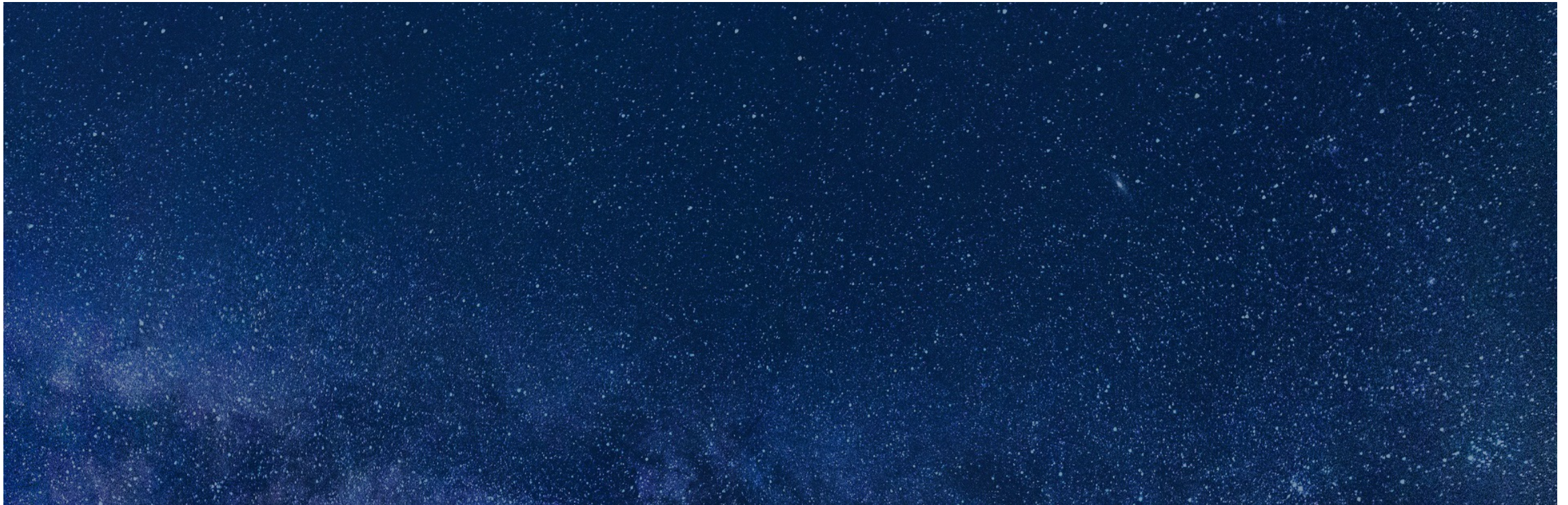




# **BUILD YOUR BUSINESS VALUE – STRATEGIES FOR A SUCCESSFUL SALE OR SUCCESSION OF YOUR SMALL BUSINESS**

SEPTEMBER 30<sup>TH</sup>, 2021



# TODAY'S GUEST SPEAKER



**Nancy Hon**  
Business Analyst  
Maricopa SBDC  
[Nancy.hon@domail.Maricopa.edu](mailto:Nancy.hon@domail.Maricopa.edu)



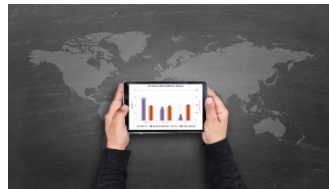
# ASSISTANCE FOR ARIZONA SMALL BUSINESSES



**Counseling**  
(No Fee)



**Training**



**Resources**

10 SBDC Service Centers in Arizona  
<https://www.azsbdc.net/where-we-are/request-advising/>

Maricopa SBDC is part of America's  
SBDC Arizona Network.  
[www.Maricopa-SBDC.com](http://www.Maricopa-SBDC.com)

