

Notes from Meeting 2 - This past month we looked at the readiness of the business to sell. The team was provided a basic org chart, a top level set of financials, and a personal assessment that both owners conducted on their opinions of the strengths and weaknesses of the business. . As with last month, we broke into table groups and discussed the “case”. Below is the data provided to the “consulting team” followed by notes/comments/observations from the “consulting team”. Generally speaking the result was – “yes, the business is sellable, but there are a ton of questions we’d like to get answers to before going to market”.

THE PARTICIPANTS WERE ASKED TO DISCUSS THE FOLLOWING:

- Assess/discuss - Is the business ready to sell?
- Consider the major drivers of value such as:
 - Financial Readiness
 - Quality of Revenue
 - Risk
 - Management team
 - Operating Systems
- What would you recommend for next steps?
- Who would you bring in to this situation to assist you, or what tools would you use?

Feedback from the team - Several observations came out of this discussion from the team:

1. **Readiness of the business to sell** is very much connected to readiness of the owners to sell. A few questions that came out of the discussion:
 - a. are there any plans for children who are in the business to become owners
 - b. What do John and Mary actually want to realize financially from the transaction – do they need maximum dollar or can they settle for less?
 - c. What exit path do they prefer? Insider sale, 3rd party, ESOP?
 - d. Have any promises been made to the minority owners Mark and Sarah, the two minority owners (each owns 10%).
2. **Financial performance of the company** – team looked at financials and raised questions:
 - a. Net income dropped overtime - why?
 - b. Their P & L shows revenue for three market segments – we do not know the margins/profitability of each market - this would be helpful to know.
 - c. Research and development has remained flat for five years – why?
 - d. The gross margin has dropped in terms of percentage overtime; what drives this?
 - e. Understanding the trends of key metrics and what drives the trends of financial performance is critical.
 - f. The P&L does not break out the commercial revenue versus government revenue.
3. **The organizational chart** has some weaknesses as well.
 - a. We do not know the strengths of the management team under operations
 - b. Should the facilities be under the COO?
 - c. Should IT be under the CFO?
 - d. Should HR be under the CFO?

- e. Should marketing and communications be under the sales Director?
- f. How does the team function/work together. Who is responsible for growing revenue – is it Sales or operations?
- g. John has been the key business development guy – is Rachel ready to assume that responsibility

4. The owner surveys also highlighted some potential disagreement between Mary and John (See graph below). The team highlighted the areas where they differ in their scores; these could be potential issues that impede a successful exit. We would at least need to explore why they answered the way they did. and if their differences are indeed significant

Most significantly are the following:

- They disagreed on the strength of next level management
 - John -47% / Mary – 69.7%
- They disagreed on Operating System strength
 - John 58.3% / Mary – 76.7%
- They disagreed on the market position
 - John – 75%/Mary – 83.3%

