

## Simply Complex – A Case Study

### Meeting 1

John and Mary have engaged you to guide them through their Exit Planning. They desire to exit in the next three years. You've had initial conversations, and today you have your first real working meeting with them.

**Business Overview:** Simply Complex Inc. is a well-established government contracting company specializing in services. The company was founded 20 years ago by two entrepreneurs, John Smith and Mary Jones, who are now in their 60s. Over the years, they have successfully expanded the business, bringing in two new partners, Mark and Sarah, both in their 40s. The company has grown to a revenue of \$50 million and operates in three locations. Simply Complex Inc. owns some valuable real estate, engages in government contracts (representing 70% of revenue), and has a diverse portfolio of commercial clients.

Until recently John was the point person for Business Development and he is still actively involved. Mary was the CEO until 2 years ago when Mark took over as CEO.

#### Stakeholders:

1. John (Founder, age 65, married) Owns 40%
  2. Mary (Founder, age 62, married, with a child in the business) – owns 40%
  3. Mark (New owner, age 42, married) – owns 10%
  4. Sarah (New owner, age 40, going through a divorce) owns 10%
- **The Management Team:** is comprised of:
    - Founder - John Smith (Age: 65)
    - Founder – Mary Jones (Age: 62)
    - CEO - Mark Thompson (Age: 42)
    - COO - Sarah Rodriguez (Age: 40)
    - CFO - Emily Johnson (Age: 48)
    - CTO - Michael Adams (Age: 50)
    - Director of Business Development - Rachel Carter (Age: 38)
    - HR Director - Lisa Miller (Age: 45)
    - General Counsel - David Anderson (Age: 55)
    - Marketing and Communications Manager - Jennifer Lewis (Age: 39)
    - Facilities and Real Estate Manager - Kevin Turner (Age: 47)
  - **Product/Service Offerings:** Simply Complex offers the following products and services:
    1. **Technology Solutions:** The company offers technology solutions such as software applications, cybersecurity services, or data analytics tools for both government and commercial clients. These solutions cater to various industries, including defense, healthcare, and finance.
    2. **Specialty Software:** Simply Complex produces a proprietary Cyber Security Software.

3. **Consulting and Services:** In addition to tangible products, the company provides consulting services related to government contracting, compliance, and project management. These services might assist clients in navigating the complexities of government contracts and regulations.
4. **Customized Solutions:** Simply Complex might have a reputation for developing customized solutions tailored to the unique needs of their clients. This could involve creating bespoke software, hardware, or systems to address specific challenges.
5. **Training and Support Services:** To complement their product offerings, Simply Complex may provide training, maintenance, and support services to ensure that clients can effectively use and maintain the products they purchase.

#### Last 5 Years Revenue (\$M)

	2019	2020	2021	2022	2023
Revenue	\$35.00	\$39.60	\$47.23	\$53.89	\$56.59

#### QUESTIONS FOR DISCUSSION:

1. What are your goals for this first meeting?
2. What concerns do you have / problems do you see?
3. What are the critical questions to ask in this meeting?
4. What are the Exit Options for the Founders?
5. Who else needs to be on the team?

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#### See below for a synopsis of our first meeting:

Dear **XPX** Colleagues,

Thanks to everyone who came out this past Thursday to kick off the New Year! We introduced the case study of an Exit Planning engagement for a \$50M company looking to sell in 3 years. About 30 people attended and we had a ton of great discussion. Over the course of this year we will explore numerous topics that would be part of a comprehensive Exit Planning engagement. Here is a synopsis of this past session.

- We introduced the case (see Attached). The scenario was that the founders have engaged you as an Exit Planning team, and this was your first “kick-off” meeting with them.

- Then we broke into groups to discuss 5 questions (end of attached doc) and drew from the collective wisdom of the group
- Then we had each group share insights and highlights – below is a brief summary of the answer/thoughts that were shared:

- **What are your goals for this first meeting?**

- The group agreed that major goal for this first meeting is to learn....
  - Where are the owners heads – what do they want?
  - What are their expectations personally and financially?
  - How committed are they to exit?
  - Is their commitment/thinking aligned?
  - How important is legacy, culture, care for employees?
  - Is there any conflict between them?
  - What do they expect post-transaction for their roles in the company?
  - Essentially, we want to establish a “where are we?” baseline.

- **What are the Exit Options for the Founders?**

- The team suggested that several options are available, including:
  - Insider sales to the minority owners
  - ESOP
  - Sale to 3<sup>rd</sup> party - Private Equity, strategic buyer
  - Partial sale – they have multiple lines of business and they could sell off ‘divisions
  - Retention of the company and becoming absentee owners

- **Who else needs to be on the team?**

- The group identified the players that will eventually need to be on the Exit Planning team, including:

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**The Exit Planning Team might include:**

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Wealth Manager	Business Consultant(s)	Leadership Coach
Business Lawyer	Banker	Operations Expert
Estate Planning	Business Broker(?)	Financial Analyst
CPA/Tax Expert	Insurance Professional	Others.....

- A major consideration in this question, since this is the first meeting, is to determine **who is already on their team?** If the owners have trusted advisors in these roles, we want to work with them (of course ensuring they are skilled in business transactions) and augment their skills if needed. Owners need to trust the team.

- **What are critical questions to ask?**

- When do you want to leave?
- How much do you expect to realize post-tax?
- Do you have a “post-transaction plan” for your life?
- To whom do you want to sell the business?

- The answers to these questions may change over time, but we must start without assuming we know the “best” answer to meet their goals.
- **What concerns do you have / problems do you see?**
  - The group identified numerous issues that will have to be addressed in the future including:
    - Real estate – how do we handle this?
    - Sarah’s divorce – will it affect the transaction planning?
    - What are Mary’s desires for her child in the business?
    - How handle IP?
    - Quality of revenue – what types of contracts do they have?
    - Management team – are they the right people on the bus?

**Diving Deeper:** Given that we only have 60 minutes together, there are many topics that will pop up during the sessions that you may want to pursue more in-depth knowledge. We hope members will recommend resources that will help us do that and we’ll try to include them in an “after meeting email”. Below is one topic that came out of the session.

**Emotional Preparedness for an Owner to Exit** - In the course of conversation, Bonnie Sewell mentioned the critical need for “retiring” owners to be prepared for the future, not just financially, but emotionally. She highlighted a gentleman named Riley Moynes who speaks to this issue and defines 4 phases of retirement. The Exit Planning Institute, says that, according to their research, 76% of owners profoundly regret selling their business. There are many reasons, but the most significant one is lack of “next act” planning. Here are a few links to Riley’s talk that you may find helpful:

<https://www.youtube.com/watch?v=HV2fyh5TywU> (same thing, no advisor interviewing).

[https://www.youtube.com/watch?v=JH\\_Pa1hOEVc](https://www.youtube.com/watch?v=JH_Pa1hOEVc) (TedTalk – 12 minutes)

<https://www.amazon.com/Four-Phases-Retirement-Expect-Retiring/dp/B08GB8Y2K8> (audiobook, same guy)

**Upcoming Sessions:** Below are some of the expected topics for discussion:

- Readiness of the Business to Sell
- Owner readiness – are the owners ready to sell?
- Financial health of the Business / Value expectations
- Operational health of the Business
- The Management Team
- Wealth / estate/tax planning