# SBDC HOW WE ASSIST OUR CLIENTS



Business Planning - Growth Strategies

Financial Skills Development

Sales - Marketing

Operations

International Trade

Manufacturing

Technology

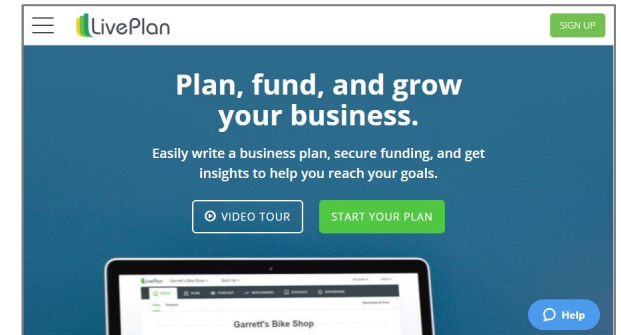




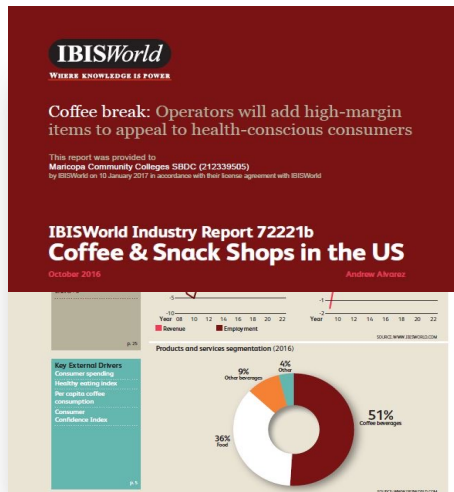
# SBDC ACCESS TO CAPITAL ASSISTANCE



- ✓ Guidance in loan request and loan package preparation
- ✓ Tools to develop business plans and financial projections



- ✓ Knowledge of commercial loans, types of capital, SBA loan programs
- ✓ Lender referrals
- ✓ Funding strategies



**sageworks** Industry Data

Industry: 722211 - Full-Service Restaurants  
 Sales Range: Yearly sales \$1 Million to \$10 Millions  
 Location: US - Arizona  
 Prepared On: 1/29/2020

**INDUSTRY FINANCIAL DATA AND RATIOS**

Average by Year (Number of Financial Statements)

Financial Metric	Last 12 Months		2018	Last 5 Years		All Years
	(1)	(2)		(3)	(4)	
Current Ratio	-	2.85	2.85	2.85	2.22	2.22
Quick Ratio	-	1.55	1.52	1.52	1.28	1.28
Gross Profit Margin	-	70.47%	63.18%	60.46%	60.46%	60.46%
Net Profit Margin	-	7.45%	1.70%	3.27%	3.27%	3.27%
Inventory Days	-	12.87	12.19	14.89	14.89	14.89
Accounts Receivable Days	-	0.15	0.63	1.16	1.16	1.16
Accounts Payable Days	-	7.47	13.23	17.09	17.09	17.09
Interest Coverage Ratio	-	10.58	21.23	12.94	12.94	12.94
Debt-to-Equity Ratio	-	0.93	1.20	2.21	2.21	2.21
Debt-Service Coverage Ratio	-	8.43	10.18	6.06	6.06	6.06
Return on Equity	-	63.92%	62.96%	39.11%	39.11%	39.11%
Return on Assets	-	41.62%	25.16%	20.83%	20.83%	20.83%
Gross Fixed Asset Turnover	-	5.05	3.66	3.55	3.55	3.55
Sales per Employee	-	-	-	\$46,973	\$46,973	\$46,973
Profit per Employee	-	-	-	(\$159)	(\$159)	(\$159)

Growth Metric	Last 12 Months		2018	Last 5 Years		All Years
	(1)	(2)		(3)	(4)	
Sales Growth	-	0.47%	2.45%	4.65%	4.65%	4.65%
Profit Growth	-	99.61%	18.28%	22.99%	22.99%	22.99%

# PROGRAM PURPOSE



A successful exit from your business requires purposeful planning and knowing your end goal.

Know your value.  
Build your value.  
Plan now.

