Roadmap Report

Roberts Manufacturing

Presented by:

Liam O'Shea

Prepared for:

James Roberts
Roberts Manufacturing
January 04, 2023

Overview

Revenue	EBITDA	Enterprise Value	Potential Value	Owner Estimated Value	Value Gap
$10M	**$1.4M**	**$5.44M**	**$8.94M**	**$6.7M**	**$2.45M - $4.56M**
%Ownership	Salary	Other Benefits	Outside Assets	Retirement Income	Replacement Gap
100	**$300K**	**$487K**	**$720K**	**$86K**	**$-1.86M**
Industry		Entity Type	Employees	Objective	
Manufacturing		**S Corporation**	**25**	**Prepare to sell my business**	

About

Exit planning is sound business strategy. And like any strategy your business may already have in place, an exit plan follows the same principles. It should address the who, what, when, where, why and how. This report provides you with detailed guidance on developing a customized action plan for you and your business.

It's important to note that effective business planning should be coordinated with your personal financial goals and address business succession, owner retirement, and the family's estate. It is also important to consult with your tax and legal advisors on certain topics.

Contents

Business Objectives

You said your business objective is to **prepare to sell the business**.

Identify, evaluate and understand the ways to exit the business. There are internal transfer options (family, management, partner and ESOP) and external transfer options (3rd party, private equity, IPO and liquidation). Each has its own pros and cons and impact on the business and your financial future.

Estimate the earnings multiple that's likely to apply when pricing the business. All industries have a normalized trading range and how attractive the business is to potential buyers will determine whether you fall on the low or the high end of that range. Focus on improving the value drivers of the business to help ensure you receive a higher multiple when the time comes to sell the business.

You said within the next 24 months, **you will need access to more capital**.

When reviewing loan applications, lenders look for good credit, a feasible business plan, adequate owner equity and sufficient collateral. In addition, they look for management expertise and commitment. In other words, what real work experience do you and your business partners have in managing your type of business. Keep in mind, lenders won't finance 100% of the business. They want owners to contribute at least 25% of the capital and want to see cash flow equal to 1.3 times the debt. As a rule of thumb, these six C's of credit will help you determine if you are a good candidate for financing:

- ***Character:*** What is your personal credit/lending history?
- ***Capacity:*** How soon can you show a profit and repay?
- ***Capital:*** How much have you personally invested?
- ***Collateral:*** What other assets can you pledge as backup?
- ***Conditions:*** What loan terms are you looking for, including purpose of the loan?
- ***Cash Flow:*** Where will the money to repay the debt come from?

You said that you **do not have a personal financial plan** that dovetails your business and personal objectives.

This should be a priority. Your business is most likely your largest income producing asset. Understanding the role it plays in your personal planning is vital to protecting your family's financial wellbeing and maintaining your current and future lifestyle. In addition, a lack of financial independence from the business can lead to owner never truly being able to exit on his/her terms when that time comes.

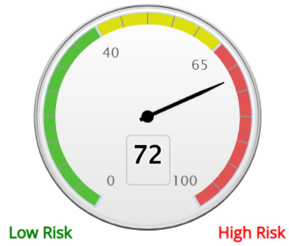
Goals

Your goals are a reflection of what is important to you. We believe in a mutually committed relationship built on an exploration of these goals that goes beyond the numbers to instill clarity and confidence for you to take action. Together, each year, we will focus on what matters most in terms of achieving your business planning objectives.

It is our opinion that your goals can be attained by implementing the recommendations detailed in this plan. The key to succeeding is your ability and willingness to follow and maintain the plan. The plan is a living document and should be reviewed and updated annually, or upon the occurrence of a major personal or financial event.

Goal	Action Plan	Target Date
Protect my business	We need to protect against the loss of key people.	In 3 months
Build a strong management team	Develop a team of leaders who removes the business owner's day-to-day involvement in the business	In 6 months
Plan for life after the business	With an exit timeline of five years, it is important to understand how you will spend your life after the business. We will introduce an expert in this area to begin the process.	In 6 months

Owner Risk



Goal is less than 40

Your owner risk is **High**.

This index is an overall view of the risks that may inhibit a business owner's ability to maximize their current enterprise value today and monetize it in the future. It incorporates the four critical elements of owner risk: Income Replacement, Insurance Protection, Red Flags, and Liquidity. Each is broken out in this report to enable you, the owner, to get your arms around making your business fit your personal goals.

You currently have a **High** level of business, personal and financial risk. You have considerable exposure that could leave the business and your family exposed if and when a transition occurs. A de-risking strategy should be the top priority.

Observation	Action Plan	Target Date
Intermingled business and personal finances	Currently, there are many personal expenses that run through the business and it is unclear the total amount the business provide the owner. We will analyze the business and personal financials to better understand these differences.	In 3 months
Owner Dependent Business	Begin identifying areas of the business that are highly dependent on the owner's involved. The goal is to bring key employees into these areas of the business to increase the transferability of the business	In 6 months
Overdependence on business to fund retirement	The business as an asset plays a significant role in you achieving your retirement goals. While we work to improve the value of the business and its transferability, we will also evaluate ways to increase your assets outside of the business.	In 6 months

Red Flags

Planning is important. You have a vision for your future.Start by removing these strategic threats to attain your vision.

