



Destination or “End Game” Planning

“If you do not know where you are going, any road will get you there.”

- George Harrison

What is your end game?

A discussion of end game or destination planning is unique to each owner. Owners with clarity can rattle off their personal goals complete with dollar amounts, dates, and ideas for their next venture (sometimes many of them!). In the alternative, they respond like a deer caught in headlights - as if taken by surprise by the question. Not surprisingly, those with clear goals are generally much further along the business growth path.

Our experience tells us however, that it is the majority of owners who lack a specific plan. They are comfortable with working in the business day to day without a clear succession plan. For such owners, we’ve adapted the term end game to “destination plan” – which encompasses those who enjoy the business without a specific end game and those who do not. Destination plans in practice, include this latter “lifestyle” choice as opposed to a usually more aggressive growth strategy toward a highly directed end game.

Options for a destination plan or end game:

1. Buy (other companies)
2. Sell (potentially for strategic purposes but likely for accelerated growth)
3. “Lifestyle” – no plans for purchase or sale
4. Spin-offs – sell portions of your business
5. Partner or Management Buy-Out
6. Asset Sale
7. Boutique Investment (approximately \$50 million minimum revenue)*
8. Fund Investment (approximately \$100 million minimum revenue)*
9. IPO
10. ESOP – also a means for owner(s) of companies with consistent profitable growth to withdraw a portion of accumulated equity from the business

* Much higher for hardware-centric

Why do I need an end game?

Solution provider businesses generally have few tangible assets (unless you’ve purchased your building). Performance and value is based upon client base, sales, customer service and value-added revenue. The more profitable growth you generate, the more your business is worth. A business sale is often the key component of a retirement plan for many owners.

Typically, for the average solution provider, valuation tends to be a 3 times multiple of net income (recast for moderate owner salary). The figure may be somewhat higher if a significant portion (20% or more) of your revenue is recurring services. As the average solution provider revenue is just \$3.5 million in total revenue with a 6% EBITDA, that means the company is generally worth approximately \$630,000 (example) as an estimate.

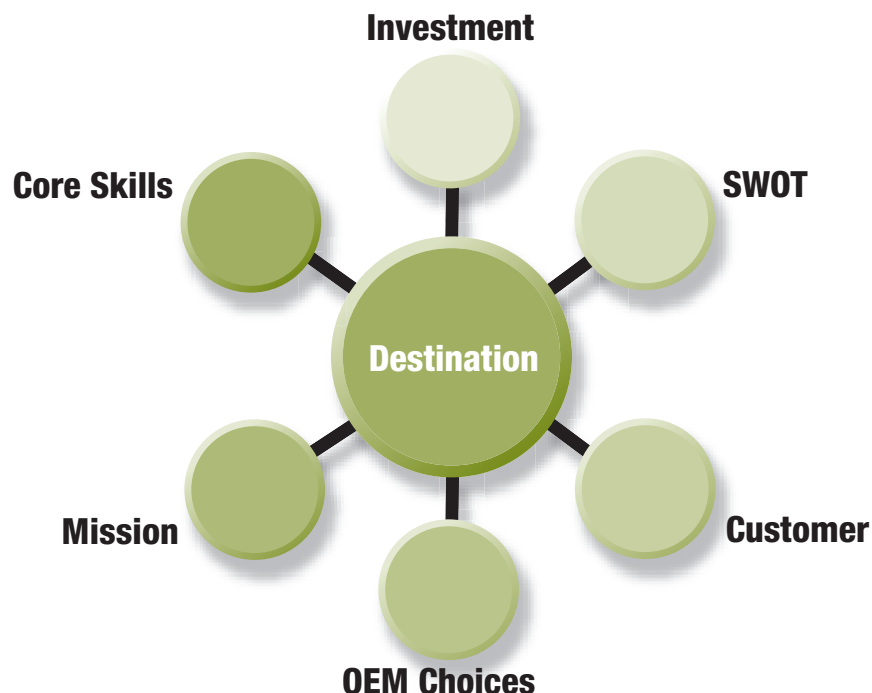
Assuming you are a sole proprietor and able to sock away the \$210,000 net income each year, without reinvestment for growth, you're in decent shape. But that usually isn't the case. Owners with a directed end game often desire \$3-5 million in their bank account. For many without a long savings horizon before planned retirement, they will likely need profitable growth!

Valuation Considerations

- Profitability
- Revenue – Return on Sales or “Times Sales” – recurring revenue a nice plus!
- Growth – Discounted cash flow 3-5 years
- Total net worth
- Management Strength / key employees (eg: sales, account value)
- Market Share
- Market Growth
- Intellectual Property
- Competition
- Customer Make-up
- Industry growth and risk factors
- Strategic Value

Creating a directed exit strategy (or destination plan)

A strategic plan should support the owner's long or short term destination plan. While it's very hard to strategically forecast beyond 2-3 years in the technology business, the destination can certainly remain the same. General considerations in the chart below can also remain the same though changes within each category will certainly vary. It's fine to adjust your plan over time according to market and personal needs. You simply need to adapt your strategic plan and communicate changes clearly within the organization.



Key Questions for End Game or Destination Planning

- Where do you see yourself 1, 3, 5 years from now?
- Where are we now?
- Where do we want to go?
- How will we get there?
- Do you have a succession plan?
- How will you exit your business?
- What is your financial goal?
- Do you have a backup plan?

A News Story of Local Interest

A fun and useful exercise for an owner and a company is to write a news article as you would like you and the company to be portrayed in your community by the media at a specific future point in time. It may describe the special attributes of the company, community contribution and employment, ownership and if you chose, the owner's succession method from the business. It might even include the plans for the owner to retire to a location of choice. Review the article from time to time to measure your progress!

Selling Your Plan to Yourself (and Your Company)

For privately held companies, it's up to ownership to create and lead the company toward a personal exit strategy or destination plan. For some, the thought process is an overwhelming task with too many others things getting in the way. For others, it is business as usual with each day, one step closer. We strongly encourage you to create, document, measure and monitor progress regularly toward your specific end game. Technology is a fast-paced environment and some may "burn out" before attaining an end game. Consider adding professional management or advisory services when you've hit a wall. It may be a wise investment in the long run.

The channel is beginning to experience more and more merger and acquisition activity and well positioned companies certainly may have more options.