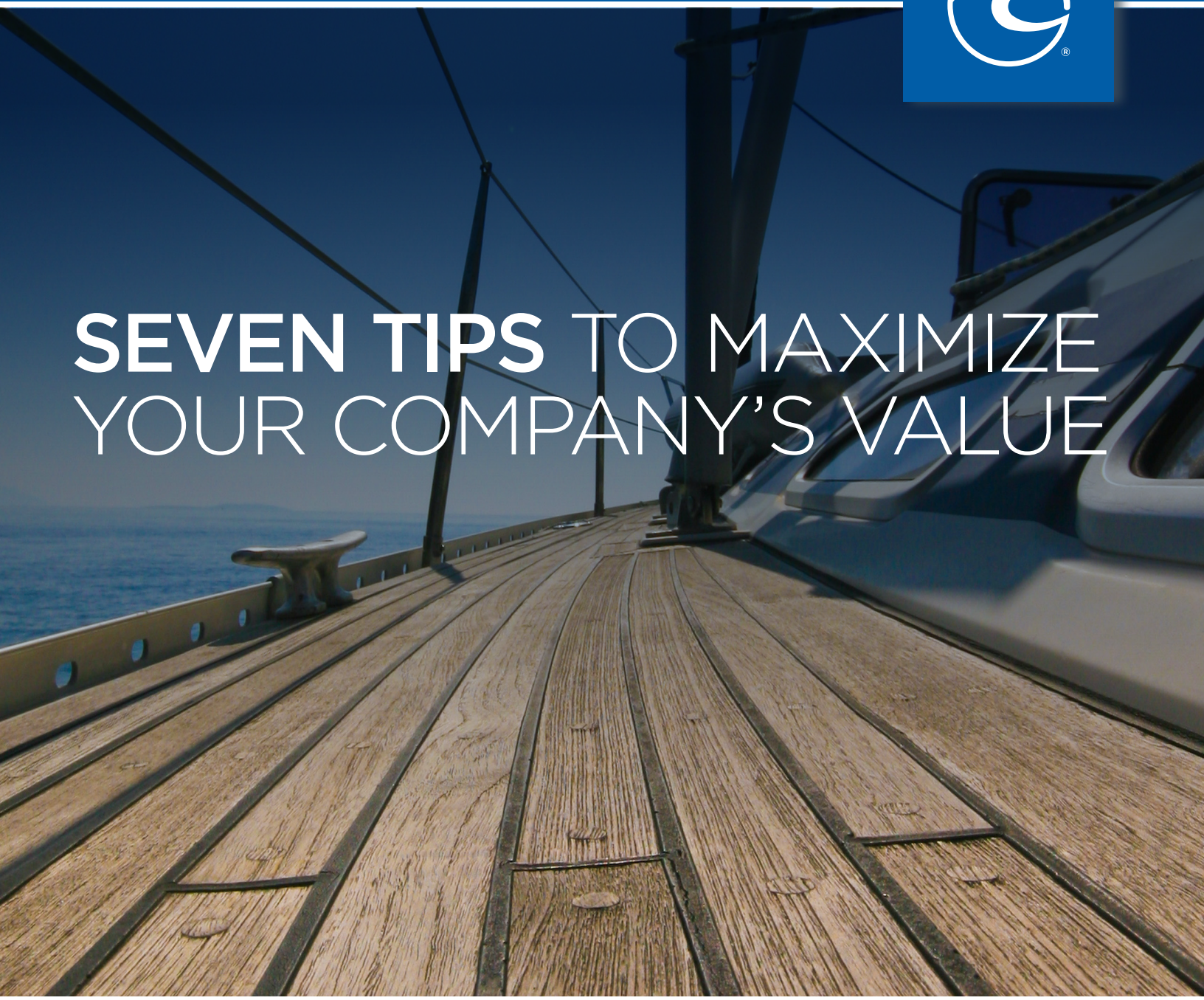

SEVEN TIPS TO MAXIMIZE YOUR COMPANY'S VALUE

A guide for business owners.

Mariner WEALTH ADVISORS

"Businesses often don't appropriately value the products or services they provide, which hurts their profit margins and their value."

1. Focus on the Bottom Line, Not the Top Line

Companies derive value, not from their top line revenues, but from their bottom line earnings or profits. When buyers look at your business to determine what they think it is worth, it is your earnings, and more specifically your cash flow, that they are evaluating. Having $5 million in sales and $1 million in earnings is much more valuable than having $10 million in sales and $500,000 in earnings.

In fact, revenue derived from products or services that are not profitable will actually hurt the value of your company. This additional revenue reduces a company's profit margins, while increasing overhead and the number of headaches that go along with additional employees and overhead.