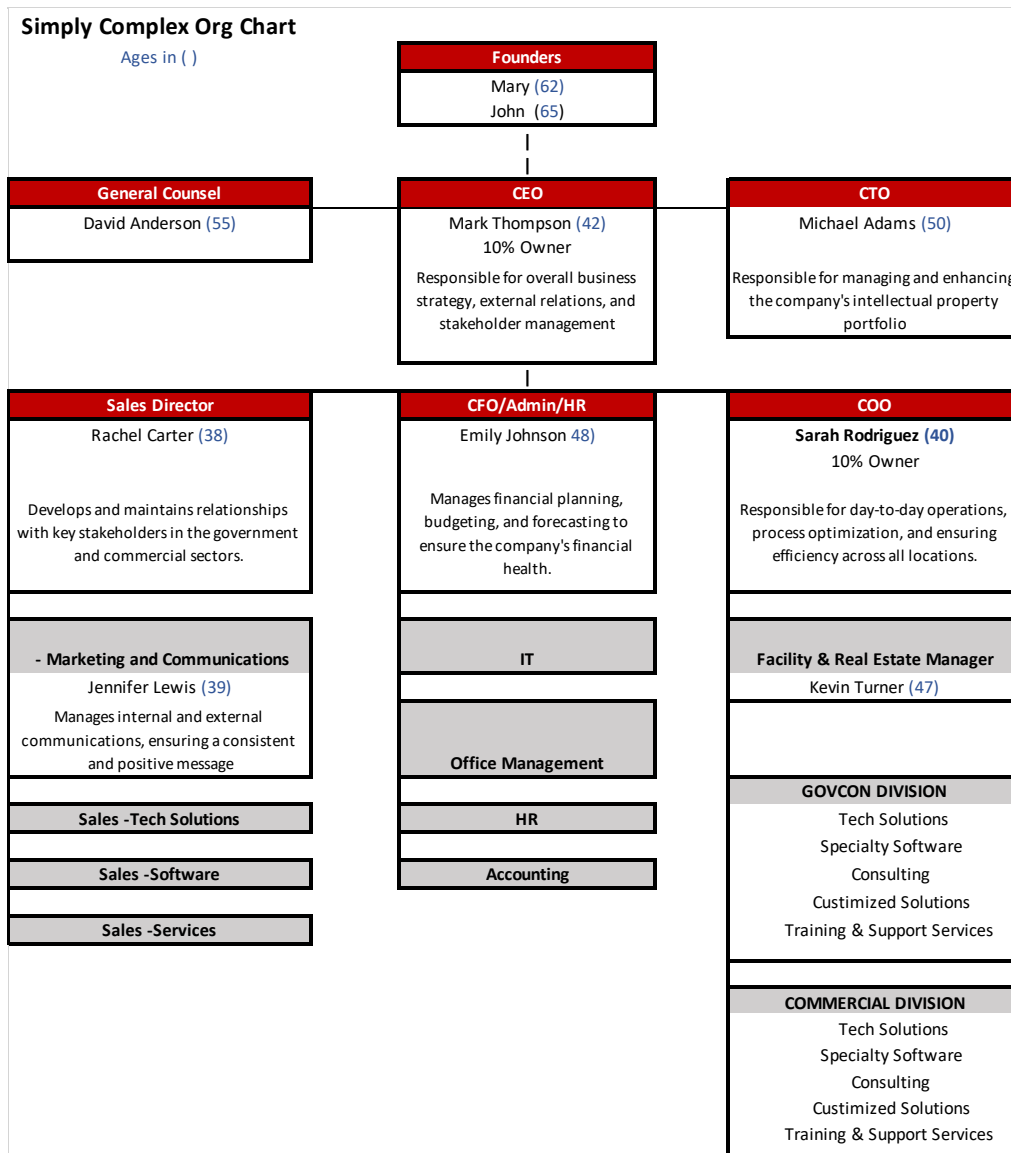


On the last two pages are detailed surveys showing their specific scores

Handouts for the meeting are on following pages:

Meeting 2 Handout– Is the Business Ready to Sell?

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 your first meeting and gathered some information about their desires and goals. Since your last meeting, you have provided them an assessment that they have completed – see following pages. Additionally, they have provided an Org chart and a bit more insight into their financials.



Top Level Financials:

Income Statement (in millions USD)						
Year	2019	2020	2021	2022	2023	
Market A	\$ 1.00	\$ 5.00	\$ 12.00	\$ 18.00	\$ 20.00	
Market B	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00	
Market C	\$ 12.00	\$ 12.60	\$ 13.23	\$ 13.89	\$ 14.59	
Revenue	\$ 35.00	\$ 39.60	\$ 47.23	\$ 53.89	\$ 56.59	
Cost of Goods Sold	\$ 14.00	\$ 16.63	\$ 20.78	\$ 24.79	\$ 27.16	
Gross Profit	\$21.00	\$22.97	\$26.45	\$29.10	\$29.43	
<i>GM%</i>	<i>60%</i>	<i>58%</i>	<i>56%</i>	<i>54%</i>	<i>52%</i>	
Labor Costs	\$7.00	\$8.32	\$10.39	\$12.40	\$13.58	
Rent and Leases	\$2.10	\$2.21	\$2.32	\$2.43	\$2.55	
Marketing Expenses	\$3.50	\$1.98	\$2.36	\$2.69	\$2.83	
G&A Costs	\$1.91	\$2.29	\$2.75	\$3.30	\$3.96	
Research & Development	\$1.00	\$1.00	\$1.00	\$1.00	\$1.00	
Total Op Expenses	\$15.51	\$15.79	\$18.82	\$21.82	\$23.92	
Net Income	\$5.49	\$7.17	\$7.63	\$7.28	\$5.50	

Business Overview:

- The company was founded 20 years
- It is a C Corp
- Simply Complex Inc. owns some valuable real estate

SIMPLY COMPLEX PRODUCTS/SERVICES

<p>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.</p>
<p>2. Specialty Software: Simply Complex produces a proprietary Cyber Security Software.</p>
<p>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.</p>
<p>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.</p>
<p>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.</p>

The following pages show the results of John and Mary's assessments of Readiness. The score indicate their agreement or disagreement with the statements/questions.

