

# From successful to significant

The framework for a high-value business transition



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<sup>1</sup> Of business owner survey respondents in the New York City region, 99.5% indicated they agreed with this statement: "Having a transition strategy is important for my future as well as the future of the business." *State of Owner Readiness Report: New York City*, Exit Planning Institute™, 2023.

<sup>2</sup> *State of Owner Readiness Report: New York City*, Exit Planning Institute™, 2023.

<sup>3</sup> Christopher M. Snider, *Walking to Destiny: 11 Actions an Owner Must Take to Rapidly Grow Value & Unlock Wealth*, ThinkTank Publishing House, Jan. 1, 2016.

<sup>4</sup> See note 2, above.

<sup>5</sup> "Employee Stock Ownership Plan (ESOP) Facts," National Center for Employee Ownership, January 2022.

<sup>6</sup> "What Is an ESOP," The ESOP Association, January 2022.

<sup>7</sup> "The Economic Power of Employee Ownership," National Center for Employee Ownership, January 2022.

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This paper was prepared in partnership with the Exit Planning Institute.

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# Business, personal, financial: A holistic approach to high-value transitions

We’ve found that there are three factors — three legs of a stool — to the process of planning that can help maximize the value of a business. Whether or not you’re planning to sell, these factors are critical to the pursuit of your business and personal success. We know that every owner will eventually exit — voluntarily or involuntarily — but it’s best to do so on your own terms and to create as much value as you can before that happens. The three legs for owners are your:

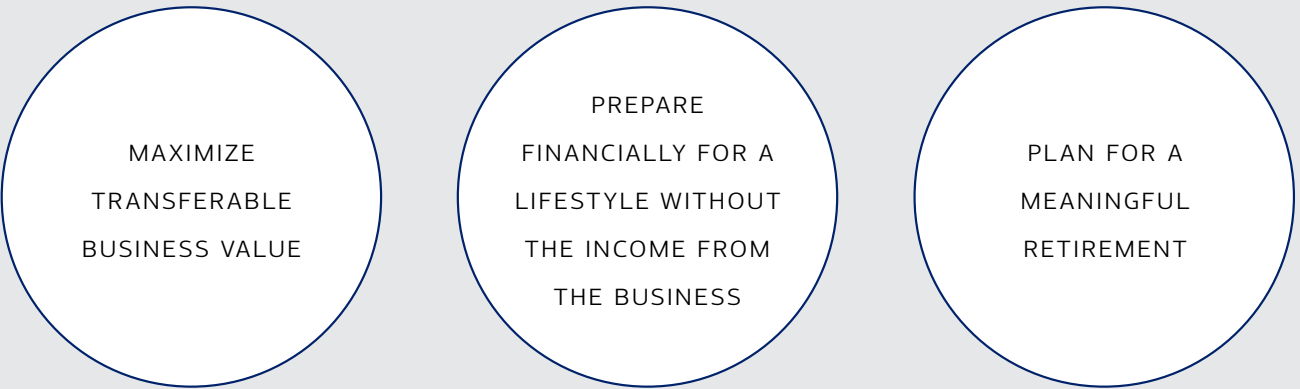
- **Business needs**
- **Personal needs**
- **Personal financial needs**

All three impact the ultimate value of your business and the success you feel in your life both inside and outside of your company. We believe that even if you’re not going to sell your business, the best way to create the greatest value is to act as if you were. A business that can be sold is a significant (not merely a successful) business.<sup>1</sup>





To create a significant business, owners must do three things:



Building business value

Business owners tend to focus more on sustaining and growing their business rather than working on their personal wealth planning and financial goals. However, for any business, the best time to engage in personal wealth planning is sooner rather than later, so that owners have the opportunity to maximize their business’s value. Many presale personal planning strategies rely on the assumption that the value of the business will be greater in the future when the owner is ready to exit via a sale, merger or recapitalization. Understanding your business’s value, its projected growth in the future, and the estimated after-tax sales

proceeds based on different offer scenarios is crucial and can also help inform decisions made on behalf of the business. Once you have a target, it becomes easier to work toward it. We believe the best way for that to happen is through planning. Focusing on value first can help owners achieve both transferable business value and increased business income. By focusing on value, other aspects of the business have the potential for positive outcomes. Maximizing business value makes for good business. We believe value maximization, not mere income, should be the primary goal for business owners. Income is a measure of success. Value is the measure of significance.

