Exit Planning:
Build a Business That's Worth More



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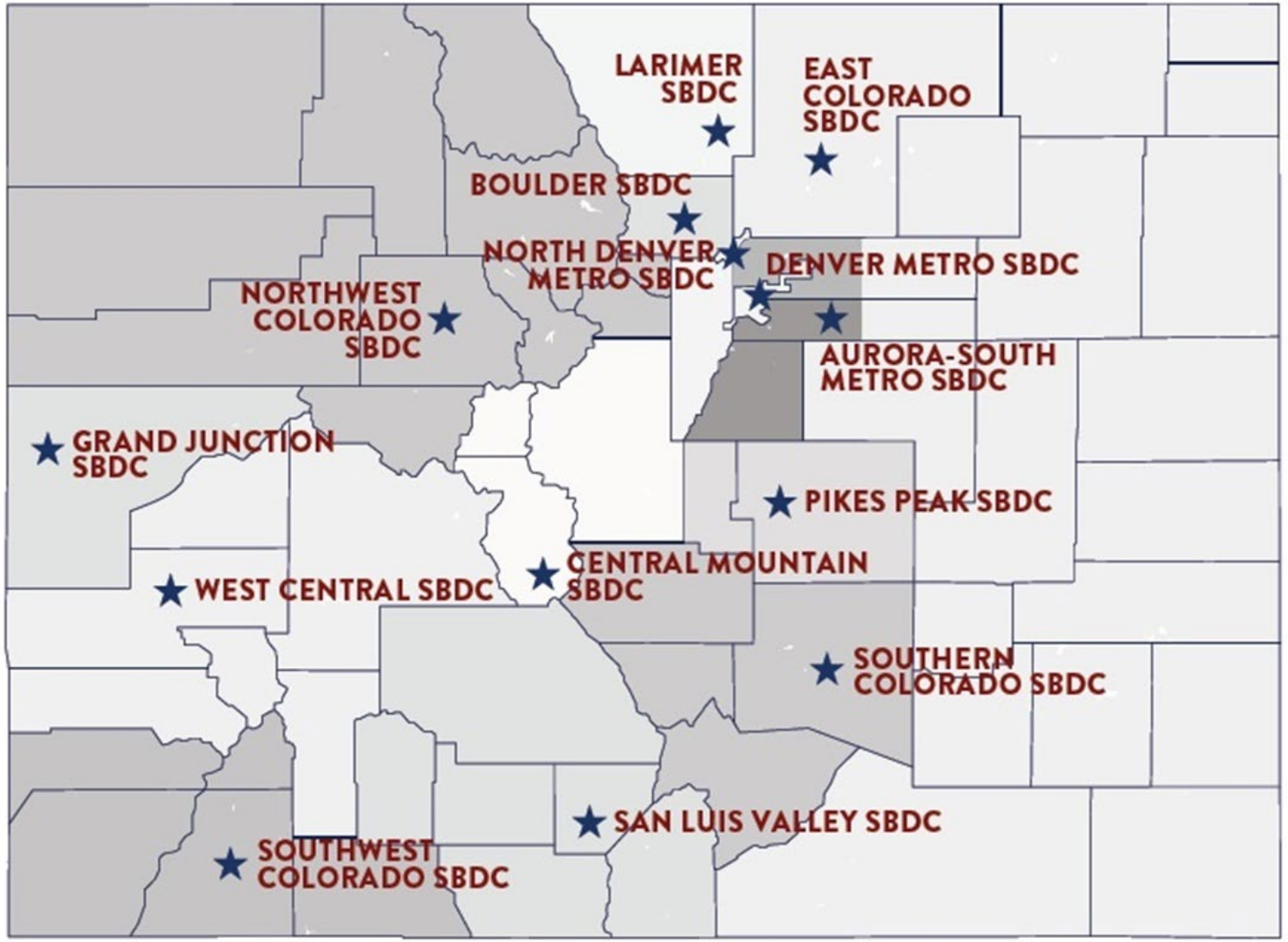
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Colorado Small Business Development Center (SBDC)

- 14 Centers
- 300+ Business Advisors



SBDC Services



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Confidential Advising



No cost to low-cost
Business Trainings



Business Resource
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Meet Our Guest Facilitator

Ethan Day

Business Broker, Partner at Peterson Acquisitions
Castle Rock, Colorado

Ethan serves as North Metro Denver SBDC's subject matter expert on exit planning and business sale strategy.