Warning	Action Plan	Target Date
Stale buy-sell agreement	The buy-sell agreement in place was last reviewed 7 years ago and does not reflect the current state of the business. We will introduce an attorney to review the existing agreement and update based on the current circumstances	In 3 months
No benefits designed specifically to keep your key employees loyal	We have identified three individuals that are critical to the success of the business. We will explore options to better incentivize them to stay and grow the business with you.	In 6 months
Successor not ready to take over the business right now	Your two children have been identified as successors. At their current age and experience, they are not ready to take over the business. We will develop a plan to bring them into the management of the business to prepare them for a future transition.	In 24 months

Income Replacement

The income replacement value is the value owners need the business to be worth to maintain their current standard of living when they are no longer running the business. It is critical for effective succession and retirement planning, and shifts the focus from current lifestyle to future enterprise value growth.

Assets needed to Retire	**$9.74M**
Value of Business (@100%)	**$5.44M**
Value of Personal Assets	**$2.44M**
Retirement Asset Gap	**$1.86M**
Potential Additional Business Value (@100%)	**$8.94M**
Total Excess Assets	**$1.64M**

You Have Sufficient Assets

Based on the information you've given regarding the amount of salary and benefits you derive from the business currently, as well as the value of the business and the value of the assets you own outside the business, **you may have a sufficient amount of assets to maintain the current standard of living that you've created for yourself in retirement.** To help ensure these assets are there when you retire, you should consider five strategies:

1. Protect the value of the business by mitigating any risks that are present in your personal, business and financial landscape.
2. Continue to monitor and grow the value of the assets outside the business.
3. Select an exit strategy that aligns with your future income needs and allows you to extract the wealth that is locked in the business.
4. Take steps to ensure the business has transferrable value and is appealing to potential acquirers by shoring up operations, eliminating owner dependencies and focusing on intangible assets.
5. Document and communicate your involvement in the business post retirement and make certain any compensation you receive is commensurate with those duties.

Insurance Gap

Experience with thousands of owners across all industries has proven the first step to a better future is to protect the lifestyle you have created. Then you can sleep better, relax a bit, and renew your journey with new energy. Insurance makes it fast and easy.

		In Force	Needed	Gap
Personal	Life	$3.5M	$9.74M	**$6.24M**
	Disability	$60K	$180K	**$120K**
Business	Loans			**$0**
	Overhead Expense		Yes	
Buy-Sell	Life	$4M	$6.49M	**$2.49M**
	Disability		$10.3M	**$10.3M**
Key Employee	Life	$1M	$4M	**$3M**
	Disability		Yes	

The protection gap values above are meant to show the optimal amount of insurance coverage needed to fully protect an individual and a business as a best practice and under ideal conditions. Factors, such as age, health, cost, and face amount limits may impact an individual's ability to purchase the full amount of coverage needed to address the gaps in coverage. You are encouraged to speak with a financial professional who can help determine the appropriate and available amounts of insurance coverage that may be right for you.

Liquidity

The liquidity meter is based on a weighted average of your CoreValue Rating and your selected exit strategy. It assumes the business will continue as a going concern.

A business can have great value and at the same time be illiquid: meaning, even though the business may generate consistent levels of profits, you still can be challenged to sell it and turn the business asset into cash. This matters, since the more easily the business can be 'monetized' into cash, the more options you have for the future.

Liquidity is based on a weighted average of your CoreValue Rating and your selected exit strategy. It assumes the business will continue as a going concern.

Business rich, cash poor means you have more equity locked in the value of the business than you have in liquid assets. Your business is most likely your largest asset, but you don't have easy access to the cash. Business rich, cash poor doesn't mean you are actually poor. It means you may need to enhance the operational efficiencies in the business and reevaluate your chosen exit strategy to enhance liquidity."

Exit Strategy

Sell the business to an inside buyer, such as a key employee, a business partner or a family member.

In a management or partner buy-out, the buyer (oftentimes a key employee or ownership partner) knows the business inside and out, is someone you trust, and shares your passion for the business. What's often the challenge is the inside buyer typically has little cash up front to make the purchase, so you may have to negotiate an installment buyout. If it's an ownership partner you are looking to sell to, it makes sense to have a buy-sell agreement in place that will stipulate the triggering events that will necessitate a sale, the terms of the sale, and include a funding mechanism for the buyout. The last thing you want is your retirement, or the financial future of your loved ones, to be dependent on how well this person runs the business.

