay and benefits**.
- **Fix your quarterly payout** to a quality metric (not Sales).
  - Free Cash Flow
  - Net Income

FINANCE OUT



Finance out

Determine your financial dependance on the sale of your business

- Terms: Down payment, Monthly
- Time: You dictate (estimate: 3-7 years)
- Involvement: Financial transparency and legal intervention (if necessary)

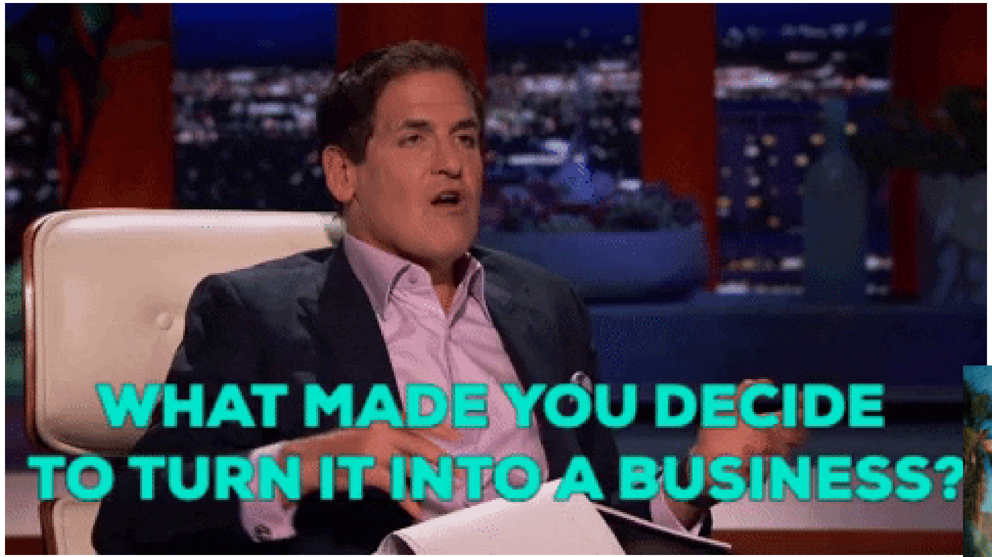
- <u>Recommend for:</u>
  - Some family involvement or interest
    - Positive environment
  - Confident in your team & market conditions
  - Financially independent outside of your business

Finance Out

- Consider yourself a nosey landlord.
  - You want to see proof the roof leak was fixed. You want to know why the lawn wasn't mowed yet.
- Pay for a premium attorney.
  - Have trigger clauses and remedies matches your appetite for risk.
  - Don't be callous or careless.
  - Have a buy-back clause with yearly valuations provided.
- Don't be a peacock.
  - Live by the terms of your agreement.

Finance Out - $$

- Request a **nonrefundable downpayment.**
- Incentivize early **payoff**
  - **Release assets** on a schedule
- **Charge interest** but be fair.
- In the early stages **allow your monthly payment to float** against a quality metric (not Sales).
  - Free Cash Flow
  - Net Income


WHAT MADE YOU DECIDE
TO TURN IT INTO A BUSINESS?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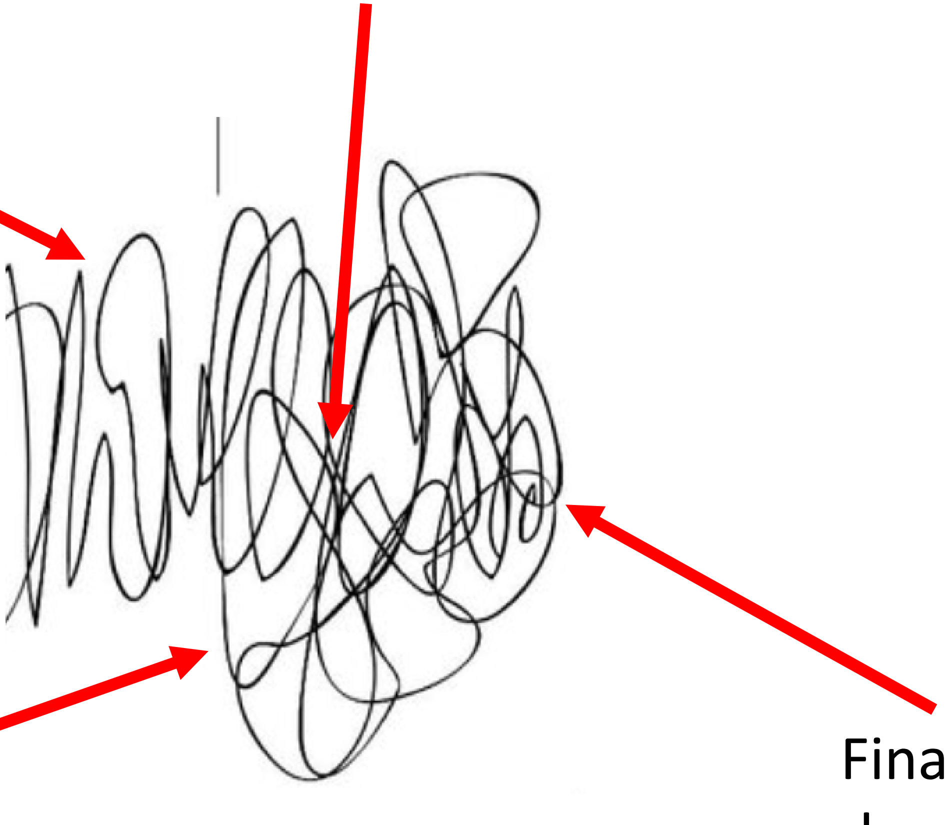
Value or Valuable