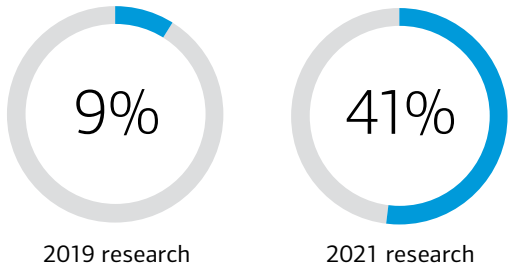
Following your personal goals

There is often a shift in personal identity that occurs in retirement for the vast majority of business owners. Executives may feel that, overnight, they’ve gone from the person who emails were returned in 15 minutes to the third person in line at the coffee shop. Many business owners aren’t prepared to address these changes and suffer an identity crisis. Being a business owner was their entire life, and now that part of them is gone. Advisors who employ the Value Acceleration Methodology realize the importance of understanding an owner’s entire identity. When advisors really get to know the owners who are looking to build or sell a business, and learn about their personal endeavors outside of the business, the knowledge gained not only helps them more fully understand those owners, it helps them be more effective advisors.

Identify your personal goals first. Then align those goals with your personal financial targets. Finally, identify your business goals. Having these goals all work together can better prepare you for a successful business exit.

In 2019 research into owner readiness for transition, EPI found that only 9% of owners had a written personal transition plan for when they exited their business. As a result of an increase in formal exit planning education in the marketplace, the latest research found that 41% of business owners include written detailed personal planning in their exit strategy.<sup>2</sup>

Owners who have a written personal transition plan



Understanding your personal finances

According to the EPI’s *State of Owner Readiness: New York City* report, of business owners with a written business transition plan, 53% included a personal financial plan.<sup>2</sup> Owners must consider their income requirements, risk tolerance, liquidity needs, time horizon, personal wealth, retirement needs and long-term health when creating their personal financial plan. Financial planning provides a foundation for business owners when deciding their next steps. It especially can help them determine what’s possible after they liquidate their business. Defining your financial needs in retirement is a different way of thinking about wealth and cash flow. If you retire or even cut back at age 60 or even 70, it’s likely you’ll live another 20 to 30 years. And what’s important is having a vision for what you’re going to do with that time. Having a full and complete exit plan that considers your business, financial and personal needs is crucial for a profitable business exit.

# What is value acceleration?

The Value Acceleration Methodology is a strategic framework for executing exit planning. It's a value management system that can help prepare owners for an exit at any time, thus eliminating the stress of being caught off guard when it's time to retire or cut back. The Value Acceleration Methodology was created by the EPI to help both owners and advisors understand that exit planning is simply a good business strategy whether you plan to exit or not. We believe the strategy can help build better businesses.



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Ask yourself whether you're satisfied with the current performance and value of your business. If you want to improve it, consider focusing on exit planning through the Value Acceleration Methodology.

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Exit planning isn't just a plan on paper. It's a strategy rooted in execution that's designed to help grow value while expanding choices to help ensure owners can transition a business on their terms when they're ready. The Value Acceleration Methodology helps align an owner's business, personal and financial needs.

## Begin with the end in mind

One of the biggest regrets of owners without a transition strategy is that they failed to integrate a value acceleration process to prepare their business — and themselves — for transition. They realized after the fact that they left substantial sums on the table because they didn't maximize the value of the business before the time of exit. By putting off planning for a future after their business exit, they failed to recognize that a good business strategy focuses on strategies for growing and de-risking the business. The Value Acceleration Methodology can help get you there.

Owners who successfully exit are building their business with the end in mind. Every owner will eventually leave their business one way or another, and looking at the business through that lens can help owners to build deep value so they can exit on their terms.

