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EVANS AND ASSOCIATES

VALUATION ADVISORY SERVICES

The Business Value Manager

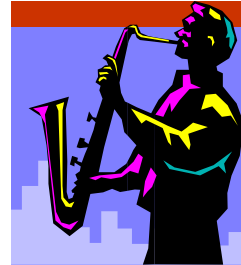
*Advice
for business
owners,
investors and
service providers
on how to build
value and wealth
through
investment in
closely held
companies.*

Succession Blues

OR

Why Business Owners Get Insomnia

A big part of your life has gone into your business—perfecting products and services, pleasing customers, grooming employees and battling competitors. It's been exciting, rewarding, exhausting, and sometimes frightening. But you look with great pride at the company you've built.



While such stories of achievement should have happy endings, they frequently don't. Too often business owners who lack a succession plan end up frustrated, estranged from family members or partners, in poor health or even premature death. And too often the families they worked so long and hard to protect lack financial security.

ing key groups: family members, other owners, and employees. Closely held companies frequently have one or more family members who work in the company, often in key management positions. Their financial and professional future may be greatly influenced by a decision to change or sell the company, so their future must be discussed. The key decision criteria here are often personal (for example, a com-

mon goal is to provide income to a relative through employment) as well as financial, and painful choices may be required. Partners and employees also may be affected, so allowances for these personal and

financial consequences may be necessary.

Why? There are many paths business owners travel to this Destination of Disappointment, but most have similar intersections where the right or wrong turn can be made. From working with hundreds of such companies, we have identified four of the most common causes of the *Succession Blues*.

"Ignoring people issues seldom eliminates them, frequently exacerbates them, and often narrows options when the issues are finally confronted at a later date."

1. **Failure to distinguish business versus personal issues and goals.** These most commonly concern "people" issues, and usually include one or more of the follow-

Particular harm to a business can result from confusion between *ownership succes-*

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sion and management succession. While the former is easily accomplished by transfer of shares through a gift or sale, the latter is far more complicated. Management succession requires careful assessment of the qualifications of the successor, and this transfer can have a huge influence on the future performance of the company. Parents too often tragically set up a son or daughter to fail by promoting them to management positions that exceed their level of skill, experience or interest. When this happens, the promotion weakens the company and often strains family relations.

The natural inclination with these “people” issues is to ignore them, usually by postponing any decision at all. Ignoring these issues seldom eliminates them, frequently exacerbates them, and often narrows options when the issues are finally confronted at a later date. When personal issues are present, recognize that some decisions are made for reasons that cannot be justified financially. To make informed decisions, separate these issues into categories, such as financial, strategic, and personal. Then set goals based on their separate criteria in designing an overall succession plan.

2. Failure to manage your business as an investment to build and harvest wealth.

Fundamental mystery exists in private companies—those not traded on a public stock market, including thinly traded public companies or divisions of large corporations. Most owners and managers operate these companies year after year without ever knowing the answer to these basic questions:

- What is the company worth to its present owners?
- How much more would a strategic buyer pay to acquire it?
- What factors most affect the company’s stock value?
- What is the owners’ real return on investment and rate of return?
- Does that return justify the risk?
- Is too much of the owners’ wealth tied up in this single investment?
- Are owners better off selling, and if so, how and when?

“Business executives often are so immersed in the day-to-day challenges of running the company that they lose sight of the bigger investment-based value maximization goals.”

Business executives often are so immersed in the day-to-day challenges of running the company that they lose sight of the bigger investment-based value maximization goals. Without routine attention to what drives long-term value, particularly stand-alone versus strategic value, major sale opportunities may be missed. Unless the company’s annual strategic planning process ties to value creation, it frequently fails to drive value and return on investment. And too often owners end up with the bulk of their wealth concentrated in one relatively risky, illiquid investment.

3. Failure to Recognize the Importance of Timing.

Companies and industries go through a natural progression of growth and technological and competitive changes that create strategic strengths and weaknesses. Recent worldwide trends in consolidation, reduced regulation, and globalization are only a few of the *external* factors that may create one-time opportunities that must be recognized by shareholders to maximize return. *Internal* factors, such as the loss of a key member of management or deterioration of a customer relationship, or, on the positive side, discovery of a new product or technology, can greatly affect a company’s performance—and value. Inattention to these factors may not only result in the loss of an opportunity to sell the company at a great price, they could render it uncompetitive or unsaleable for more than tangible asset value. In failing to sell, the owners could also miss two essential investment objectives: achieving the liquidity and diversification that they previously lacked.