Later in this workshop, he shares his own professional perspective, as a business broker, on what it takes to sell a business.

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ETHAN DAY
PETERSON ACQUISITIONS



Why exit planning?

50%

of business owners
have no written transition plan

50%

of business exits are involuntary,
forced by external factors

Exit Planning Institute®

Publication of the Colorado State of Owner Readiness Report indicates many small businesses are at significant risk without an exit plan.

Exit planning

will protect, build, and accelerate business value, even if you don't intend to sell right now.

Readiness = Value.



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What is readiness?

Personal readiness is about what your life looks like after you exit your business.

Financial readiness looks at your financial goals and needs after your business stops supporting you.

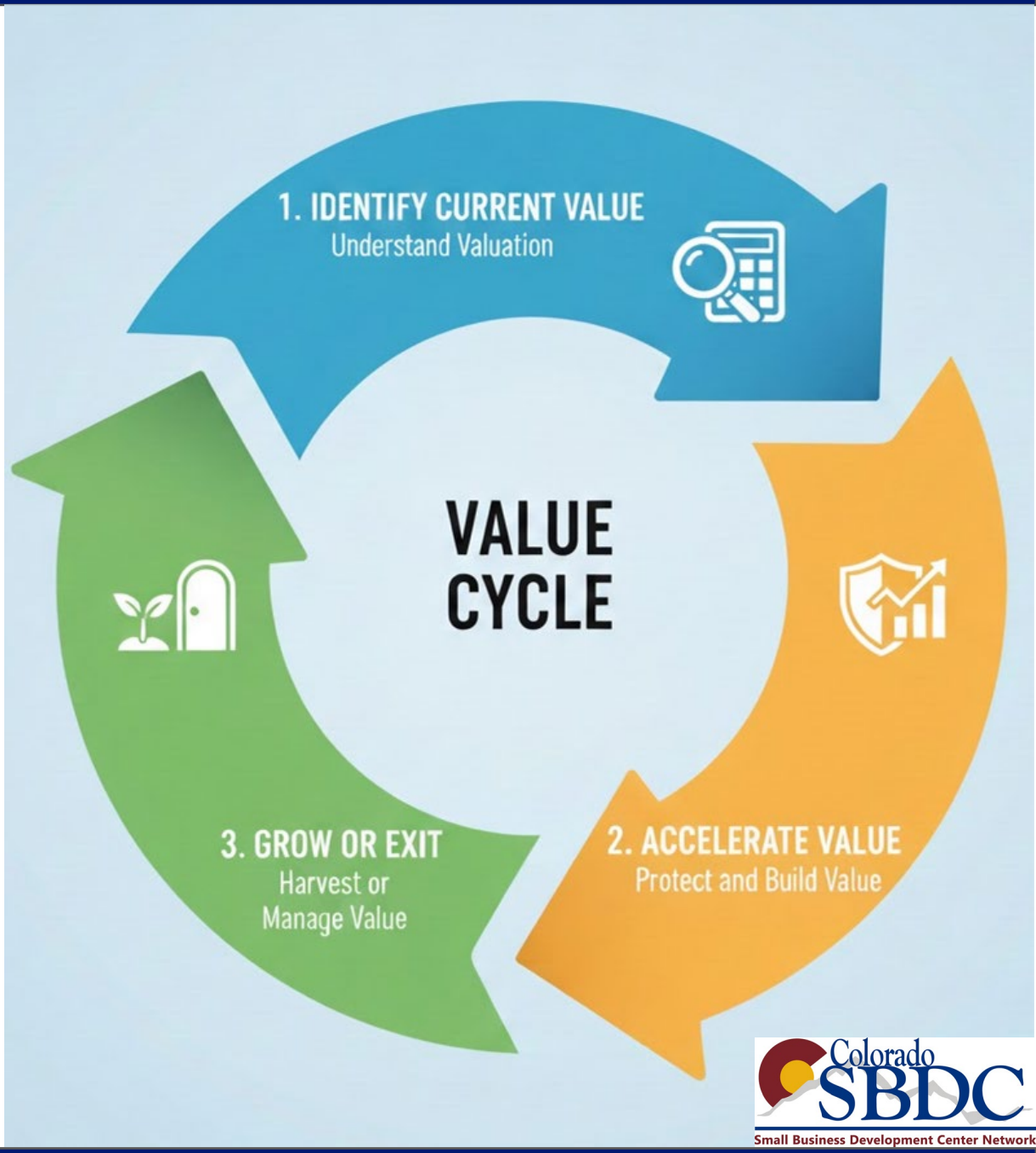
Business readiness is preparation of documents and operations to reduce delays or disruptions during a transition or sale.