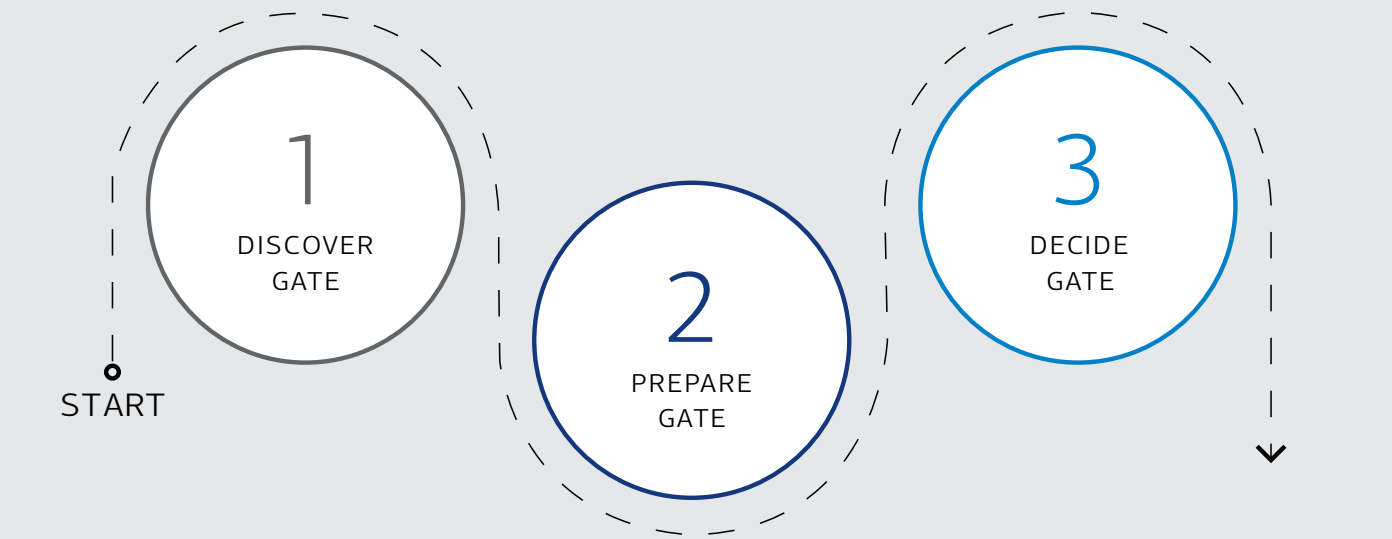
This line of thinking may be uncomfortable for some business owners, who may spend the majority of their energy trying to build profits instead. However, given that exit planning involves de-risking and adding value to the business, a business owner can naturally increase profitability through proper exit planning.



# Value acceleration methodology

## A three-gate process

The Value Acceleration Methodology can be broken down into three “gates” — Discover, Prepare and Decide— designed to lead to greater value. Value acceleration “can be used as a tool to teach your team how to create value (not just more income), measure their performance and benchmark value creation.”<sup>3</sup>



These three gates combine the plan, concept, effort and process into a clear strategy for building a business that’s both valuable and transferable. Value acceleration actions require tireless commitment and relentless execution. Exit planning is simply good business strategy — but with these gates integrated into your personal and financial goals and objectives.

While you might not be looking to exit your business for years, planning for the future is key to your success during whatever transition you have in mind. It helps maximize the value of a sale and put the business in a solid position to pass to the next generation. Having a clearly defined transition strategy through the Value Acceleration Methodology can help build value in your business today as well as prepare you for the future.

# The Discover Gate

The first gate of the Value Acceleration Methodology includes four key components:

- **Business valuation**
- **Assessment of the company’s readiness and attractiveness**
- **Assessment of the owner’s preparedness to exit**
- **Creation of a prioritized action plan**



### Enterprise value assessment

The first step in the Value Acceleration Methodology is to identify what an owner already has, which will provide a baseline measurement of business value. Assessing the value of the enterprise is important for business planning, tax and estate planning, and personal planning.

Many private business owners engage an independent business valuation expert each year to prepare a qualified appraisal that complies with industry standards. These reports are used for myriad purposes, including establishing the fair market value of a stakeholder’s interest in a buy-sell agreement, stock repurchase agreement, recapitalization or stock/equity plan, and satisfying their creditors’ due diligence.

Owners may consider engaging an independent valuation firm that follows industry standards like those published by the American Institute of Certified Public Accountants (AICPA), the Institute of Business Appraisers (IBA) and the American Society of Appraisers (ASA).

In many cases, the lack of formal business valuations is a major reason why so few businesses that go to market sell.

### Business valuation

It’s essential that owners learn the actual value of their business today. Because they often believe the value to be higher than it is, owners should determine whether a gap exists in the value between what the business is worth and what they need to maintain their lifestyle after exit. Thus, owners will be able to plan more realistically for the future.

Conducting an annual business valuation is one way to do this. It can help determine whether a company has really made improvements toward becoming a significant business. Additionally, it can help the executive leadership team in their personal and financial planning by establishing an agreed-to value of the business.

Recent EPI research found that, of those owners who have written transition plans, 29% include a business valuation as a part of their overall strategy.<sup>4</sup>

### Personal, financial and business planning assessment

Creating and maintaining updated personal financial plans, estate plans and tax plans are important for one’s personal financial strategy and mitigation of personal financial risk. Through this assessment, owners determine their attractiveness and readiness for a business exit.