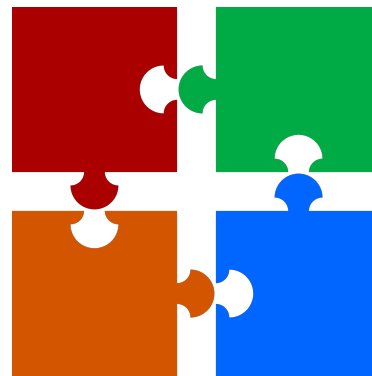
In our program today, we overview key steps to take and resources to assist you on your journey.



# TOPICS FOR TODAY



## The Basics



## Value Factors

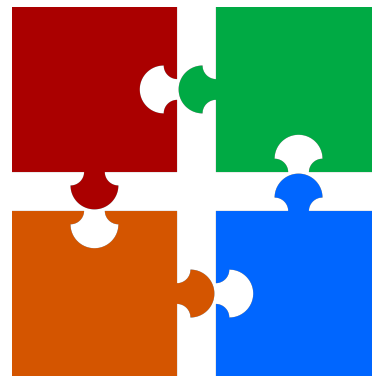


## Assess and Plan

# TOPICS FOR TODAY



## The Basics



## Value Factors



## Assess and Plan



# THE BASICS AUDIENCE SURVEY



When business owners exit their business, they will either sell/transition, or they close the business.

**X%** of those exits are sell/transition.

# THE BASICS AUDIENCE SURVEY



When business owners exit their business, they will either sell/transition, or they close the business.

**30% - 40%** of those exits are sell/transition.



# THE BASICS WHEN TO PLAN?



**THE BEST TIME TO PLAN IS RIGHT NOW!**

Two types of plans are important

- Plan A: the ideal long term plan for the exit
- Plan B: the short term emergency plan

Both should be developed now!

**CAUTION!**

➤ Do not wait for the emergency situation.

# THE BASICS

## TWO BASIC EXIT STRATEGIES



### Succession

When considering exit strategy options, first consider the succession option.



### Sell

If succession is not the option, explore the selling option.



# THE BASICS PLANNING FOR A SUCCESSOR



## Key considerations in succession planning

- Who will it be?
- Do they have the interest?
- Do they have the skills – assess their ability
- Do they have the resources to make it happen?
- How will the organization react?
- How it will effect your financial situation?
- When is the right time to turn it over?
- What are the legal considerations?
- What is the condition or value of your business?

# THE BASICS

## SELLING OUTRIGHT



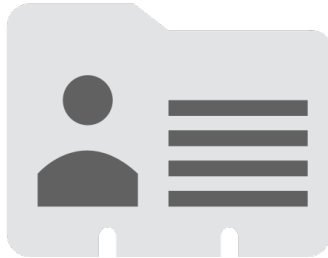
### **Key considerations for selling outright**

- What are your reasons for selling?
- When is the best time to sell?
- What is my business worth now?
- How can I get maximum value when I sell?
- What are the financial implications of selling?
- What are the right resources to help me sell?
- How do I find a buyer?
- How do I execute the sale?

# THE BASICS KNOW THE VALUE OF YOUR BUSINESS



## Most business owners do not know the value of their business.



### **Disappointed Business Owner**

- Business owner believes the value is much higher than reality.

# THE BASICS

## DIFFERENT NOTIONS OF VALUE



Value is subjective.

Ultimately it is what the buyer is willing to pay and what the seller is willing to accept.





# THE BASICS

## DIFFERENT NOTIONS THAT RELATE TO VALUE



- 1 to 3 times Seller's Discretionary Income
- EBITDA (earnings before interest, taxes, depreciation, and amortization)
- Annual revenues
- Goodwill
- Future potential
- Market value

# THE BASICS VALUE FORMULA



This is a simple technique that is commonly used by business brokers:

**Start with:**

Seller's Discretionary Income (SDE)  
(Tax Returns and Profit/Loss Statement)

---

**Add or subtract:**

Add backs/Add in  
(Family salaries, non business expenses, etc.)

---

**Multiply by:**

National Average 2.27  
(General multiple is typically 1- 3 times the cash flow.)