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What is Exit Planning?

1. **Identify current value**
   Understand valuation
1. **Accelerate value**
   Protect and build value
1. **Grow or exit**
   Harvest or manage value



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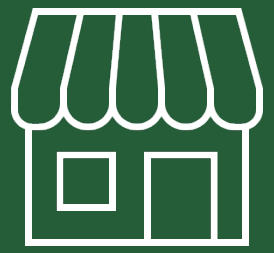
Differences in Valuation Methods



Mid-market businesses =
($50 - $500 million in annual revenue)



Lower middle market businesses =
($5 - $50 million in annual revenue)



MICRO businesses =
(less than $5 million in annual revenue)

Professionals use a simple formula to estimate a range of value that incorporates the concepts of the (3) complex methods.

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Simple math for micro businesses



SDE: Seller's Discretionary Earnings or normalized earnings or normalized cash flow. This is calculated using tax returns and/or financial statements.

Market Multiple: financial measurement tool to make different companies comparable. It's usually a range of 1.0x - 3.0x that may be different by industry, but not often with micro-businesses.

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Example

SDE = $400,000 (calculated using financial statements and/or tax returns)

Market Multiple: 1.5x (range is most often 1.0x - 3.0x for micro businesses)

$400,000 X 1.5 = $600,000

SDE

Seller's Discretionary Earnings

- Isolating the **true cash flow** of a business
- Adding back **discretionary expenses** to "normalize" the cash flow to be independent of the business owner.
- % of revenue