A business owner’s personal, financial and business goals are equally important. Understanding what those goals are will help a business owner properly plan for the future in a holistic manner.

Owners aren’t the only ones who benefit by preparing for life after exit. Executive leadership teams can take an active role as well by meeting with their own wealth/risk/estate advisors to review their personal and financial plans. By developing a “life after business” plan and a solid financial plan to fund it, each member of the executive leadership team can be prepared for the expected, the unexpected and the inevitable.

### Create a prioritized action plan

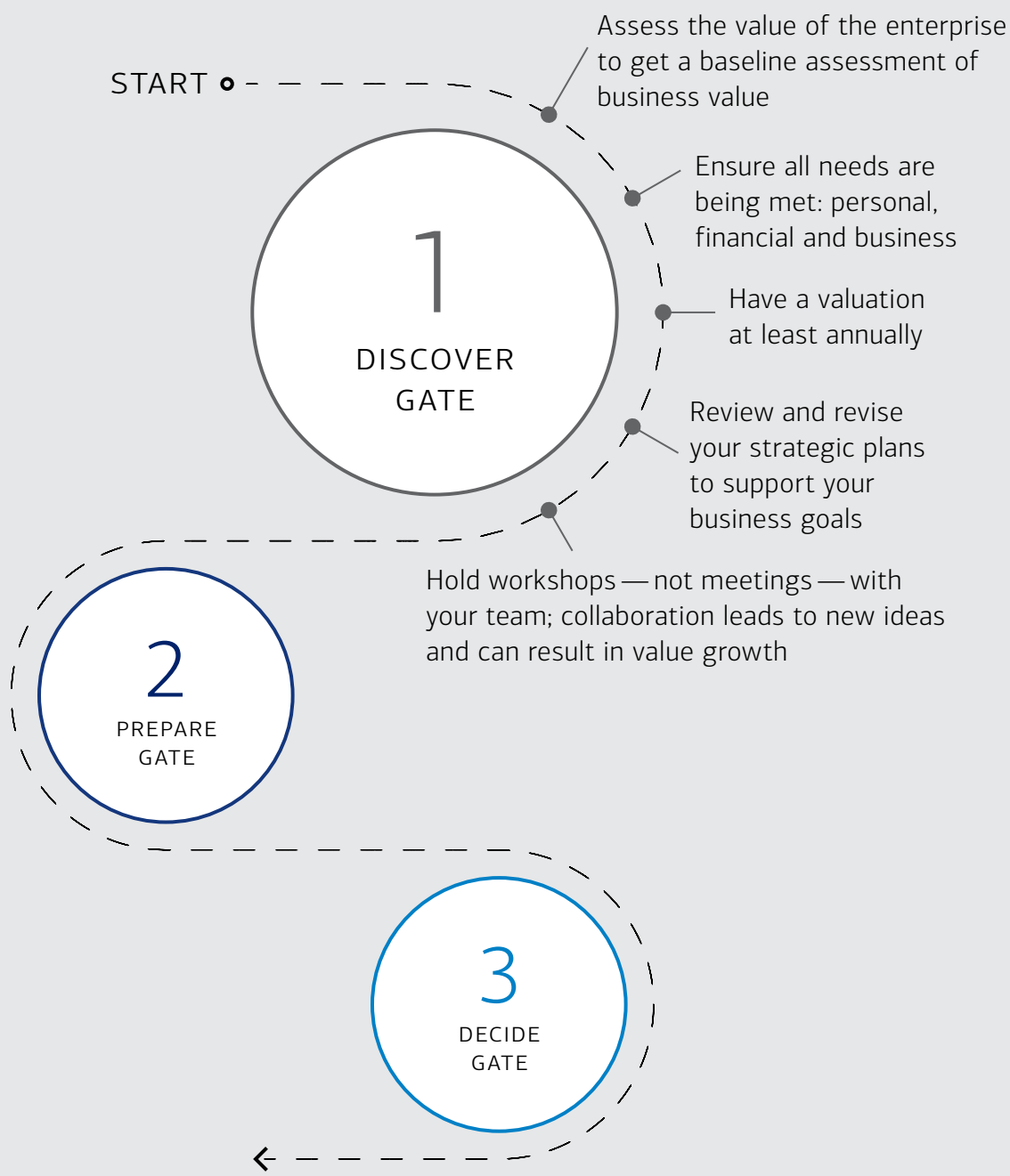
It’s important to have a strong strategic action plan when moving through the Value Acceleration Methodology. Most business owners have never created or implemented a solid strategic plan. Whatever stage the business is in, owners should always be looking to grow value and be ready for opportunity when it knocks. Evaluating and revising short-term objectives that support the longer-term goals of your business is part of a good business strategy.

