

## CFO Forum Lehigh Valley September 2021 Minutes

### Preparing for an exit-what a CFO should be doing now!

We kicked out Year Seven with a great discussion on what a CFO should do IF you anticipate an exit in the next few years. Mark Thielman and Paul Zetterberg of KB Financial Advisory Partners shared their experience and insights and captivated the audience. IF you are thinking about a succession plan, exit or other changes you need to know these guys sooner vs later!

This is the first of a two-part series on **Preparing for an Exit and Managing an Exit (on Wednesday, November 17<sup>th</sup>)**. Owners and CEOs are invited.

Very few companies survive after one generation and family transitions very are frequently not successful. Exits should not be a surprise but some CFOs get surprised because they do not know what to look for or do not think it is their job. Think about it: the reality is that exits are caused by one or a combination of the following:

- No successor or a weak successor (aka son or son in law) and the owner wants to cash out rather than see the business suffer and their net worth decline and “never” retire.
- Death of an owner and no plan in place and tax/ cash problems.
- Disability of an owner and a combination of the above factors
- Disagreement between owners-frequently due to an age gap that the older partner wants to retire now and the other partner can't raise the financing to pay the value.
- Divorce-usually not a surprise but always seems to be surprising when a divorce occurs which triggers an urgent exit with valuation, cash and tax problems.
- Market or business collapse due to business or economic events.

**Key takeaways** include: (visit the zoom recording to get the context and details)

The CFO MUST BE aware of the possibility of an exit and find a way to initiate the discussion-either in a one-on-one session, a strategic planning/ succession planning exercise or a Board or Partner level discussion. It will be touchy and sensitive, but it must be done.

The CFO will own the process-for a variety of reasons. Complete and accurate data will be needed for any exit which means:

- Clean up the company. Get the kids off the payroll, get the boat, plane, beach house and everything else that is nonbusiness off the books. Those are the obvious ones.
- For the seller expenses that are paid by the company-such as vacations, country club and entertainment expenses, create a separate credit card and keep that statement pristine so you will have validated adjustments/ addbacks to EBITDA. It will be closely audited. True one-time expenses can be added back IF they are unique.
- Verify what the seller is paid, vs market, all in and document it. Any excess can be treated as an addback IF you can verify a market baseline. Total comp-not just salary! Just make sure it is documented and what the replacement CEO will be paid.
- Create perfect documentation. Audit is preferred-for three years so start now. Review is the least acceptable CPA work. Have tax returns filed by same CPA and make sure there are no issues, open items or penalties since they would be serious value detriments or walk aways!

- Create a data room. If you don't know how, get help. If you think you know how, get help! Organization, content and ease of use are critical as well as control. Perfect documentation-insurance policies, current claim history for three years minimum, five is preferred. Leases-real estate, equipment, vehicles. Make sure leases are recorded correctly and make sure they are transferable-otherwise you will have to buyout the lease and argue about the value. Make sure software leases are in place and transferable. Same with hardware, cyber security and help desk agreements. Review all supply agreements-make sure they can be transferred. If supply is an issue, sign a multi-year agreement that is transferable. Review all sales agreements-especially the multi-year deals. Start to organize your sales information-by channel (wholesale, retail, e commerce), by product, by major customers. Work to create multi-year sales agreements, a renewal process and reduce customer concentration risk. Have an employee handbook and benefit plan summary (and documentation). Make sure 401k reviews are in compliance and documented.

The CFO owns the process, and all of the financial info, data and general business information must be perfect. Anything less reflects on the CFO and can cost the deal or a lot of money. On a secondary basis, a Private Equity or Strategic buyer will be evaluating the CFO for a role. The CFO should be the most knowledgeable and objective person among the seller's team and will likely be of value to a buyer. Even if the buyer brings in their own financial person, the CFO may have a role as COO, CEO or a role with the buyer's organization. At a minimum, do a great job AND pre negotiate a success fee as well as a severance package BEFORE you start work on the exit process. Don't wait until you have no leverage. An exit is demanding, stressful and not rewarding so don't expect to negotiate your worth after the fact!

More to cover on the second session in November. Plan to attend.

If you need a second opinion / an assessment of your current situation or need a solution to implement ASAP, reach out to Mark at 609-851-4367

**Next sessions: THURSDAY Oct 21 we will be joining the HR Forum to review the "Value of Training". Everyone laments about training needs, how to measure, how to monitor and how to develop a program with a Return on Investment. Invite your HR person to join us. RSVP when Diane contacts you for the zoom link.**

**Housekeeping:**-Minutes, slides and CPE letters are available at [www.thecfosolution.org](http://www.thecfosolution.org) under the events tab but only for participants. IF you were a guest, contact me if you want a copy.

CPE letters usually take about a week or two to get posted. If you are missing one from last year, let me know and I will provide it. IF you need CPE credits, send me a note so I am aware.

**Other: Blue Cross/Blue Shield settlement claims are due ASAP. If you paid BC BS any premiums between 2008 and 2020, you are eligible. Call me.**

**If you have not gotten an objective healthcare renewal, you better hurry. Makes the difference between 6 to 8% increase or a 20% decrease. Ask me how.**