STRATEGY RENOVATION SCORECARD			
Score the following categories according to the following scale:			
1 - Strongly Disagree	4 - Somewhat Agree		
2 - Disagree	5 - Agree		
3 - Somewhat Disagree	6 - Strongly Agree		
	John	Mary	
90 Owner's Personal Factors			
Q1	You have definite plans / goals for life after exiting the business.	3	5
Q2	You have an Up-to-date Personal Financial Plan in place.	4	4
Q3	You have a written contingency/ business continuity plan in place.	2	4
Q4	The owners are in no hurry to sell.	4	2
Q5	No family member has strong feelings about what to do with the business.	6	1
Q6	The owner (s) are open to a variety of deal structures.	4	2
Q7	You have thought through to whom you may wish to transfer the business	5	5
Q8	There are no existing factors that would force you to sell the business	5	5
Risk Factors			
Q9	You are structured correctly for succession with minimum tax implications.	3	3
Q10	A Board of Directors/Advisors exists and is effective.	2	2
Q11	There are no past or current lawsuits.	6	6
Q12	All federal, state and local taxes are current.	6	6
Q13	The company is compliant with all OSHA and environmental requirements.	6	6
Q14	The expected value upon sale is based on an independent valuation of the business.	2	2
Q15	The company holds the necessary types and amounts of insurance.	4	4
Q16	Any intellectual property has been protected by trademarks/patents.	2	4
Company Management			
Q17	Our Company is not dependent on the Owner to run the day-to-day business.	4	4
Q18	We have replaced underperforming Managers.	2	4
Q19	We have a strong sales team in place.	3	3
Q20	The necessary incentives are in place to motivate management.	4	5
Q21	Company managers embody and communicate our values.	2	5
Q22	Everyone in a key position in the Organization is in the right seat.	2	4
Q23	We can find skilled employees as when needed in our area.	4	4
Q24	Our Compensation and benefits are competitive in our market.	4	4
Q25	Our leadership possesses the skills and drive to take the company to the next level.	2	4
Q26	Our leadership team is open and honest, and demonstrates a high level of trust.	2	4
Q27	Our Organization Chart is clear, complete and routinely updated.	2	5
Strong Operating Systems			
Q28	Our operating processes & systems are clear, consistent and documented.	4	4
Q29	Our processes & systems enable us to operate without the owner.	4	5
Q30	All of our processes & systems are routinely followed by staff.	4	5
Q31	Ownership of each process is clearly defined.	3	4
Q32	The processes & systems are up-to-date and able to support growth.	2	5
Q33	Human Resources processes & systems are functioning well.	4	4
Q34	Sales Processes and systems are functioning well.	3	4
Q35	Financial Management processes & systems are functioning well.	3	5
Q36	Computer & Information processes & systems are functioning well.	5	5
Q37	Customer Relationship processes & systems are functioning well.	3	5

STRATEGY RENOVATION SCORECARD

Score the following categories according to the following scale:

1 - Strongly Disagree

2 - Disagree

3 - Somewhat Disagree

4 - Somewhat Agree

5 - Agree

6 - Strongly Agree

		John	Mary
Market Position			
Q38	Our target market is clear, and our sales/marketing efforts are focused on it.	5	5
Q39	We have a proven, documented process for doing business with our customers.	3	5
Q40	We have a diverse revenue base (<i>no one client accounts for more than 10%</i>).	6	6
Q41	Have we considered new markets ?	4	4
Q42	Our products/services are not subject to obsolescence.	2	2
Q43	Our differentiators are clear, and our sales /marketing efforts communicate them.	4	6
Q44	We are not dependent on a few suppliers/vendors for our work.	6	6
Q45	We know who our competitors are and DO NOT compete on price alone.	6	6
Financial Health			
Q46	We have effective management controls over our finances.	3	5
Q47	Our historical trends support future projections of strong cash flow.	3	4
Q48	Our financial statements compare favorably to our industry.	4	4
Q49	We have a budget with financial goals that are monitored and assigned to key managers.	2	2
Q50	We are seeking to improve our cost structure to gain efficiencies.	4	4
Q51	Our financials are clear and accurate.	4	4
Q52	We have recurring revenue.	5	5
Plans for Growth			
Q55	We have a clear, written vision that is shared by everyone.	5	5
Q56	Our core values are clear, and we hire, review, reward, and fire around them.	5	5
Q57	We have written plans that describe how we will grow in our market.	2	3
Q58	We have accurate projections of Cash Flow.	2	2
Q59	We have Marketing Plans.	2	3
Q60	We have Staffing to support growth.	2	2
Q61	We have demonstrated the ability to scale our business.	4	4
Q62	Growth Plan supports Owner's Financial Objectives for Exit.	4	4
SUMMARY			
Category			
	Owner's Personal Factors	68.8%	58.3%
	Risk Factors	64.6%	68.8%
	Next Level Management	47.0%	69.7%
	Strong Operating Systems	58.3%	76.7%
	Market Position	75.0%	83.3%
	Financial Position	50.0%	55.6%
	Growth Plan	54.2%	58.3%