Business owners and advisors can move through the prioritized action plan process in different ways. Owners, for example, can identify weaker areas in their business as well as opportunities to capitalize on through benchmark assessments and SWOT (strengths, weaknesses, opportunities and threats) analysis. Or they might gather their team and map out their strategies for the year, including prioritized action plans, which can be used as a means of accomplishing the objectives in their annual strategic plans.



# The Discover Gate

How do I incorporate this in my company?



# The Prepare Gate

By the time owners get to gate two of the Value Acceleration Methodology, they’ve established their company’s vision. They’ve assembled a plan and action items to complete to build value in their organization. The Prepare Gate is about executing those action items. Here, delivering action is about focus, reinforcement and accountability. One of the keys is moderation — don’t overload yourself or your team. Take big projects and break them down into 90-day incremental deliverables.



During the Prepare Gate, business owners and advisors work on strategies to strengthen business values and manage risks by making improvements. These actions serve as proof that value-building systems are in place and help owners reach their desired personal, business and personal financial goals.

### How your values impact your business

Every business has areas requiring improvement. Implementing a disciplined process allows you to spot significant issues and update your operations. As you create greater alignment between your culture and your plan, your business can improve both its performance and its value.

When owners work with their teams in monthly, quarterly and yearly workshops, not only will the intangible capitals in their business strengthen, but their business value can grow as well.

For example, one owner plans for three-year, annual and monthly goals, and reassesses the business’s progress every 90 days to determine whether there should be any “course corrections” due to current and/or unexpected market conditions. Looking at targets monthly and taking them on 90-day sprints can help determine whether an action plan needs updating or is strong and on target.

### Mitigating risk in your business

The Prepare Gate provides owners with the time to uncover and mitigate the true risks in their business. By simply managing risk in your personal situation, your personal finances and your business, you can increase value. Remember, any risk decreases value. Indeed it’s the risks that buyers use to beat down value after an initial offer on a business. Risks and the underlying issues that the risks represent are the value killers in any business. One problem owners face is that the risks are familiar and often unseen. Gaining perspective on these risks is difficult to do well but is vitally important.

Consulting with industry experts to compare business risks can help identify problem or opportunity areas. Discussing the changing landscape for every business helps to identify risks that previously didn’t exist. If you focus on increasing the value of your company, you’re likely de-risking and implementing improvements that optimize operations, which, in turn, improve the bottom line.

Another way to assess risk is by examining how any of the Five D’s (death, disability, divorce, distress or disagreement) might impact your business if they occurred today. By examining the Five D’s with the help of your leadership team, you can implement risk mitigation based on findings. Outside professionals like attorneys, IT service providers, HR professionals, operational systems and procedural experts, and other experienced advisors can provide valuable assistance. Looking at your business risk from as many angles as possible allows you to focus on the right things to help increase business value.

### Owner-dependent businesses

In our experience, one of the big regrets we see in owners who sell their business for less than they hoped was that they lacked well-documented processes and strategies. The important information was locked in their head, and the prospective buyer had no way to unlock that value. Without detailed business processes, financials, legal documentation and so on, the business is prepared for the market but is missing out on valuable time-saving systems as well.

In most cases, owner-dependent businesses have strong customer relationships. Unfortunately, those relationships are between the customer and the owner, not the customer and the business. This means that if and when the owner exits the business, the customers are likely to go elsewhere. So while the customer base may appear strong, in reality, the company’s customer capital is laden with high business risk.

Businesses that are dependent on the owner will never reach full value potential because most of the value in the business is locked in the owner. Owners who either leave the business or are forced out by circumstances are likely to take customers and processes with them.

The brand and the owner have become synonymous. This is seemingly good for the ego, but it’s decidedly bad for the business.

One of the easiest ways to build business value — and limit the amount of time you as an owner spend working outside of traditional work hours — is to develop the people and processes that can replace you. Most owners find that doing so creates significant freedom from worry and increases their professional and personal satisfaction.

