CLIENT CASE STUDY

Is 6 months worth $6M to you?

After decades of hard work, two families choose very different outcomes

ALFA Advisory helps entrepreneurs, business owners and executives protect their personal wealth, optimize the growth and value of their business, and create a meaningful and lasting legacy.

With more confidence, options, and resources, you will scale your wealth and impact faster.

Following we present the real exit scenarios of two families we work with. For privacy, names and identifying details have been excluded, and numbers have been rounded.

CLIENT X: THIRD-GENERATION FAMILY BUSINESS SELLS TO PRIVATE EQUITY

Our clients were the third-generation owners of a regional B2B equipment leasing business. They are salt-of-the-earth people; friendly, humble and active in their church and community. You were more likely to find the Owner loading a truck, making deliveries and visiting with customer than sitting in his office. The Owner's spouse ran the operations and finances and was the glue that made it all work.

They worked hard running that business together for over 4 decades. They had several children and wanted to keep the business in the family, but sadly none of them were interested. As the owners turned 60, they decided it was time to move on and focus on their health, traveling and grandkids.

A private equity firm reached out with an interest in acquiring them as a "roll-up". The investor group had purchased other similar companies in other geographies and were building a super-regional or national player, with a strategy to create scale and efficiency by aggregating a dozen or so smaller firms and cutting duplicative costs. They flew in on a private jet to the private airport and invited the Owners to meet with them on their plane. Two hours later, a handshake deal was in place to sell the company.

The purchase offer was $5M, or about 2.5x their $2M EBITDA. After some quick math ($5M minus $1M for taxes equals $4M net), they were excited to walk away with their freedom. They personally owned the company warehouse, and the new ownership also agreed to sign a medium-term lease.

They called me with all the good news, then asked if the $4M net additional would be enough to meet their goals, which thankfully it was. Our relationship was relatively new at the time; I was not even aware of their intention to sell and retire. I suggested a more formal sale process to see if we could generate competing interest and stronger multiples, and thus a higher sale price. They declined, not wanting to go back on their word, or draw-out the process. The all-cash sale closed within 60 days.

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CLIENT Y: INFRASTRUCUTRE PROJECT MANAGER SOLD TO STRATEGIC BUYER

After successful military and corporate careers, our client launched a niche consulting practice to help national infrastructure firms navigate local issues, like zoning and managing sub-contractors.

Being a consultant can be very lucrative for individuals selling their skills, but its hard to sell a job to a financial buyer who lacks your talents or connections. In this case, the Owner used his leadership skills to build a deep team, repeatable processes and strong customer relationships, all of which did create intrinsic value. That's not to say he was perfect – the company nearly went bankrupt twice.

Years later, he was approached by a potential buyer that was run by his industry's top players and had private-equity backing (i.e. deep pockets). **Their initial offer was $6M, or 3x the $2M EBITDA.** He was excited but kept his composure; committing only to think it over and come back shortly.

He called to ask what I thought. We talked about his goals, the timing, his desire to sell, and if these were the people he wanted to "marry". Then we did a quick analysis of the industry and his recent financials and drafted a few key points to support and defend our view of "fair value".

Two days later he sent an email reiterating his interest in selling to their group but declining the $6M offer. He explained his internal analysis suggested a 6x-8x multiple, equal to a value of $12M-$16M, supported by the quality of the team, operations, customers, earnings, and growth rates.

An hour later the acquiring CEO called, "Clearly you know your business, and you must already have some advisors on your board." (Translation: now we know we can't exploit you.) "I don't know about 8x, but if we can validate everything and be confident in the growth story, then 6x is a fair target."

The due diligence was an intense 6-month process, and there was an earn-out tied to 2-year growth targets (all met in <1 year). But **the final price was $12M, or 6x the $2M EBITDA; TWICE AS MUCH.**

WHO GOT THE BETTER DEAL?

Client Y had a better financial outcome, but Client X was equally happy with their result because they prioritized simplicity and freedom. **Selling a business is a rare event, and everyone's situation is unique. It's important to be clear on what you want and why, and to be prepared ahead of time.**

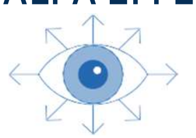
There are many ways to save on taxes when you sell, but **you need time: 3-5 years for all options** to be available. Neither of these clients did any exit planning, and once they had offers, it was too late.

For example, both X and Y could have met the eligibility criteria to issue Qualified Small Business Stock (QSBS). After seasoning 5 years, there is **zero capital gains tax,** up to $10M. If they had met with their CPA and Attorney together 5 years earlier and had signed the right form, they **save $1M & $3M!**

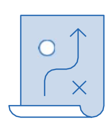
For help increasing your financial clarity & control,

Click here to schedule a call with ALFA Advisory

ALFA EFFECT: Unlock More Freedom in Your Life and Business by

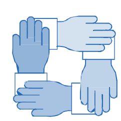


CLARIFYING YOUR VISION, DREAMS AND GOALS



OPTIMIZING YOUR PLAN AND PATH FORWARD

ALIGNING SPECIFIC, CURATED EXPERTS



GAINING ACCESS TO ALFA'S COMMUNITY