Emotional connection



Determining your wingspan

Financial dependance VS independence

A parting word

Supporting small businesses is not just about commerce; it's about community.

-Dan Rather

If we don't help each other

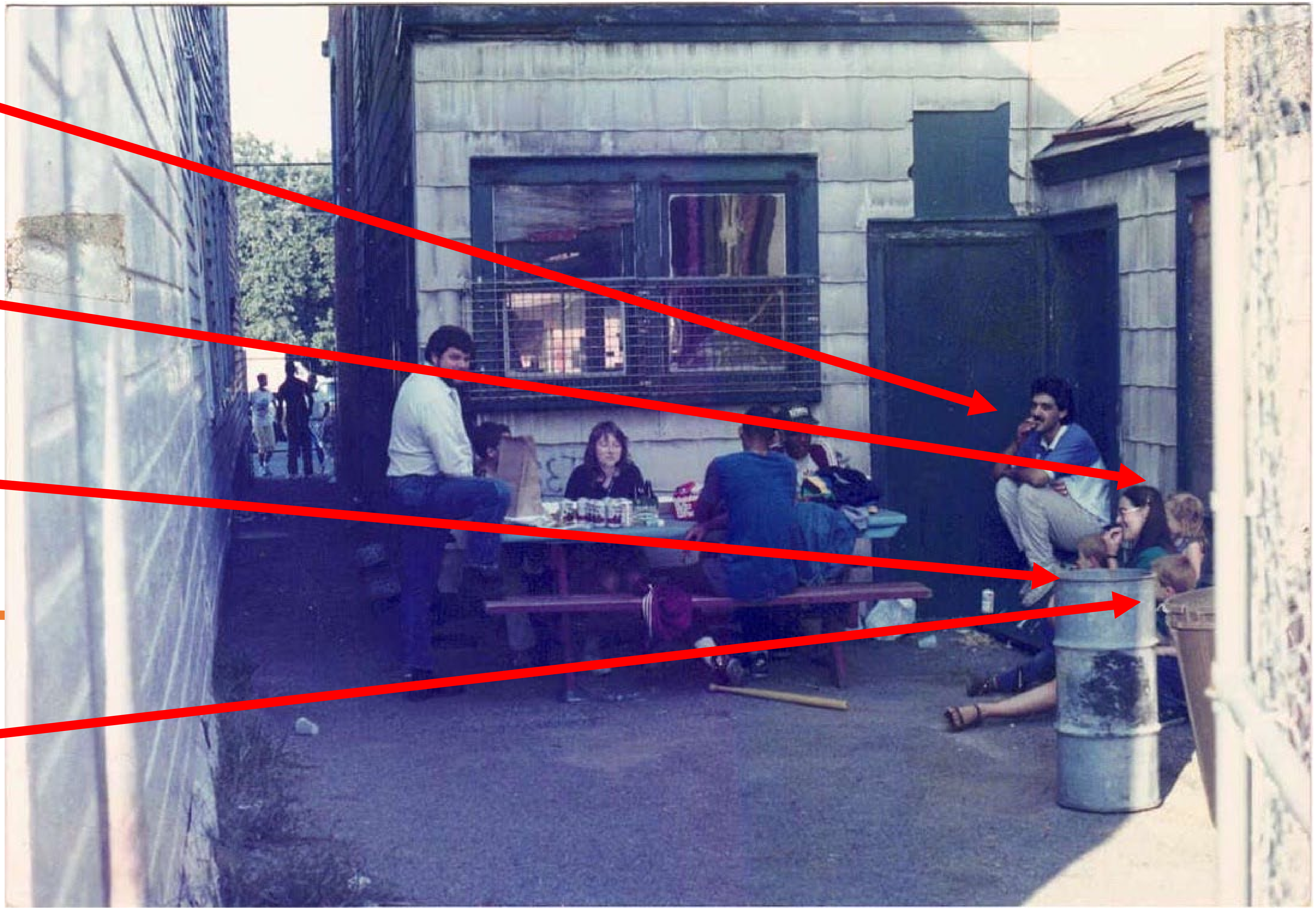
Who will?

38 years with NTI Global

President

Director of Research & Development

East Coast Sales Manager



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