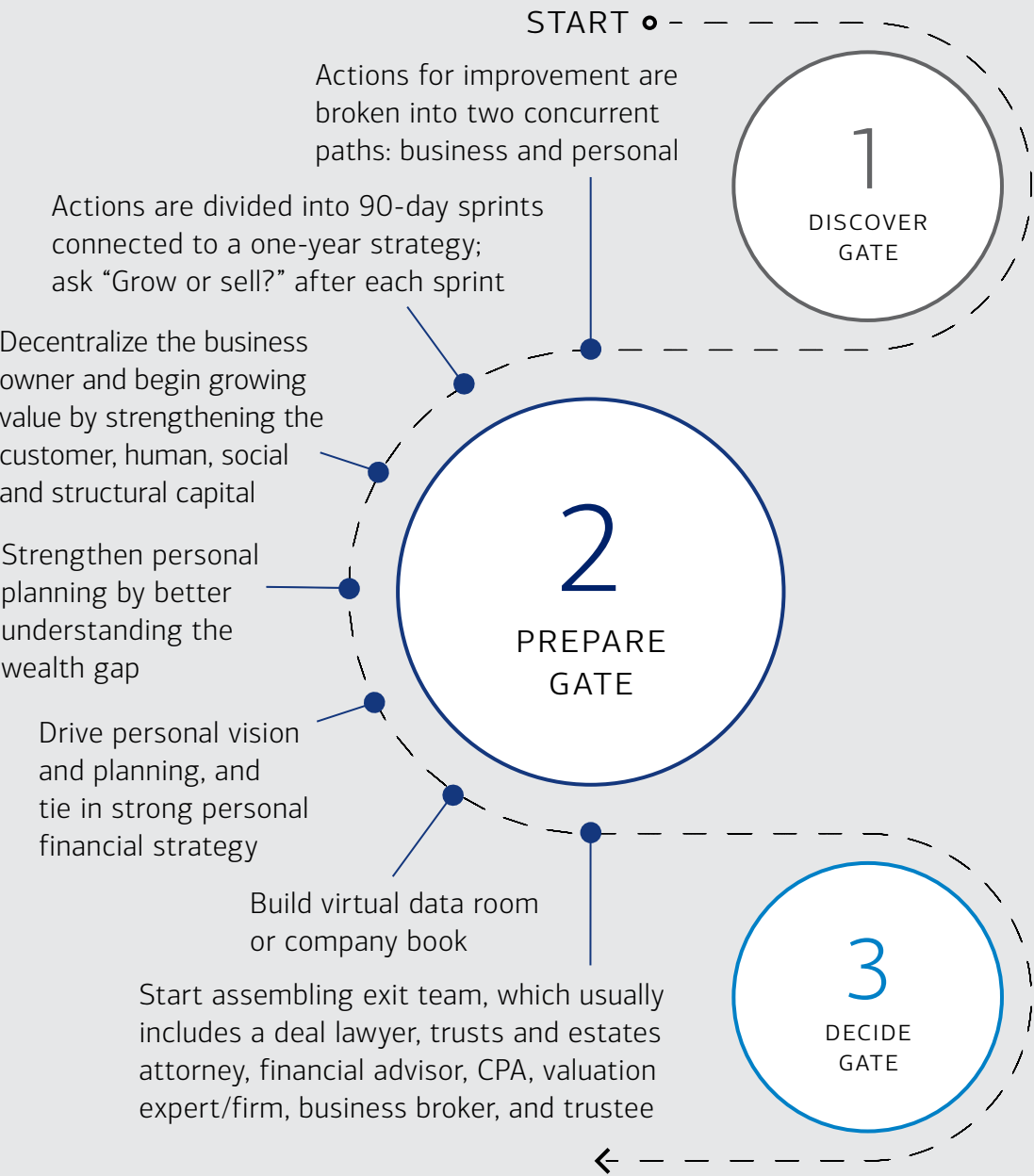
### Assemble proof and prepare your master plan

The Value Acceleration Methodology allows business owners to determine their readiness, attractiveness and risk relative to their capacity for growth. If a business isn’t ready for growth, it isn’t ready for transition.



# The Prepare Gate

How do I incorporate this in my company?



# The Decide Gate

What makes the Value Acceleration Methodology a novel strategy in the exit planning field is the owners’ ability to decide their path. After the Prepare Gate is a “decision diamond” that creates a pathway into the Decide Gate.



The question business owners must ask themselves at this point is, “Do I keep growing or do I sell?” Every 90 days they must ask, “Grow or sell?” If the answer is grow, then they continue their 90-day cycles in the Prepare Gate.

Every year, business advisors should assess the value of the enterprise to understand an owner’s progress. From there they go back into the 90-day sprints.

If the ultimate path is to sell or transfer the business, then, when the time comes, business owners move into the Decide Gate and get to work on the transition of their company.

