Joanne Baginski, EKS&H Bob Forbes, Forbes M+A Group Lisa A. D'Ambrosia, Minor & Brown Joseph J. Janiczek, Janiczek Wealth Management Steve Kopitz, Skis.com

SELLING YOUR BUSINESS

HOW TO CREATE THE PERFECT EXIT

Want to sell your business?

The panel of experts, presented by Denver Business Journal, stress this factor: Adequate preparation is essential to maximizing value.

"We really encourage our clients, if you're going to sell any time in the next five to eight years, to be ready when the market is ready for you," said Lisa D'Ambrosia, a director at Minor and Brown PC in Denver.

"You really need to start talking to the professionals three to five years before you're ready to go to the market," said Steve Kopitz, CEO of Summit Sports in Broomfield Hills, Mich.

"Time generally kills a deal," said Joanne Baginski, a consulting partner in the Denver office of EKS&H. "So if you don't have your stuff together and can't respond and provide that information quickly, it tends to hurt credibility."

They were joined on the Oct. 1 panel by Bob Forbes, president, The Forbes M+A Group in Greenwood Village (his company advised Kopitz on his company sale); and Joseph Janiczek, CEO, Janiczek Wealth Management, of Greenwood Village, at the DBJ's "Selling Your Business" breakfast at the Wellshire Event Center. DBJ publisher Pete Casillas moderated the discussion.

The panelists discussed many factors that go into a successful sale, such as performing due diligence, deciding what you want from a sale and being patient enough to obtain it, making sure you have strong professional advisors, building up your company's value for several years before the sale, learning how valuations are determined and more.

Here are some highlights of the breakfast event.

Q: Please describe your role in a transaction.

Janiczek: Our role spans all three stages around the life-changing liquidity event: 1) before the sale, 2) at the sale, and 3) post-sale. For each stage, it's all about planning, preparing and posturing for an optimal outcome from a balance-sheet, cash-flow and portfolio perspective.

D'Ambrosia: Basically, we start the day we form a company. We're already thinking about what are your plans and opportunities and plans to exit the business, whether it's in three years, five years, 10 years or 20 years. Our clients really need to be thinking about that all the way through the process. As we get closer to thinking it's potentially about time to do the sale, we also help our clients be a little more disciplined, helping them analyze from a consulting perspective.

Q: Steve, tell us what is was like to sell your business, and what you main takeaway was.

Kopitz: It takes a lot of time, stress and energy, and you really need to focus on the selling process. In our case, it took a year. I was completely uninvolved in the business during that period of time. So it's really important to prepare your business for that. Second is that the business has to be clean, everything's got to be in order. If there are any issues, you need to disclose those up front, because they're going to go through everything and find everything.

Q: Where is the market today, and is there a particular window of time -- and does this window exist right now -- that might lead to a more successful exit?

Forbes: The market's booming. There was a run-up that happened last year, and by the end of the year, it was at an all-time high for M&A activity, and it's pretty much stayed there. Some of the hottest sectors are technology and health care. Construction and building materials have been really good, and consumer products have been great. Oil, not so good. Big businesses have a lot of cash on their balance sheets and private equity groups have more capital overhang than ever before; even banks have surplus capital today. In addition, interest rates are very low. That environment is boding well for valuations and getting deals done. There are also motivated sellers because valuations are up to a point now where they can get top dollar and they want to take advantage of that.

D'Ambrosia: Three years ago, we couldn't do a seminar about selling your businesses. We'd get nobody in the audience. So it's great to see it's back again, but Bob makes a very good point about the timing. Timing the market is very industry-focused and specific. We really encourage our clients, if you're going to sell any time in the next five to eight years, be ready to go when the market is ready for you.

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Q: Will you discuss the first steps a business owner ideally takes, both from a personal perspective and from a business perspective, as they prepare to sell the business?

Janiczek: It might sound simple, but asking and answering the right questions is really a great starting point. We have 60 to 100 key questions we go through in a thorough Total Client Profile interview process at the beginning of an engagement. The answers are carefully documented on a large one-page document, like the construction plans of a building, so each specialist on the team knows the end game. It is key to have goals defined TO the business sale and THROUGH the business sale.

