



YOUR CFO FOR RENT *Gene Siciliano*

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CELEBRATING OUR  26TH YEAR

A Management Update from Your CFO for Rent

So You're Thinking About Retiring From the Business?

By Gene Siciliano

Whether you simply refuse to struggle through one more recession or simply feel that it's time to wrap it up, your exit is a life event with a bewildering array of options. Assuming you've built a business that has real staying power, you could sell it to your employees through an Employee Stock Ownership Plan (ESOP) or transfer it to your children to carry on as a family business. However if your retirement fund is essentially the business, you may want to know that it will produce the cash you will need for the next 10, 20 or more years. And that likely means selling the business to outsiders who will pay cash for it rather than giving it to the kids and hoping for the best.

Now the fun begins.

There are countless decisions to be made, often years before your business actually goes on the market, most of which require insights and experience that you've never had before, even if you built your business from scratch over a lifetime. How your management team should be structured, what your infrastructure investment policy

should be, when you should start planning for your exit, whether you should be aiming for short term profit growth or long term revenue growth, are all questions that can't be casually answered, and that will significantly affect the selling price.

They depend on a host of factors that are not necessarily intuitive, as you will see when you read our guest article on page 2 of this issue.

That's why there is an industry devoted to helping business owners sell their companies. For mid-sized and large companies they are called investment bankers; for smaller companies business brokers fill that role. A useful article to help you understand the difference can be found at www.gaebler.com. Any investment banker will tell you that they're going to be better at selling your business than you are. They have a well defined process, they know how to bring more than one interested buyer to the table, they know how to best present your company, they know how to negotiate, etc. And they're almost always right, regardless of

how well connected you are in your industry, simply because they've done it many times before and you haven't. But they require pretty substantial fees as well, a fair chunk of which you pay up front, before you even have a hint of a deal.

*"We're here to
make you wealthy"*

Why would you do that? Because it is very likely that they will successfully sell your company for more than you can, with the result that **you will pocket more money** even after their retainers and success fees are paid, often substantially more. Obviously that depends on choosing a good one, just like choosing a good financial advisor who will help you implement the investment banker's recommendations (Hint: We are *Your CFO for Rent*[®]). If you'd like some ideas on how to choose an appropriate investment banker for a consultation, consider our guest author, David Cohn of Diamond Capital Advisors, or call us to discuss your unique needs. We're here to make you wealthy.

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Is your business ready to sell?

By David Cohn, Managing Director, Diamond Capital Advisors



All signs point to the fact we are in a recovery, however painfully slow. Pessimism and adversity to risk is giving way to optimism and courage. The level of transactions in 2012 has increased dramatically. Now many business owners want to diversify their assets by taking capital out of their business and putting it into their personal account. One way to do this is by building the value of the business and then realizing some liquidity through a partial or total sale or capital raise. These are our areas of specialty, and we've been helping business owners raise capital for over 25 years.

As a result, we've learned over time what questions potential buyers and investors ask. Most of the time owners are not prepared for those questions, and their answers either turn off the potential buyers or give them negotiating power, to the disadvantage of the owner. Even a profitable business might become unsalable or salable only at a very deep discount to what the owner hoped to realize.

So, we've developed a 20-item questionnaire that will enable you to see if you have all the right answers, if you

just need some polishing of the apple, or if you need some serious outside help. Here are a few of the questions to give you an idea how it works.

- 1) Which choice best describes your gross profits over the last 5 years?
 5. Improved every year
 4. Improved overall but not every year
 3. Remained steady over the span of 5 years
 2. Gross profits have been erratic over the years
 1. The have gone down over the last 5 years
- 5) What percent of your customer base has been with you 3 or more years?
 5. 80% or more
 4. 60-80%
 3. 40-60%
 2. 20-40%
 1. 20% or less

- 7) Which choice best describes the competition in your market?
 5. We are clearly the dominant player and competition is decreasing.
 4. We share that dominance with another competitor
 3. A handful control 80% of the market
 2. Competition has been increasing
 1. Our margins have been decreasing due to increased competition
- 18) Which choice best describe the company's corporate governance?

5. CEO has a proactive board; all appropriate matters are formally reviewed
4. CEO basically sets the policies, which are then introduced to the organization
3. Company has a written HR policy which is reviewed once a year
2. Company has a written HR policy which is given to new hires
1. Company has no written policies

The entire questionnaire of 20 questions, when completed, will score your company on how ready it is to raise capital. This process is just one tool among many we use to assist business owners in the effort to increase the value of their company. But it's a good start if you are looking for capital or exit, or plan to do so in the next 5 years.

"...score your company on how ready it is to raise capital."

We'd be happy to provide the full questionnaire, and to show you how to grade it, upon request either to Gene at Western Management or David at Diamond Capital Advisors (dcohn@diamondcapadvisors.com). If you want more information, call David directly at 310.432.8585. **Securities Traded through Aaron Capital Inc. Member FINRA/ SIPC**



Your CFO for Rent

Gene Siciliano, CMC, CPA, is an author, speaker and financial consultant who works with CEOs and managers to achieve greater financial success in a dramatically changing economy.

As *"Your CFO For Rent"* and president of Western Management Associates, Siciliano has spent more than 26 years helping his clients build financial strength and shareholder value through applied knowledge and process improvement. His bestselling book, *Finance for Non-Financial Managers*, (McGraw-Hill, 2003) is available in bookstores and online. Gene's book, *Financial Mastery for the Career Teacher* (Corwin, 2010) is a must read for educational professionals. More information and free articles are available at www.GeneSiciliano.com.