---

Another simple technique is to go on [WWW.BizBuySell.com](http://WWW.BizBuySell.com)

# THE BASICS BIZBUYSSELL.COM



[WWW.BizBuySell.com](http://WWW.BizBuySell.com)

Asking Price:	<b>\$1,470,000</b> ?	Cash Flow:	<b>\$305,000</b> ?
Gross Revenue:	\$615,000 ?	Inventory:	\$85,000 ?
BITDA:	N/A ?	Rent:	\$6,250 per Month
FF&E:	\$300,000 ?	Established:	1998

Save

Print

Share

Valuation Report

## Business Description

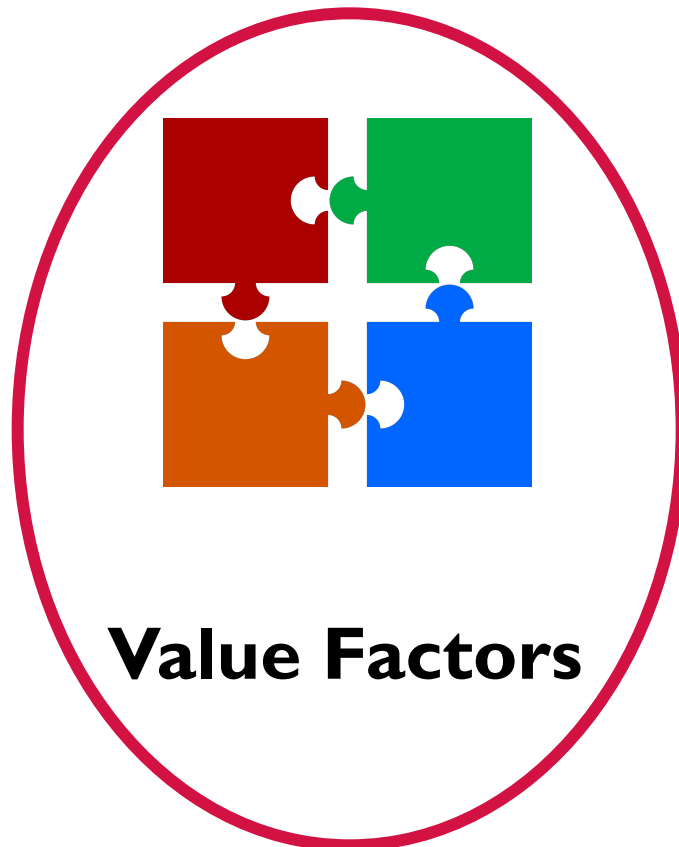
Highly profitable established business

VERY LUCRATIVE business in a desirable and PROMINANT downtown location! Owner wants to hand over keys and walk away with a check. This is a Bar/Restaurant that is well established with a a great reputation in the area. The Liquor license is the highest you can get and included in the purchase as well as all inventory and equipment. Landlord is willing to do up to a 10 year lease. You should only need up to 4 to make your investment back. It pretty much runs itself with the great long term employees who al would like to stay.

# TOPICS FOR TODAY



## The Basics



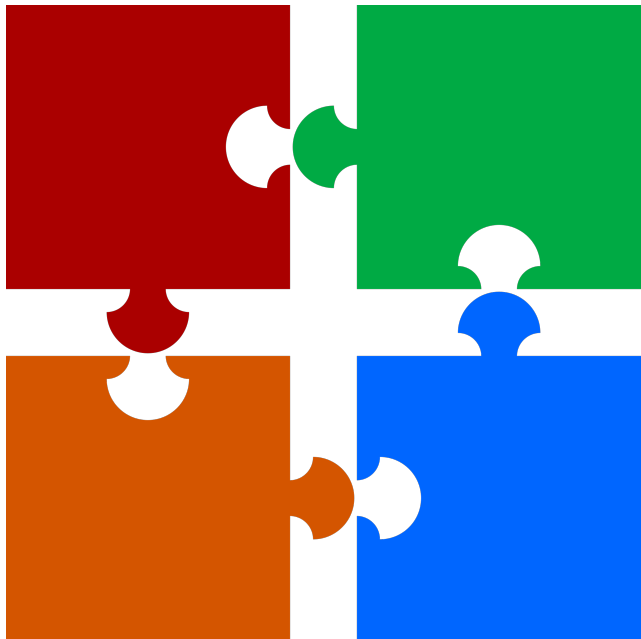
## Value Factors



## Assess and Plan



# VALUE FACTORS OVERVIEW



## The Value Factors

Revenue Growth

Financial Management

Staffing

Systems and Processes in place – Turn Key

Reputation

# VALUE FACTORS

## REVENUE GROWTH



Value is based on a point in time, not what revenues used to be in the past.  
Revenue growth adds value to your business.