Step number two is scenario modeling and strength-and-weakness analysis, both on the personal finance side and business side. This guides all the planning, preparing and optimizing to maximize the outcome, reduce taxation, etc.

Baginski: First thing you want to identify is, what are the goals or objectives of the transaction or exit strategy. For example, if you're going to want legacy or continuation of your business, you want to align that with potential buyers that will help meet those objectives. If you're looking at legacy, a strategic buyer might be the best option for you.

Once you go through your goals and objectives, and figure out which buyers best help you meet those goals and objectives, then you can start focusing your efforts, resources and time on driving value for those buyers.

Q: Steve, what were some of the things that were going through your mind and what were the very first steps you took down the path of having a transaction?

Kopitz: In 2011, I attended a seminar that Bob Forbes' company gave. It really made me start to think that maybe the timing was coming. But one of the things that impressed me at the seminar, and I heard this from a couple of other people, is that you need to start talking to the professionals three to five years before you are ready to go to market. So it was time for me to do that.

Q: Where are valuations at today, relative to the last couple of years?

Forbes: Overall, valuations are up, but it does vary in different industries. In some industries, valuations are flat or trending down. Multiples of earnings are a little north of 6X for all industries of all size, but within industries, it varies.

A couple of things that are key to valuation: 1) quality of earnings – if earnings are clean and low-risk, then buyers typically pay more and fight harder for it; and 2) predictability of revenue – the more recurring the revenues, the higher the value. For example, a software company that sells monthly subscription service is generally worth more than a software company that sells one-time enterprise licenses.

Q: Talk about how valuations are determined and perhaps more importantly, what are the factors that help and hurt those valuations?

Baginski: Valuations really do depend on a perceived value of the buyer. Looking at the craft brewing industry right now, you've got crazy multiples. Some deals are going at 20 times, or $1,000 per barrel produced. These are ridiculous values for that industry right now. It really comes down to the buyer, because what one buyer is willing to pay might be something that another buyer thinks is completely ridiculous.

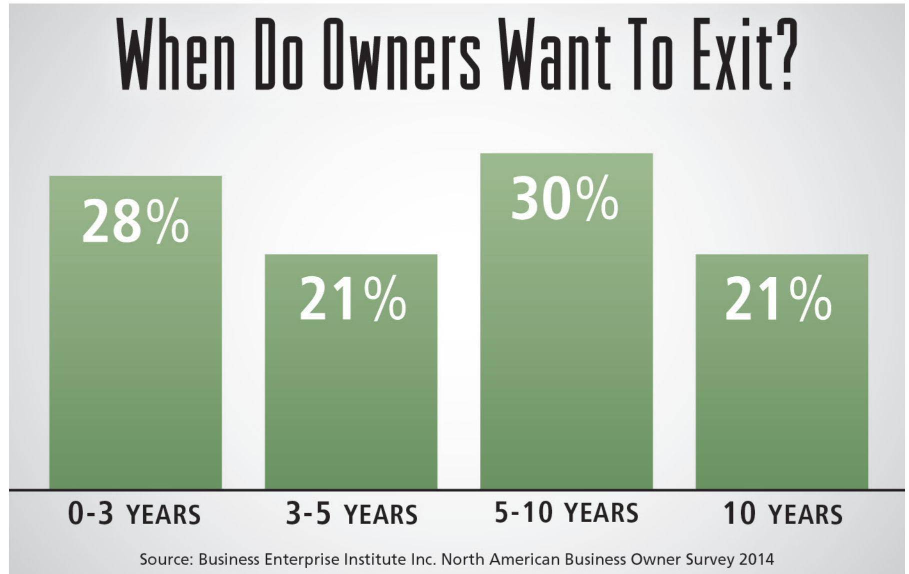
What hurts valuations are concentrations. If you've got too much dependency in one area, whether it's customers, products or services, you've got to look at your management team. There are so many factors that come into play for valuation.

Everybody always asks, "What's the rule of thumb? What's the multiple that I should be looking at?" It's so dependent on looking at so many things that come into play from a buyer's perspective that it's hard to give a rule to them. … Some of those industries that have seen the biggest increase, like health care and technology, you can see that spread from the 2010-2013 period, that turn has increased one to two times what it was back then. So if you miss the market now, you could be selling for less… multiples are going down and you're getting the same or a lower number.