4. Failure to Prepare the Company for a Sale.

Because companies are operating entities with people, products and customers, they constantly face changing competitive conditions. As a result, they are seldom ready on short notice to obtain the optimum sale price. Advanced

planning, sometimes over a period exceeding one year, may be necessary to capitalize on the company’s strengths and minimize its weaknesses. Inattention to the sale process usually prevents adequate planning, generates few or no attractive buyers, and results in poor price and terms.

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The conclusion here should be clear: Inaction virtually guarantees lost opportunities and a lower sale price. Proactive planning, with a relentless focus on value, is a must.

Avoiding the Succession Blues

Disappointment is not the only possible destination for business owners.

With the right strategy and careful planning, private company owners can cash out when they want, with the maximum possible return on their investment. They can gain both investment liquidity— the cash to meet their needs and goals—and diversification— a broadly based portfolio that spreads their risk. And their plan can also address their personal goals, related to family members, fellow owners, employees and customers.

Success begins with the recognition that transition planning is a unique *process*. It requires a commitment by shareholders, combined with guidance by qualified advisors. This process must relentlessly focus on value and return on investment, with a recognition of the simultaneous need to achieve non-financial goals.

This means continually *positioning* the company to make it most attractive— and most valuable— to potential investors considering its competitive environment.

To properly position the business, shareholders must be informed. They must know the value of their business, both as it exists currently in their hands and what higher amounts strategic buyers may pay to acquire it. Critical to this difference is accurate estimates of the synergies that can be created with the acquisition.

Sometimes the best choice for shareholders is to maintain ownership and improve the business to make it more attractive and valuable. Recapitalization that transfers cash from the company to shareholders, gifting or sale to an ESOP are other possible

options. And with each option, the company's competitive position— its strategic strengths and weaknesses relative to its customers and competitors— must be assessed. Through this process, returns can be maximized and risks minimized.

The ideal advisor in this planning process brings expertise, experience and independence. The right expert understands how to measure and maximize value and, if necessary, how to prepare a company for sale. They are experienced in evaluating both the technical and personal aspects of the process and possess the specialized skills required, ranging from listening carefully to learn client goals, to preparing an impressive offering memorandum, to negotiating and closing the sale. Finally, the ideal advisor brings independence, the willingness to confront and solve tough issues, and without continuing ties to the business, the ability to recommend a sale when that choice best achieves shareholder goals.

If the *Succession Blues* are giving you insomnia, solutions do exist. They begin with *shareholder action* to obtain control over your business— and your life.

FIRST STEPS

To manage your business as an investment and take control of your life:

- Retain qualified valuation advisors to lead the process.
- Identify and prioritize your personal and financial goals.
- Quantify
 - Your company's return
 - Your company's risk
 - Your company's worth
 - Your company's return on investment

RESULT:

Armed with the information, you can devise the best strategy to achieve your business, personal and financial goals.

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Shop Carefully for Valuation Expertise

Just as patients seek specialists for serious medical conditions, specialized qualifications are required in business valuation. Some credentials presented by so-called experts actually demonstrate no knowledge of business valuation. Others require little or no testing, work product review or experience to achieve.

Evans and Associates invites close scrutiny of our credentials. We have demonstrated the highest level of achievement in our profession, and are active locally and nationally in writing, speaking and governance. This expertise clearly results from our strategic focus and full-time commitment to comprehensive business valuation knowledge and service. Evans and Associates' credentials can be reviewed in detail at www.evansandassociates.net

Our Mission

Evans and Associates is a leading provider of strategic valuation advisory services. We maximize wealth and profits for individuals and corporations.

When your circumstances require measurement or management of business value, our focused approach provides solutions.

Our team's expertise in competitive analysis, finance and accounting, merger and acquisition, risk analysis and value creation forms the basis for our opinions and advice.

Typical engagements for Evans and Associates include specialized valuation consultation for the purpose of gift or estate planning, merger and acquisition, shareholder value enhancement and litigation support.

Evans and Associates Credentials Include:

Accredited Senior Appraiser
Certified Business Appraiser
Certified Public Accountant Accredited in Business Valuation

Personal Attention Backed by a Network of National Resources

Evans and Associates is a specialized valuation advisory firm small enough to provide the personal attention you want, but deep enough to possess the broad range of service expertise you may need. Our membership in the American Business Appraisers (ABA) national network— we were the founding affiliate member—provides resources and advice from other nationally known valuation experts. Our ABA affiliation enables us to effectively execute virtually any valuation or merger and acquisition assignment.

