Business Continuation & Exit Plan Questionnaire

**Instructions:** Please answer these questions in sequence and don’t read ahead to the next question until you have answered the previous questions and all of the questions on the prior page. If you are uncertain how to answer a question or don’t know how to respond, please just write that you are not sure or share whatever thoughts come to mind.

This is a Word document so you can put your responses in the document in red or some other obvious color. Once you have responded to a question, please do not change your response if you start to think differently after working your way through the entire document.

At the end there is an open ended question that will ask you to convey how your thinking changed or evolved as a result of working through this process.

Whether you decide to work with Prysmatic Advisors or not, we hope that this process advances you toward your goals.

# Section 1

1. Why do you believe that your company would be a valuable company for someone else to own? Please elaborate on all the reasons that come to your mind.
2. Are you interested in continuing to serve in your current capacity for a new owner?
3. If yes, how would you expect your role to change if there was a new owner?
4. If you were looking to hire an outside individual to fill your role, what would you be willing to pay them as an employee?
5. What would you expect to be paid on an hourly/monthly basis as a non-owner employee of the company?
6. If you are not interested in staying on, how long would you be willing to stay in order to make an orderly transition?
7. If you were not involved in the company, what skills would a new owner need personally or need to hire to be successful?

# Section 2

1. What do you hope a sale of your company will make possible for you in the rest of your life?
2. How much money do you think you need from a sale in order to be able to realize that objective?
3. Do you believe that your company as it exists today is worth that much money?
4. Why?

# Section 3

1. Assume I prepare a value analysis of the business. The analysis presents the following:
   1. The business’ historical earning power
   2. Financial trends
   3. The risks of the business as it exists today and an assessment of the risks to a third party buyer if both of you leave soon after the transaction closes.
   4. Some executable recommendations that will improve the earning power of the business. (**Note:** as sellers, you would want credit for some of the savings that could be realized if the business is restructured.)
   5. A financial transaction structure that will allow the business to continue on a financially and operationally sound basis. Assume that the structure includes the following:
      1. Cash payment at closing from the buyer’s personal capital
      2. Cash payment at closing from Bank financing
      3. A note payable to the sellers (loan from the sellers) Interest only for a period of time followed by interest and principle. The loan will be subordinated to the bank debt.
      4. The possibility of contingent payments if the business reaches certain milestones.
   6. Given the nature of the business and its earning power we will need to be thoughtful about the type of buyer to whom the business will appeal and the probability of find such a buyer. As I learn more about the business, I would be in a better position to reasonably assess the type of buyer that may be interested. (**Note**: It does not help you to hypothesize the “ideal” buyer if that buyer does not exist or the probability of locating that buyer is very small. **Important Note**: You should be aware that less than 25% of the businesses that are listed actually sell.)
      1. The pool of individual buyers will be large
      2. The pool of buyers that may have a strategic interest and potentially synergistic benefits will be much smaller
2. Let’s assume at the end of the analysis you believe I have taken an objective outsiders approach and incorporated your input and have fairly assessed the business; but, the business is NOT worth what you hoped, what would you want to do next?
   1. Keep going the way things are now.
   2. Sell the business on the best terms possible to a third party.
   3. Ask my current business partner to buy me out on terms resembling those in the value analysis.
   4. Maintain my equity interest but leave the business to pursue other interests in a different field. I would agree to an operating agreement that specifies a minimum annual payment formula based on the annual gross profit of the business. A buy-sell agreement would also be put in place that would require my partner to buy me out based on the fair value of the business at the time I exercised my rights. (**Note:** competing with the business would be contrary to your duties as a shareholder).
   5. Other, please elaborate

## Financial Analysis Note & Disclaimer

1. **Note:** Our work requires a set of well-structured financials that accurately reflect the performance (income statement) and condition of the company (balance sheet). Based on the financials I have seen so far, I have some concerns about their content. There may be good explanations and I am not expecting a complicated analysis since it should be relatively easy to have financials that represent this simple business model.
2. **Disclaimer:** We are not being hired to perform an audit or make adjustments to the financials of the business. We will do the best we can to understand the financials you present to us and if we find inconsistencies we will do our best to make sensible adjustments to our analysis based on a “fair, best-effort” interpretation standard.

# Section 4

1. Assume you hire Prysmatic Advisors to sell the business and I locate an outside third party individual with experience and knowledge equivalent to the current owner/operator. This person has cash available and the ability to obtain a bank loan. How much do you think this type of person would be willing to pay to buy the company?
2. Now make a defensible argument as to why such a price would be a reasonable price for the buyer to pay.
3. If you can’t come up with arguments based on 1) the earning power of the business, 2) the risks inherent in the business, 3) a reasonable compensation package that such a person could obtain elsewhere as an employee, 4) the ability to pay back a loan to a bank, 5) the ability to pay back a loan to you as the sellers and 6) a reasonable near term return on the invested capital; then, you either need help to make such an analysis or the number you have in mind may not be the right number.

# Next Steps

1. Send your individual response to this questionnaire to me at [apeters@prysmaticadvisors.com](mailto:apeters@prysmaticadvisors.com).
2. We will analyze and assess each shareholder’s feedback.
3. We will contact each shareholder independently to discuss and clarify your individual responses, probably using a Webex or other similar on-line interactive format.
4. Preparation for a joint meeting with both shareholders.
5. Joint meeting
6. **Decision:** Move forward with value analysis or terminate engagement.

Commentary & Disclosure

**Commentary**

Prysmatic Advisors proposes to help you navigate a process that is unfamiliar to you as the shareholders of your company. We will engage with you to learn a sufficient amount about the business and you individually to help you determine your best options to achieve your objectives. Our particular perspective will be one that puts the needs of the business first. If the business does not endure for you, individually or collectively, or for a buyer, then no one’s needs can or will be realized.

Having looked at your financials and being aware of the difficulties you have had over the last several months, I do have concerns about the business.

I like the business model since I believe niche distributors of niche products can be sustained over a fairly long time into the future.

**Disclosure**

Prysmatic is offering to perform a service of making an objective outside assessment of the business and present you with a number of different alternatives that you may or may not choose to pursue. Because we perform this assessment does not mean we are necessarily willing to represent you as your agent in the event you decide to pursue a sale of the business. If you need a specific amount of money to be willing to sell the business and your personal goals and we do not believe we can realistic sell the business for that amount, we will not take the assignment.

At Prysmatic, we only take sale assignments that we believe we can fulfill. This separates us from most business brokers for whom any listing is a good listing. Remember . . . only a small percentage of businesses actually sell. We only took on two assignments in the last year and sold them both. Neither were easy assignments.

The business we sold in January was similar in size to CC Steven. We spent about six months restructuring that company for the trustees of an estate. Prior to our arrival the trustees had the company valued at $500,000. For reasons I can explain when we meet, if you are interested, the company was not worth $250,000. How much would you pay for a company that lost $50,000 per year for five consecutive years that is about to run out of cash?

We sold that company for $1,900,000 cash on January 5th. A great result for the beneficiaries of the estate.