D'Ambrosia: One of the key things is your management team. Having a management team in place that is properly rewarded to get you where you need to go. That's why you structure that with liquidity event bonus plans. There are a lot of things we can to reward management to get them to the same place at the end of the day.

Q: What are some of the alternatives to a sale, including where the owner stays on?

D'Ambrosia: Selling 100 percent of your business to an outside third party will get you the highest liquidity price in the marketplace.



Business owners' time for selling varies

The other options are (1) family transition planning, which also carries some of the greatest risk, in dealing with second and third generations; and (2) transition to your management team.

In either case, some of these can be very successful. They can also fail miserably.

Q: Steve, since we referenced it, would you talk about the structure of your deal a little bit?

Kopitz: I met with Bob (Forbes), and he brought up this second-bite-of-the-apple concept, that's what really appealed to me because I still wanted to be involved in the ski industry. I also wanted to be part of the company's growth going forward. But I also recognized that not only was it time for me to cash out, but it also was time for the company to grow.

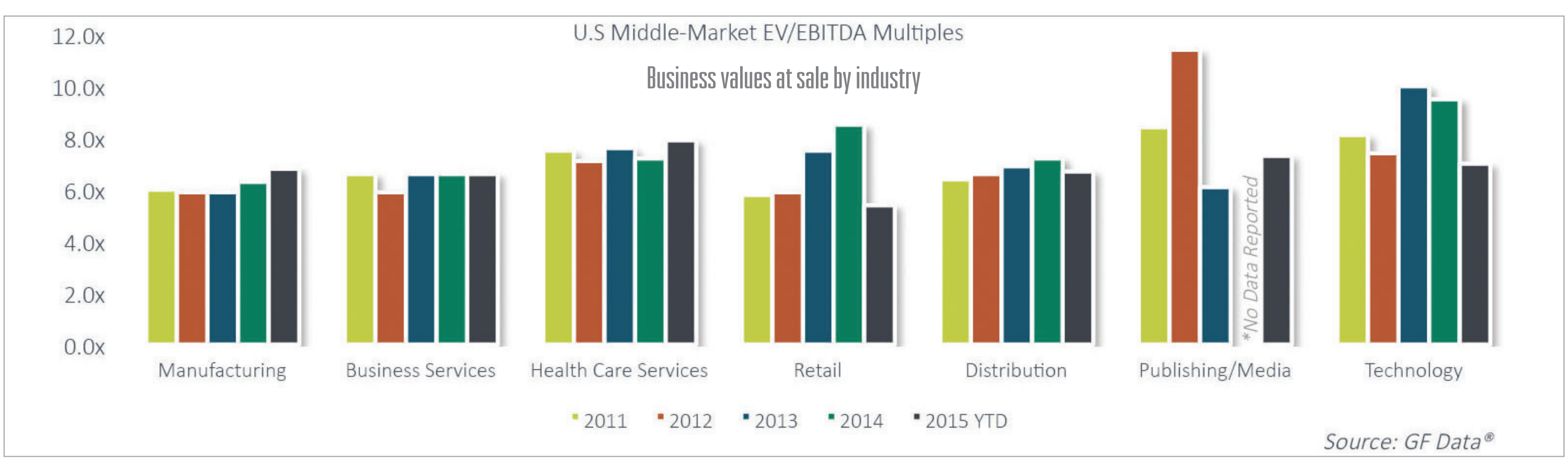
Q: From a legal perspective, what are some qualities of a well-prepared transaction?

D'Ambrosia: Be prepared, be prepared and be prepared again. Knowing where your problems are. There's many a time that right from the get-go, before you have a letter of intent, we're looking to the buyer and saying, "Here's the issue that we've got." If we lay it out on the table from the beginning, you can negotiate just about anything.

Q: Would you discuss some common mistakes that you've seen?

Janiczek: First, most mistakes have to do with not having the right specialists involved. Second, to not devoting adequate time to the planning and preparing part.

Common mistakes include: 1) overpaying taxes, 2) not knowing how to be a depletion-resistant wealth steward or penalty-resistant investor post sale and 3)



Business values at sale by industry

basing the whole transaction on faulty modeling assumptions. The root of these mistakes can all be attributed to not meeting with a specialist in life-changing liquidity events early-on in the process.