The Decide Gate is the phase of value acceleration where owners decide whether they’d like to continue growing their business value and stay with the company, or they’d like to exit their business with the most wealth possible.

One of the most unique aspects of the Value Acceleration Methodology framework is that it can be used by owners looking to exit their business or by those who are simply interested in building value in their company.

Do you want to grow or exit?

When working through the methodology, business owners are actively working toward building their business’s value. This work can provide the immediate benefits of greater efficiencies, decreased risk and potential increases in profitability. It also frees them to do work that matters, and it creates companies that move beyond success to significance.

Once owners have gone through the Value Acceleration Methodology, they have choices. They might choose to go through the process a second time to potentially create even greater value in their business. They might choose to hold on to their business and enjoy the fruits of their labor. Or they could decide that they’ve increased the value enough to sell their business or transfer it to the rising generation, using the value created to fund their retirement or even another business.

“I’d like to exit the business”

By the time business owners have reached the Decide Gate and are prepared to exit their business, they will have researched all available exit options.

The most popular exit options among business owners

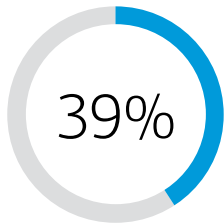
Internal	External
<ul style="list-style-type: none"><li>• Sell to family</li><li>• Sell to employees</li></ul>	<ul style="list-style-type: none"><li>• Sell to a third party</li><li>• Sell to a private equity firm</li></ul>

Source: 2023 National State of Owner Readiness. Exit Planning Institute™, 2023

Sell to family

The Value Acceleration Methodology helps eliminate the tensions that can arise during family business succession planning. By eliminating the drama that can come with family succession, owners can truly focus on growth and value acceleration. This methodology promotes and somewhat forces open communication, planning and education.

Percentage of owners surveyed stating they preferred a family transition



Source: 2023 National State of Owner Readiness. Exit Planning Institute™, 2023

Family succession requires that you build capacity and capability in the rising generation. Value acceleration is even more important in a family transition where you need to leave a business that’s not fraught with problems or overly dependent on the owner for its success. That said, family transitions, when handled well, are immensely satisfying. The Merrill Center for Family Wealth can be an extraordinary resource for families addressing the dynamics of a family business. The value acceleration process can be the first crucial step in professionalizing the business for the second generation.

Sell to employees

As of January 2022, the National Center for Employee Ownership estimates that there are roughly 6,500 employee stock ownership plans (ESOPs) covering almost 14 million participants.<sup>5</sup> According to the ESOP Association, “Employee stock ownership plans are retirement plans governed by some of the same laws and regulations as 401(k) plans. ESOPs, though, are fundamentally different from 401(k)s, offering far more advantages to businesses, owners, employees and communities.”<sup>6</sup>

An ESOP is an alternative exit strategy that can provide liquidity to selling stakeholders and ownership benefits to exiting and new employees, and, in most cases, can generate substantial tax benefits to the company.

In addition to creating a costless retirement benefit for employees, an ESOP has the potential to provide significantly higher returns than other, traditional retirement plans. The National Center for Employee Ownership (NCEO) reports that employees at ESOP companies have 2.5 times greater retirement accounts than equivalent employees elsewhere.<sup>7</sup>



Sell to a third party

If a sale is the objective, selling to a third party is one of the most cost-effective methods of exiting your business. As a business owner, you’ll be able to walk away faster after the deal and with more cash upfront. Selling to a strategic buyer, financial buyer or private equity group is a long process that can take between nine and 12 months and involves roughly 1,000 professional hours. Understanding the pros and cons of each option is critical to selling without regret. The method of sale is also important to understand. A sale can occur through a go-to-market strategy, a controlled auction or an unsolicited offer.

What often goes unrecognized is how emotional this process can be. Strong feelings of attachment could cause you to be distracted in the process. This is why a well-considered personal plan is so critical. President of the Exit Planning Institute Scott Snider notes, “It eases the emotional side of things if the business owner has a clear path, goals, purpose and vision for what’s next. A lot of owners bail on the sale of the company right at the end due to ‘cold feet.’ They’re scared and emotional. They’ve let their business be their identity and have done no personal planning. So they bail and keep their company.”

When selling a business to a third-party buyer, business owners will need to put together a “deal team” that could include valuation experts, M&A and estate attorneys, CPAs, investment bankers, business brokers, and so on. Merrill advisors can offer guidance to business owners to help them determine the right team for the kind of deal they’re looking to consummate.