It's important to note that many small businesses tend to under price their services, thereby leaving profits on the table. Businesses often don't appropriately value the products or services they provide, which hurts their profit margins and their value.

2. Make Yourself Redundant

Often, the key to success for a small business is the owner of the business being personally involved in all aspects of the business. This creates a challenge for buyers, who must then replace the owner with someone who is equally capable and qualified. However, when business owners decide to sell their business it is typically because they want to retire or venture into other businesses or activities. Consequently, it is essential that the owner or key employees be "backfilled" if they wish to depart after a sale. Small businesses that can run themselves tend to be more marketable than businesses that need constant supervision from the owner. Self-sufficient businesses are particularly attractive to private equity firms and strategic acquirers, as those types of buyers are often seeking businesses with an experienced management team in place.

In order to make your business more self-reliant, focus on training employees to take over key responsibilities. Having multiple people trained to perform key tasks reduces dependence and, therefore,

reduces risk. This will not only make your business more marketable when it is time to sell, but will also improve your operating efficiency, reducing downtime and risk if you were to lose one of those key employees.

3. Focus On Your Quality of Earnings

The ultimate value of a business is derived from the cash flows it generates or from its potential to generate cash flows in the future. Furthermore, the quality of those cash flows is thoroughly investigated during the sale process. When examining the quality of cash flows, investors and banks look at the consistency and repeatability of those cash flows. Companies that generate revenues via 'single point' projects have greater revenue volatility and (generally) less predictable margins than companies with recurring revenue streams. Examples of recurring revenue streams include getting customers to commit to annual maintenance contracts and working with clients who have a continual need for your products or services.

4. Bite the Bullet With Uncle Sam

It is common for business owners to have some personal expenses paid for by their business in order to reduce taxable income. While this provides some benefits to the owner, it can result in several unwanted issues when it comes time to sell your business. First off, personal expenses, also known as owner perquisites or perks, make it difficult for potential buyers to see the true earnings of the business. When determining the value of the company, they will have to use discretion as to which expenses were really personal expenses and which were legitimate business expenses. Additionally, banks typically are unwilling to add back personal expenses by the owner when they determine its value. This hurts the value of the business from the bank's perspective, thereby making it more difficult for a buyer to get the financing necessary to consummate a transaction.

Try to reduce your perks three years prior to a sale. Although this may result in more taxes in the short term, it will undoubtedly result in a higher value for your company when it is time to sell.

5. Create a Niche and Play To Your Strengths

Don't try to be all things to all people. Companies that have built strong brands to serve a niche in the market tend to be more valuable than their 'generalist' counterparts that attempt to serve everyone. Evaluate your competitive advantage; understand what you can do better than your competitors and play to those strengths. This will help you create a brand in the marketplace which, in turn, will drive financial performance.

6. Get Your House in Order

You can never start planning too soon for the sale of your business. The sale of a business usually takes 6 to 12 months to complete, and we recommend planning for at least two years before you embark on the process. As part of the sale process, you will need a business valuation and buyers will need to confirm everything that you tell

them about your business. Both of these activities result in the need to review a plethora of financial, legal, and human resources documentation.

We recommend organizing and keeping records of a number of important documents that are typically requested during the sale process. Some of the typical documents that should be maintained include: financial statements, tax returns, procedure manuals and employee handbooks, accounts receivable aging report, accounts payable aging report, liabilities with past employees, work comp claims, pending litigation, articles of incorporation and company bylaws, among many others. Beyond organizing and keeping records of necessary documents, we recommend cleaning up your financial statements. Business owners should organize their financial statements for consistency and comparability across years, write off bad inventory and bad debts, as well as eliminate unrelated assets.

7. Make Your Business a Well Diversified Portfolio

A common concern raised for small businesses is diversification. But what exactly does this mean? Diversification is the idea that you can reduce risk by increasing the number of people you work with. It also means acquiring products from multiple vendors, so that you are not overly reliant on prices that one vendor provides. Diversification also means providing more lines of service to more customers, which reduces the risk and impact of losing any individual customer. It can also mean training multiple people to perform the same key tasks.

Business owners should attempt to diversify their products and business lines, suppliers, customers and even their human capital. Reliance on a single product line is risky because that product could become obsolete. Reliance on a single supplier reduces the company's bargaining power, which could lead to higher prices. It can also threaten availability of supplies if the supplier were to go out of business. Possibly the greatest risk is being overly reliant on any individual customer. If the loss of any single customer could threaten the viability of your business, diversification may be your top priority.

Mariner WEALTH ADVISORS

FOR MORE INFORMATION

CALL: 866-346-7265

CLICK: www.marinerwealthadvisors.com