If I had to single out one of these mistakes, it is faulty modeling assumptions. There is much more to modeling than a simple spreadsheet or a broker-provided Monte Carlo analysis that looks sophisticated but is not. A false-positive could lead to awful surprises down the road!

Q: Bob, would you be willing to share some of the common mistakes you've seen in your experience doing deals?

Forbes: A common mistake is not being prepared enough. Sellers need to double their level of preparedness to take advantage of today's market environment. Prices are high, and with higher prices comes much greater scrutiny by buyers. Deals collapse much easier. They're very fragile. You have to be very prepared.

Q: How do you know if you, as a business owner, if your current advisory team is qualified to handle a sale?

Forbes: Your existing advisors may not be qualified to do the deal. Deals are very complicated. The legal aspects, for example, are very complicated; there's probably 5 percent that's negotiating the purchase price and how it gets paid, and the other 95 percent is a whole host of other contentious battles that are going to be fought over 2½, three months. Attorneys that don't have experience will not be able to serve you well and may kill the deal by fighting the wrong battles.

Q: What do you do with all this newfound liquidity, after a successful exit? What are some of the do's and don'ts that you'd advise people at the end of the journey to consider?

Janiczek: It's all about having the right system structure, support and disciplines in place to be a depletion-resistant wealth steward and penalty-resistant investor. You want to be UNLEASHED from the complexity of wealth so you can THRIVE with your good fortune. If instead you are leashed and unprepared for the next chapter in your life, it can be pretty dark until you figure it out.

We like to organize the entrepreneur's assets into standard of living assets (homes, toys, etc.) and working assets (assets that need to be put to work…so they don't have to). Of the working assets, its best to think in terms of three buckets: 1) safety, 2) market and 3) aspirational.

The safety and market assets need to be able to maintain the desired standard of living of the business leader for the rest of her/his life. The Aspirational assets are really what is in the "war chest" for new business ventures or other more speculative investments that can multiply results, but can also cause bloody noses.

In terms of don'ts, don't over-commit to the aspirational bucket and don't work with investment people who are not fee-only, fiduciary advisors who do not have to legally do what is in your best interest.

Q: Steve, what's going through your head about the next chapter, after you potentially exit from your current venture?

Kopitz: I am looking at helping young entrepreneurs, both with advice and possibly capital as well.

Q: If the audience heard nothing else from you today, what's the one thing you'd have them take away?

Baginski: If you're looking at a transaction, just be sure to do as thorough a due diligence on the potential investor or buyer as they are doing on you. Because if there's going to be a second bite of the apple, you have to be sure that you're willing to be their partners.

Forbes: Take advantage of a seller's market. You've never had more leverage and opportunities than you do right now.

KEY PLAYERS IN SELLING A BUSINESS

INVESTMENT BANKERS seek to boost the sale of privately held businesses by providing valuation counsel, finding the best potential buyers, setting up a competitive auction and negotiating deal terms.

The valuation hones in on a company's financials and positioning, as well as on its competition and industry conditions. The owner winds up with a realistic view of what the company is worth.

An investment banker narrows the field to the most qualified potential parties, based on alignment and access to capital. To conduct the auction, the banker sticks to a short timeline in order to heighten the sense of urgency and constantly communicates with the potential buyers. Once a buyer has been chosen, the banker will negotiate the best deal possible for the seller.

The CERTIFIED PUBLIC ACCOUNTANT performs due diligence, whether on the seller of a company or potential buyers; helps to determine valuation; gives tax and accounting advice; and otherwise serves as a key advisor for buyers and sellers of businesses.

CPAs help to identify valid buyers and the impact of a sale on them. They also build compensation alternatives for individual buyers and sellers.

ATTORNEYS help companies to update their organizational documents in preparation for a sale. They also review the other party's (buyer or seller) organizational documents.

They also conduct contract negotiation and drafting, keep clients in compliance with governmental regulations, perform due diligence, confirm that intellectual property belongs to the seller and transfer it to the buyer; and make sure all documents get signed and money is exchanged between buyer and seller.