- Are your revenues and profits growing and strong?
- Are you informed about current industry trends?
- Are you actively building customer relationships to grow sales?
- Are you monitoring the business reputation?



**CAUTION!** Owner fatigue.

# VALUE FACTORS FINANCIAL MANAGEMENT



Good financial management is **CRITICAL**.

- Clean financials
- Healthy and consistent cash flow
- Yearly forecasting
- Tax planning and financial advisors (CPAs, bookkeepers)



# VALUE FACTORS STAFFING



Staffing of your business can add or detract value.

- Owner must shift to working on the business not in the business
- Pay market wages
- Turnover can have a negative impact. When nearing the selling point, offer incentives for employees to stay.
- For family businesses, know the pros and cons of keeping family members on staff.



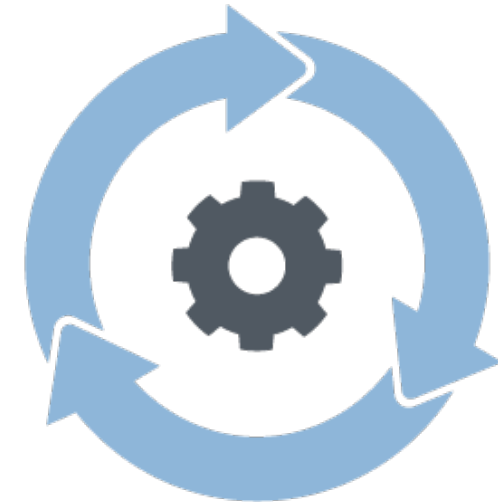


# VALUE FACTORS SYSTEMS – PROCESSES - OPERATIONS



Develop your business to run like a franchise, a turn-key business. The business should run without interruption when the new owner takes possession.

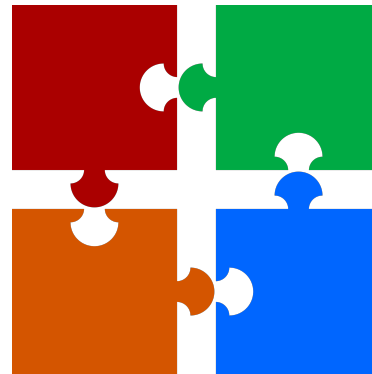
- Operations Manual
- Policies and Procedures and Manuals
- Contracts
- Reduce inventory



# TOPICS FOR TODAY



## The Basics



## Value Factors



## Assess and Plan

# ASSESS AND PLAN OVERVIEW



The SBDC is an excellent resource for assessing and planning across all the key areas of considerations

## Value of the Business

- What is the business worth?
- What are your goals?
- Do you have a plan?

## Revenue Growth

- Are revenues increasing?
- Are profits increasing?
- How will you ensure growth?

## Financial Management

- Do you have clean financials?
- Are you monitoring cash flow?
- Do you budget and forecast?

## Staffing

- Steps to remove yourself from all aspects of the business?
- Do you have a staffing strategy?

## Systems-Processes

- Documenting your processes, policies, and procedures, etc./
- Are you utilizing contracts?
- Are you managing inventory?

# QUESTIONS



**This presentation will  
be posted on YouTube  
for viewing.**



# SBDC RESOURCES TO ASSIST YOU



SBDC counselors can assist you with your exit strategy planning.

