Exit on Your Terms…
Ten Tips to Improve Your Deal

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Who is MT?

MT Consulting, Ltd.

- Broker & business development consulting company
- Offering a range of mergers & acquisitions services
- Based in suburban Philadelphia, PA
- Specializing in multi-site healthcare businesses
- Recognized as specialists in physical therapy and orthotic & prosthetic industries

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Ten Tips to Improve Your Deal

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Ten Tips…

#1

Stay Informed

- Plug into the industry - listen for buyer opportunities
- Engage buyers - don’t avoid them!
- View as a learning experience
- Communicate but keep your business info confidential
- Work hard - good deals rarely fall in one’s lap

Ten Tips…

#2

Provide A Superior Product & Service

- Continuing education to key staff
- Offer new products that are proven revenue generators
- Identify niche opportunities - *differentiate yourself*!
- Use quality assurance programs to insure quality control

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Ten Tips…

#3

Make A Profit

- Buyers want profitable, turnkey businesses
- Buyers target efficient, effective businesses with reputation for quality AND they expect you to be profitable
- Set a goal to meet or exceed industry standard for profit
- Regularly compare your profit to that standard
- If below standard, take steps to fix business
  - Unfixed businesses valued less and buyers, as a result, will shortchange you at closing
  - Don’t leave money on the table

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Ten Tips…

#4

Expand Your Business

- Size Matters
- Growing businesses merit extraordinary buyer attention & valuation
- Carefully seek and select opportunities that accelerate growth
- Buyers will add valuation premiums for:
  - Platform businesses
  - Smaller businesses trending growth
  - Start-up ideas or expansion plans on your drawing board or in your pipeline

Ten Tips…

#5

Solidify Operating Agreements

- With key staff and revenue generating employees
  - Employment, non-compete, assignability
- Facility leases
  - Third party, renewal terms, fair market value, assignability
- Payor agreements
  - With large payors, assignability
- Operating agreements
  - Partnership, buy / sell, change in control
- Beware of exit options for real estate, payors, partners

#6

Evaluate Transition Issues

- Consider impact on key employees
- Employee / relatives on payroll
- Buyer may reset salaries to fair market value
- Anticipate other due diligence issues:
  - Seller-owned facilities at fair market value
  - Seller perks: car leases, credit cards
- Buyer re-location of back office

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Ten Tips…

#7

Secure Your Revenue Sources

- Broaden your sources and types of revenue where possible
- Link revenue to your business team
  - Revenue closely linked to specific employee has risk (to buyer)
- Count on buyer finding issues & risks
- Be prepared to mitigate

#8

Manage Your Expenses

- Eliminate business use for owner’s personal expenses
- Document seller add backs & one-time items
- Meet or exceed industry standards
- Compare to industry standards

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Ten Tips…

#9

Organize Reports & Records

- Use industry standard MIS reporting systems
- Place key documents in user-friendly format:
  - Tax returns & financial statements (min. 3 yrs)
  - Legal documents & facility leases (scanned, pdfs)
  - Comprehensive customer & revenue lists
- Centralize & professionalize company manuals (e.g.: Employee, Policy & Procedures)
- Package documentation and keep accessible for when opportunity knocks

#10

Clarify Your Business Tax Situation

- Have your CPA estimate tax on sale proceeds
- Strategize so sale proceeds are taxed at 15% capital gains rate
  - This circumvents 36% ordinary tax rate
- Don't give the "tax man" more than he deserves…
  - Smart sellers know it's better to net 85% vs. 64%!

Ten Tips…

#11

Plan & Prepare For Your Exit

- Review Tips #1 - #10

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Estimating the Value of Your Business

- **Start with Annual Pre-Tax Profit:** 1) Adjust owner salary to FMV*; 2) Add back 1X expenses, 3) Add back interest, depreciation expense; 4) Apply GAAP adjustments; 5) Apply Run Rate adjustments; 6) Plus (minus) other FMV adjustments
- **Sum of Above = Normalized EBITDA**
- **Normalized EBITDA drives the Valuation**
- **Normalized EBITDA is Validated During Buyer's Due Diligence**
- **Buyer Pays Multiple (P/E) of Normalized EBITDA**
- **Current Multiples are 3X – 6X**
- **Other Valuation Factors Affect Actual Multiple Paid**

***FMV = Fair Market Value**

Summary

Recommendations

- Select your desired retirement date
- Obtain business evaluation min. 1-3 yrs before decision to sell
  - Provides time to address and fix trouble spots
- Sell your business 3-5 yrs before desired retirement date
  - Most buyers expect seller to stay min. 1-3 yrs / max. 5 yrs
  - Unrealistic to expect a good deal and walk away

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Life Cycle of a Sale

DECISION TO SELL

Broker Engaged

Financial Info Shared

Business Valuation Conducted

Offering Memorandum Prepared

Qualified Buyers Identified

Confidentiality Agmt Signed

VALUATION

(Buyer)

Offering Memorandum Reviewed

Financial & Ops Data Reviewed

Business Value Determined

Offer Extended (Letter of Intent)

INITIAL AGREEMENT

Purchase Price, Terms Set

Letter of Intent Signed

DUE DILIGENCE

Financial & Ops Review Ongoing

On-site Visit

Buyer's Questions Addressed

CLOSING

Purchase, Emplymt Contracts Done

Final Agmt Negotiated & Accepted

Mat'l Leases, Payor Contracts Sent

Final Sale & Emplymt Agmts Signed

Funds Transferred

SELLER'S PAY DAY

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