Pre-tax Income

\+ Owner's Comp Adjustment

\+ Non-recurring expenses

\+ Non-operating expenses

\+ Charitable contributions

\+ Interest expense

\+ Depreciation

\+ Amortization

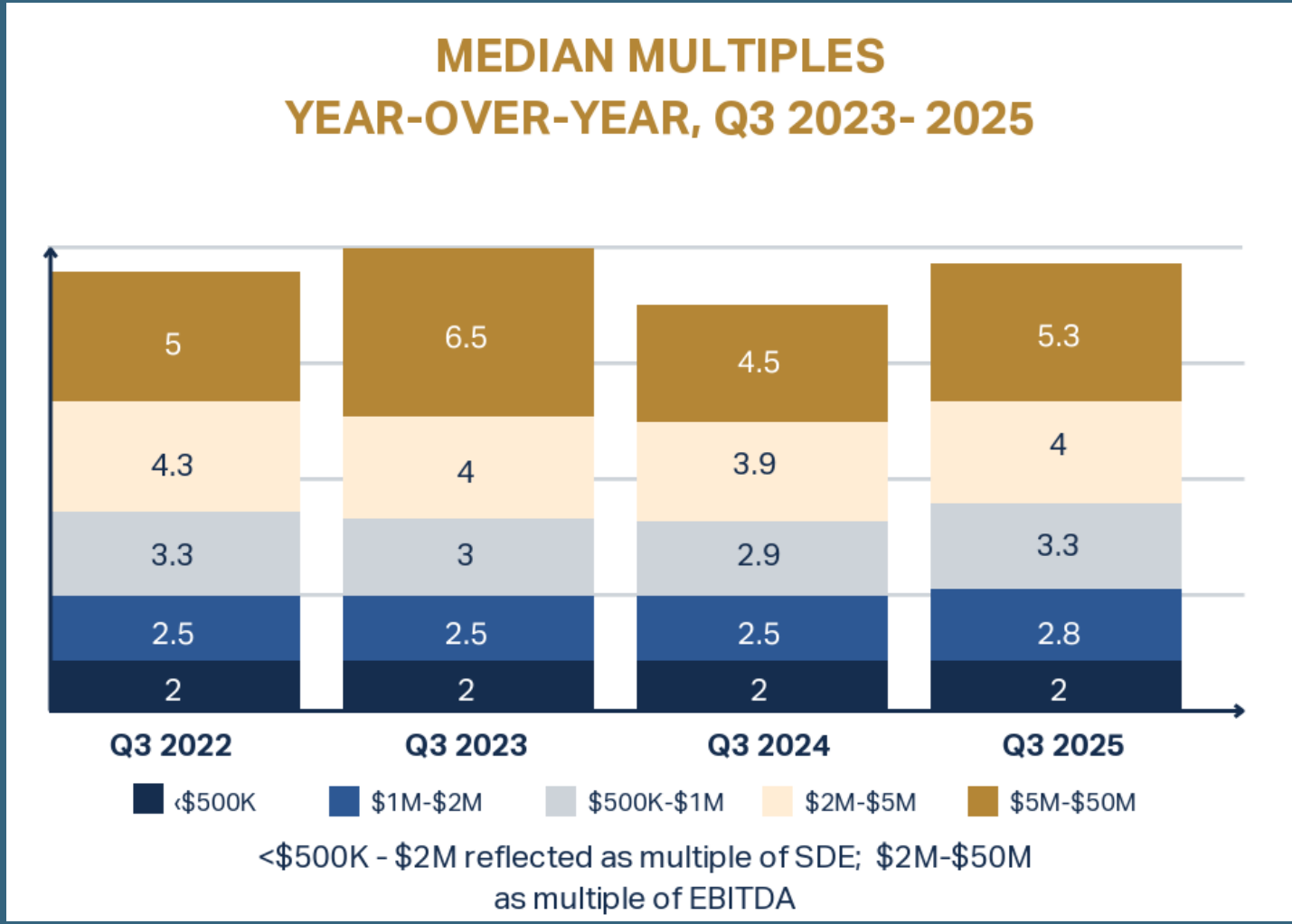
= Seller's Discretionary Earnings

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Market Multiple

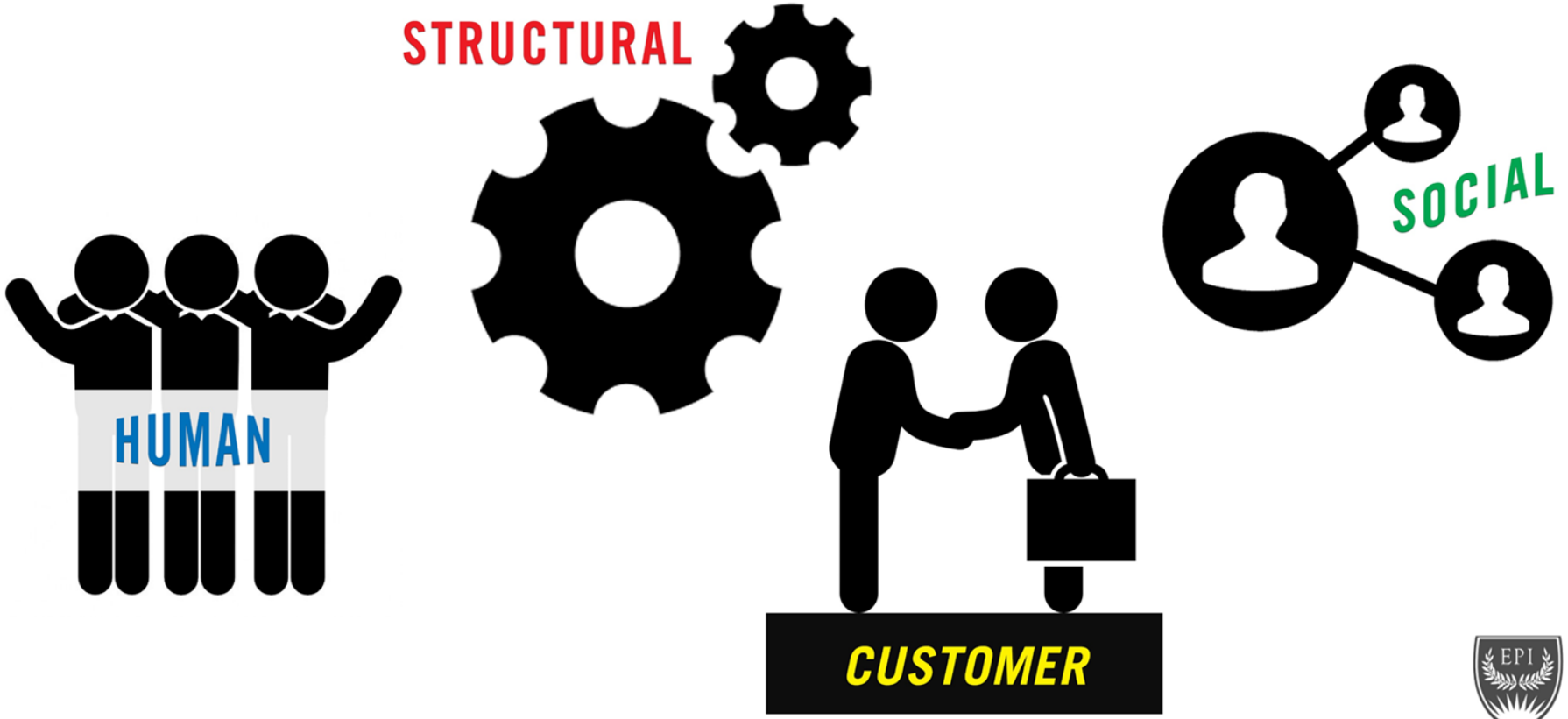
- 1.0x - 3.0x for micro businesses.
- Industry could influence the range, but most likely not.
- Size and SDE margin: Is it more or less profitable as compared to others within the industry?
- Intangible assets of the business: Readiness.

ibba.org



Intangible Capital - The 4 C's

1. Human
2. Structural
3. Customer
4. Social



Power of the Multiple

SDE (normalized cash flow) is the primary driver, but let's see the effect of increasing the multiple versus only increasing revenue and/or profit:

Using the same example of $400,000 in SDE:

a) Revenue increases $100k, flows to bottom line, SDE grows to $500,000:

$500,000	x	1.7	=	$850,000

a) Revenue increases $100k, flows to bottom line, SDE grows to $500,000. Owner works to fill gaps across the 4 capitals, making the business attractive and ready to transfer:

$500,000	x	2.0	=	$1,000,000



Business Value / Price

+/- Balance Sheet
- Broker Commission
- Legal & Acct fees
- Closing costs
- Debts

= Net Proceeds

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Agreed upon price = $700,000

+ $20,000 Asset purchases from Balance Sheet
- $30,000 Loan payoff or other debt
- $70,000 Broker commissions (10%, can range from 8% - 15%)
- $10,000 Legal fees if broker doesn't offer in-house counsel
- $5,000 Accounting costs to your CPA for sale preparation
- $20,000 Taxes (state & federal)

Net Proceeds = $585,000

➔ Divide among multiple owners?
➔ Capital gains tax?

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Protect & build business value.

- Risk Mitigation — the 5 D's: Death, Disability, Disagreement, Divorce, Distress
- Contingency planning: disaster, continuity, succession
- Increase cash flow, analyze & assess, plan & execute
- Makes your business ready to transfer.

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KEY MEMBERS ON YOUR EXIT PLANNING TEAM



Exit Planning Institute

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Now, a broker's view on selling your business .