WEALTH MANAGEMENT FIRMS that specialize in life-changing liquidity events coordinate all of the planning, preparing and posturing for an optimal outcome before the sale, at the sale and continually after the sale.

Since intricate financial modeling and planning is at the heart of key decisions, horsepower in the disciplines of scenario modeling and optimizing your balance sheet, cash flow and portfolio while decreasing taxation and the threat of wealth depletion is key.

Joanne Baginsky, Consulting Partner, EKS&H

Joanne has more than 20 years of public and private accounting experience and leads the transaction services area at EKS&H. She has been involved in more than 100 transactions on both the buy- and sell-side with financial and strategic buyers. Joanne works with a wide variety of clients, including private equity, closely held, and public companies, as well as nonprofit organizations.

> I focus primarily on buy-side and sell-side diligence. I help identify all the risks and opportunities around the deal - all those risks that could delay the deal or stall it, as well as all the opportunities for potential buyers or sellers, on how to position their company for potential buyers.

Her expertise includes business finance, modeling, financial planning and analysis, and capital financing. Joanne is also a firm leader in banking and finance consulting.

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Lisa D'Ambrosia, Director/Shareholder, Minor & Brown

Lisa is an experienced transaction attorney who advises her clients in the areas of mergers and acquisitions, commercial real estate, business planning, and private equity and financing transactions. A true believer in community involvement, Lisa has been an active member of the South Metro Denver Chamber of Commerce, serving as the current Chair of the Board of Directors, past chair of the Economic Development Group, and past chair of the Small Business Development Center. In addition, she is involved with the Denver Metro Chamber of Commerce and has been an active part of the CEO Exchange Program, acting as a group facilitator.

> I once had a client come in with six trash bags full of contracts. They simply said, "Here's what I've got." By the time we went to market, the buyer said, "I've never seen a company so well-organized." And (the seller) is sitting next to me laughing and said, "If they only knew what we looked like four months ago."

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Bob Forbes, President/Founder, The Forbes M+A Group

Bob has over 20 years of experience as a business intermediary, owner, private equity executive, and investment banker. In 2004, he launched The Forbes M+A Group, an advisory firm specializing in bringing senior advisors with diverse real-world expertise to every transaction. In August 2015, The Forbes M+A Group was named Best for Strategic Transaction Guidance in the USA by Acquisition International.

> More than 70 percent of the time there's money left on the table. Deals fail to realize the highest and best terms... A survey of business intermediaries says more than half of deals that go to market never get to the finish line. More often than not, it's mistakes that are made -- pretty common mistakes -- that either are fatal to the deal or scare buyers away or fail to position companies for the highest and best terms.

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Joseph Janiczek, CEO/Founder, Janiczek Wealth Management

Joseph founded Denver headquartered Janiczek Wealth Management a quarter-century ago and now has clientele across 25 states. The firm specializes in advising business leaders who will experience or have experienced a life-changing liquidity event (7-, 8- and even 9-figure events).

> It's all about being a depletion-resistant wealth steward and a penalty-resistant investor. We guide business owners from 5-years before the life-changing liquidity event to continually after receiving the windfall.

Joseph spent decades in the trenches with those experiencing life-changing liquidity events and ultimately developed and patented Systems and Methods for Optimizing Wealth. His firm is a pioneer in the disciplines of Evidence Based Investing (EBI) and Strength Based Wealth Management (SBWM). Janiczek is the award-winning author of Absolute Financial Freedom.

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Steve Kopitz, CEO/Founder, Summit Sports

Steve founded Summit Sports 25 years ago. Today, Summit Sports owns and operates six e-commerce sites that sell a variety of outdoor and action sports equipment and apparel online. These sites have become the dominant source of revenue and growth for Summit Sports.

In March of 2015 Summit Sports sold a majority interest to Digital Fuel Capital, a private equity firm out of Boston. Steve continues his position of CEO and is working to help Summit Sports become a predominate leader in the e-commerce action sports market through internal growth and outside acquisitions.

> I would strongly suggest if you have minority (share) partners, or if you have partners at all, really try to get your ducks in a row with them and get everybody on the same page ahead of time, because there can be some things that happen at the end that make a deal fall apart. Ours almost completely fell apart literally at the last hour.

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