Pro	Con	Risk
Buyer knows the business and is someone the owner trusts	Buyer typically has little cash at closing (opts for an installment sale)	Sometimes good employees make poor entrepreneurs

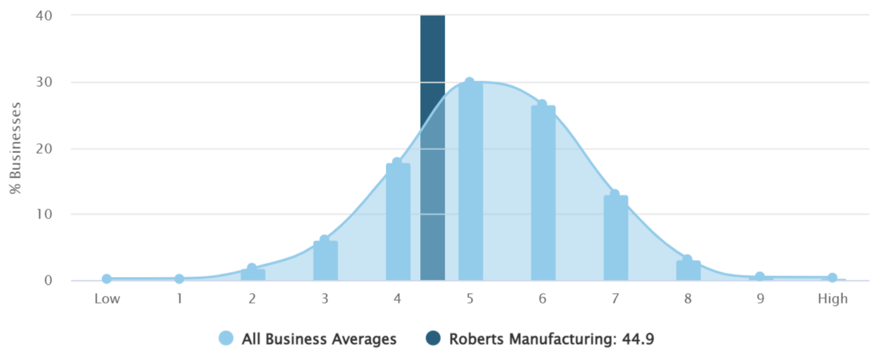
Business Stage

You said the business is in the **Growth stage**. Businesses that are in a given stage typically have a set of priorities they should focus on. To accomplish what needs to be done before the business moves on to the next stage, here is a to-do-list for you to have on hand.

Growth Stage Checklist

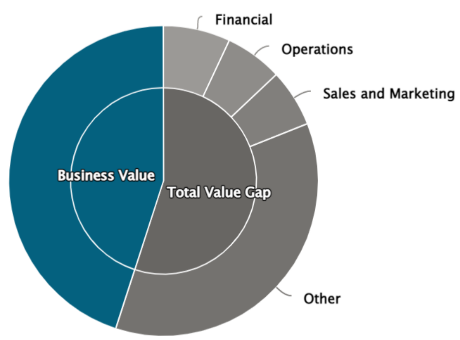
✓ Refine business goals and metrics.
✓ Diversify products and service for market expansion.
✓ Protect the company's cash flow.
✓ Protect against the loss of key employee(s).
✓ Create a strong management team.
✓ Develop a business protection plan in the event of the death or disability of an owner;
✓ Grow the value of the business.
✓ Diversify your retirement plan.
✓ Explore tax strategies.
✓ Offer employer-sponsored benefit and retirement plans.
✓ Explore selective retirement and benefit programs for top performers.

CoreValue Business Rating



Your CoreValue Rating is an indication of how well your business currently aligns with best practices and standards. This chart compares your CoreValue score to the CoreValue score of other businesses. The better the rating, the better the alignment – and the greater potential to achieve business objectives. However, protecting your value and de-risking your business is important if you expect to have a business rich, cash accessible outcome when the time comes to exit.

Growth and Value Opportunity

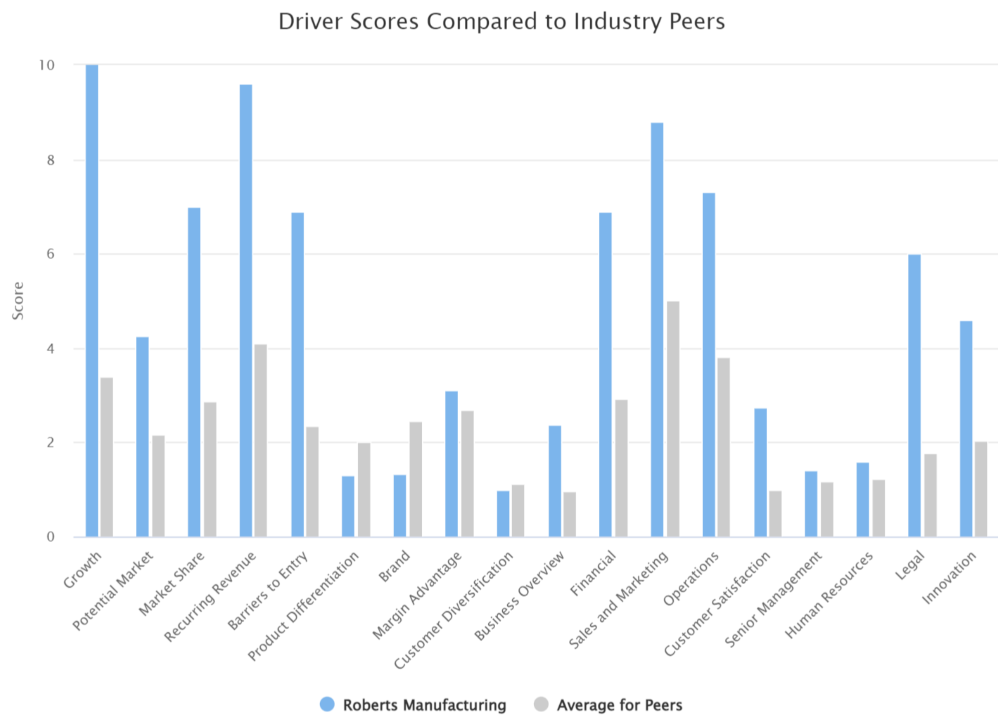


Value Gap

The value gap represents the difference between what the business is worth today (Business Value) and how much it could be worth (Potential Value). In other words, how many dollars you are leaving on the table due to operation and market weaknesses. The full circle shown in this chart represents your potential business value. The data slices show how much is locked up in value gap.

The larger this gap, the less sustainable, profitable and transferable the business, and the harder it will be to successfully accomplish your objectives.

Industry Peers



Conclusion