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SELLING YOUR BUSINESS

A Broker’s Perspective

How to prepare, protect value and navigate today’s buyer market



Ethan D. Day | Partner / Business Broker
Peterson Acquisitions • Castle Rock, Colorado

Buyers pay for cash flow they believe will transfer



Potential matters—but predictable earnings, clean records and manageable risk usually drive confidence.

01 Earnings quality

Consistent revenue, margins and defensible SDE.

02 Transferability

The company can function without the seller doing everything.

03 Diversification

Customers, vendors and lead sources are not overly concentrated.

04 Systems

Processes are documented and repeatable.

05 Durability

The market and customer need are understandable and sustainable.

06 Upside

Clear growth opportunities the buyer can execute.



CONTINUITY

Will it perform after I buy it?

UPSIDE

What can I improve or grow?

RISK

What could go wrong?

Seller takeaway: reduce uncertainty before you ask the market to pay a premium.

What pushes value up—or pulls it down



Supports a stronger valuation

Recurring or repeat revenue
Capable management / key employees
Documented systems
Diversified customer base
Clean financial reporting
Transferable contracts and relationships
Clear growth path

Creates a valuation discount

Heavy owner dependence
Customer concentration
Declining or volatile earnings
Weak bookkeeping
Unresolved legal / licensing issues
Employee instability
Aggressive or unsupported add-backs

Seven issues that delay—or derail—otherwise good deals

01	**Unrealistic price**	Market feedback and lender math eventually matter.
02	**Messy financials**	Unclear numbers create distrust and slow diligence.
03	**Owner dependence**	A buyer must see a credible handoff.
04	**Customer concentration**	One lost account can materially change cash flow.
05	**Legal / licensing gaps**	Resolve what can be resolved before going to market.
06	**Key-person instability**	Buyers care who stays after closing.
07	**Confidentiality leaks**	Poor timing can unsettle employees and customers.



What I’m seeing from the broker’s side

The market is active, but buyers are selective. Good businesses still attract attention when the story and numbers hold together.

Buyers are prepared

Serious buyers arrive with more information, more questions and a clearer return threshold.

Financing shapes price

Lender debt-service coverage can influence what a qualified buyer can actually pay.

Clean SDE matters

Every add-back should have a reason, documentation and a credible post-sale benefit.

Preparation wins

The businesses that are organized before launch tend to create fewer surprises later.



A practical 12-month exit roadmap

Timing varies by business, buyer and financing—but the sequence is remarkably consistent.

Months 1–3

Prepare

Clean financials • organize records • validate add-backs • reduce owner dependence • valuation

Months 4–6

Go to market

Confidential marketing • buyer outreach • screening • NDA • initial calls

Months 7–9

Negotiate

LOIs • structure • buyer selection • exclusivity • financing path

Months 10–12

Diligence & close

Financial/legal diligence • lender approval • APA • transition planning • closing

Price is only one part of the offer

Evaluate the economics, risk allocation and certainty of closing—not just the headline number.

Cash at closing

The seller's immediate proceeds after debt, fees and taxes.