It’s important to engage advisors early and often to uncover any holes, gaps or trouble areas in valuation and to address value detractors. Anticipating everything that could go wrong in the due diligence phase of a sale can help the sale to be an owner’s finest hour as an entrepreneur. It’s here where the value is created and actually realized.

Sell to a private equity firm

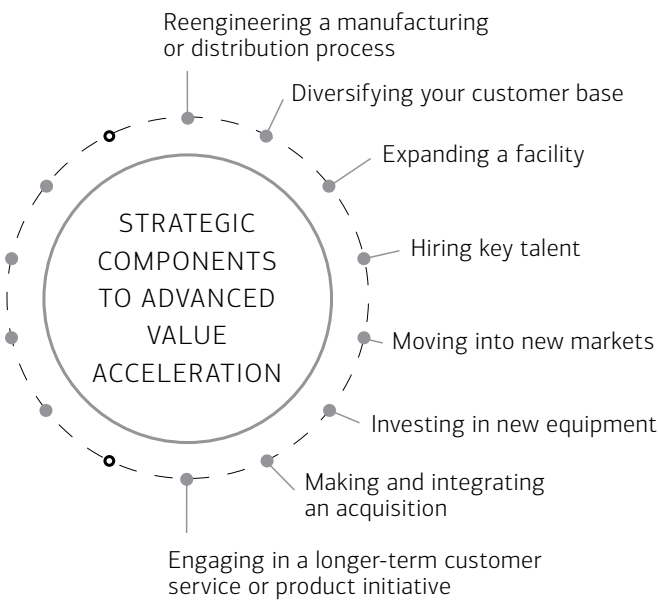
It’s crucial to understand the source of the offer. A private equity buyer is often different from a synergistic third-party buyer or strategic buyer. Private equity firms tend to use a combination of cash and equity of the buyer to purchase a fraction of the business, usually retaining existing management for some period of time, and include so-called “earnouts” as part of the purchase price. The goal of most private equity firms is to sell their investment in your business within five to seven years, hoping to make two or three times their investment. Offers from private equity firms tend to be solely data-driven and based on cash flow and multiples. On the other hand, strategic buyers generally purchase 100% of target businesses and are less likely to ask management to stay. Offers from strategic buyers are often less data-driven in that they also factor in how the addition of your business can leverage the buyers’ existing line of businesses.

Receiving unsolicited bids from either strategic or private equity buyers is not uncommon. That’s why being educated on value acceleration issues is invaluable to owners who might need to make unexpected decisions. Selling your business is often one of the most important decisions you’ll make and one that will have lasting effects on your family and employees, which in many cases are one and the same.

“I’m going to keep the business”

Some business owners go through the Value Acceleration Methodology with the sole purpose of building value in their business, mitigating risks, and creating lasting relationships with customers and employees. They do this to free up their time, build their executive team, diversify their client base, improve processes and so on. When these owners reach the Decide Gate, instead of exiting their business, they decide to grow their business through the process of Advanced Value Acceleration. Some might wish to sell the business, others might want to acquire a competitor, still others might like to increase overall sales by 15%.

In Advanced Value Acceleration, owners generally take on more risk and usually more debt. Often this is done through forms of recapitalization. Here owners begin to work on more strategic improvements to their business. Among other things, this can include hiring key talent, investing in new equipment, expanding into new markets, generating new lines of business, changing a core business model or acquiring another organization.



Expand to new markets

After building value in their business through value acceleration, owners might realize their business would serve more than their current market. As a result of going through the Value Acceleration Methodology, owners gain a deeper understanding of their business value. Perhaps they want to expand a business that’s primarily focused on business-to-business transactions to one that delivers products directly to the consumer market. Or they’ll move into new pricing models that require new business processes. Or they’ll engage in strategic brand development. The list of possibilities is long.

Advance new products

Value growth from the Value Acceleration Methodology can provide owners with the opportunity to invest in product development to expand their brand reach. Working with advisors, a management team can identify growth levers, such as identifying add-on acquisitions, increasing efficiency in a facility or introducing new products, and then execute on those strategies.

Grow through acquisition

Another option for continued value acceleration is acquiring synergistic companies. Owners may find they’re not looking to exit their business but would like to grow by buying out competitors or merging the businesses to grow value. Investment bankers can work with owners to provide advice and guidance on growth strategies to pursue the desired outcome, or they can provide buy-side services to help companies acquire a strategic business.

# The Decide Gate

How do I incorporate this in my company?