- Access to Capital
- Develop growth strategies and a 3-5 year plan
- Guidance determining a general estimate of value




**SageWorks Industry Data**

Industry: 722111 - Full-Service Restaurants  
 Sales Range: Twenty plus \$1 Million to \$10 Millions  
 Location: US - Arizona  
 Prepared On: 1/28/2020

**INDUSTRY FINANCIAL DATA AND RATIOS**

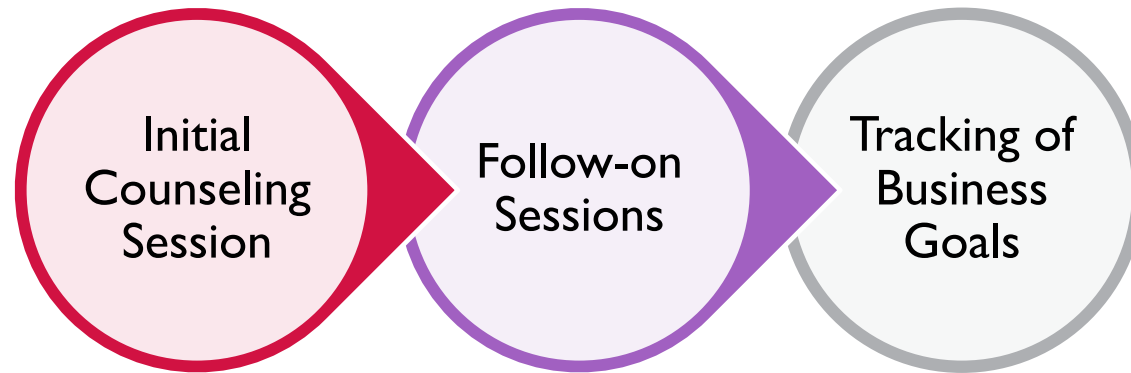
Average by Year (Number of Financial Statements)

Financial Metric	Last 12 Months (1)	2019 (1)	2018 (5)	Last 5 Years (4)	All Years (199)
Current Ratio	—	—	2.86	2.80	2.22
Quick Ratio	—	—	1.55	1.52	1.23
Gross Profit Margin	—	—	72.4%	63.1%	62.4%
Net Profit Margin	—	—	7.45%	1.70%	3.27%
Inventory Days	—	—	12.87	12.19	14.63
Accounts Receivable Days	—	—	0.16	0.63	1.16
Accounts Payable Days	—	—	7.47	13.23	17.09
Interest Coverage Ratio	—	—	10.68	21.23	12.94
Debt-to-Equity Ratio	—	—	0.93	1.20	2.21
Debt Service Coverage Ratio	—	—	8.43	10.18	6.06
Return on Equity	—	—	63.92%	62.96%	39.11%
Return on Assets	—	—	41.62%	25.16%	20.83%
Gross Fixed Asset Turnover	—	—	6.05	3.66	3.65
Sales per Employee	—	—	—	—	\$48,973
Profit per Employee	—	—	—	—	\$8,159
Growth Metrics	Last 12 Months (1)	2019 (1)	2018 (5)	Last 5 Years (4)	All Years (117)
Sales Growth	—	—	0.47%	2.45%	4.66%
Profit Growth	—	—	35.61%	19.28%	22.92%

# SBDC COUNSELING EXPERIENCE



Complete a Request for Counseling form. <https://www.maricopa-sbdc.com/>



Identify business goals and areas of assistance needed.

Meet with counselor for regular guidance.

Track and report metrics.

**Counseling is by appointment only.**

## UPCOMING WEBINARS



### **SBIR Overview: How to Leverage America's Seed Fund During COVID**

Thursday, October 7, 10:00 am – 11:30 am

### **Small Business Payroll**

Wednesday, October 13, 9:00 am – 11:00 am

### **Angel Investing: Disruption Creates New Opportunities**

Thursday, October 14, 9:00 – 10:30 am

### **Grow with Google – Reach More Customers Online**

Tuesday, October 26, 9:00 am – 10:00 am

To register:

<https://www.maricopa-sbdc.com/events/>

Follow-us on social media for program updates.

# CONCLUSION



Thank you for joining us today.



**Complete the evaluation at the end of the program.**