Seller note

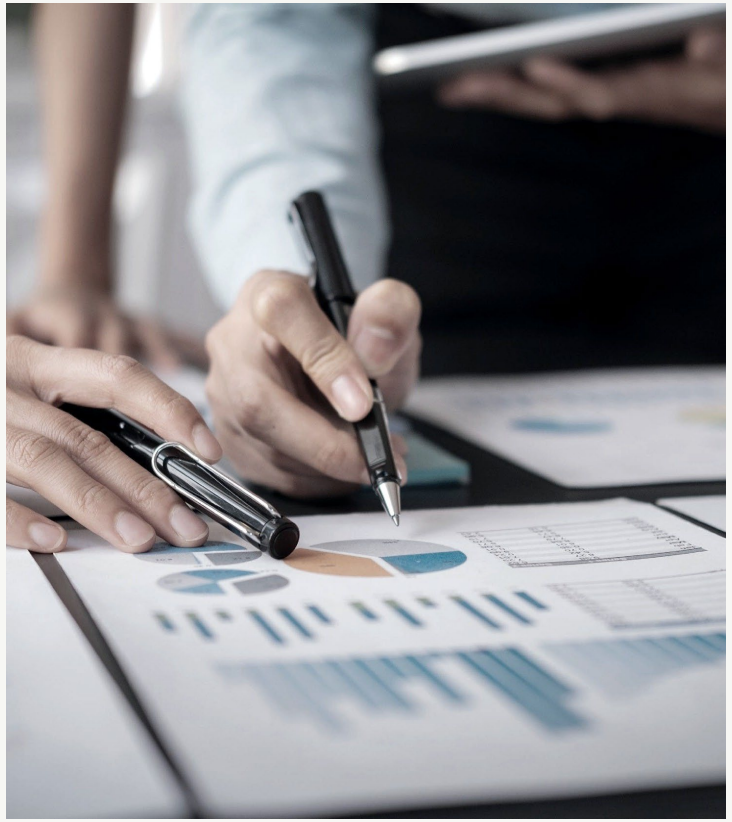
Can help bridge structure or financing; terms and subordination matter.

Earn-out

Use carefully. Payment depends on future performance and control must be understood.

Transition

Training, consulting, employment and non-compete obligations should be explicit.



The LOI is not the finish line

After an LOI, the buyer, lender and advisors verify the story behind the business.

Financial

Tax returns • P&Ls • balance sheets • bank statements • payroll • add-back support

Operational

Customers • vendors • employees • SOPs • backlog • inventory • equipment

Legal

Entity records • leases • contracts • licenses • IP • claims / litigation

Data room

A well-organized data room reduces back-and-forth and helps maintain momentum.



More inquiries are not the goal. Better buyers are.

Confidentiality and qualification should happen before sensitive information is released.

Where buyers come from

Individual operators
Strategic acquirers
Private equity / independent sponsors
Family offices
Employees or partners
Industry relationships

Before disclosure

Signed NDA
Financial capability
Relevant experience / fit
Clear acquisition criteria
Professional communication
Ability to execute



The best handoffs are planned before closing.

Employees, customers and vendors do not all need the same message at the same time. Coordinate announcements with the buyer, lender and transaction team.

Training

Define the seller's training period, availability and compensation—if any.

Introductions

Sequence key employee, customer and vendor introductions thoughtfully.

Knowledge transfer

Move passwords, processes, pricing logic, vendor contacts and institutional knowledge.

After the handoff

Consulting or ambassador roles can work when expectations are clearly documented.

Attention Business Owners looking to sell in 2-3 years-If your business doesn't cashflow enough now to command the sales price that you need to exit the business. Look to work with a business coach on these "21 Silver Bullet's."

The "21 Silver Bullets"



1. Time Management Plan
2. Operations & Training Manual
3. Apprenticeship Plan
4. Comprehensive Exit Strategy



1. Strategic Plan
2. Team Building System
3. Key Performance Indicator System
4. Performance Incentive Plan
5. Employee Acquisition Plan
6. Psychometric Profiling Process
7. Team Meeting Rhythm
8. Lean Program
9. Organizational Plan
10. Leadership Development Plan



1. USP & Guarantee
2. Revenue & Profit Budget
3. Current Business Plan
4. Break-Even Plan
5. Tactical Marketing Plan
6. Sales Management System
7. Cash Gap Plan

Start preparing before you need to sell. The best time to sell is when you're doing well!

"The market remains highly active, but the era of unstructured, high-multiple exits for average businesses has subsided. Preparation, clean financials, and minimized owner dependence are now absolute prerequisites to securing a successful close," said Vipin Singh of Murphy Business Sales in New Jersey.

Ethan D. Day
Partner / Broker | Peterson Acquisitions
Castle Rock, Colorado



SBDC Exit Planning

Exit Planning Online Course

Self-paced lessons to watch and write down questions.

Meet with SBDC Advisor

Schedule virtual meetings when ready (unlimited) at no cost.

https://sbdc.colorado.gov/northmetro



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