



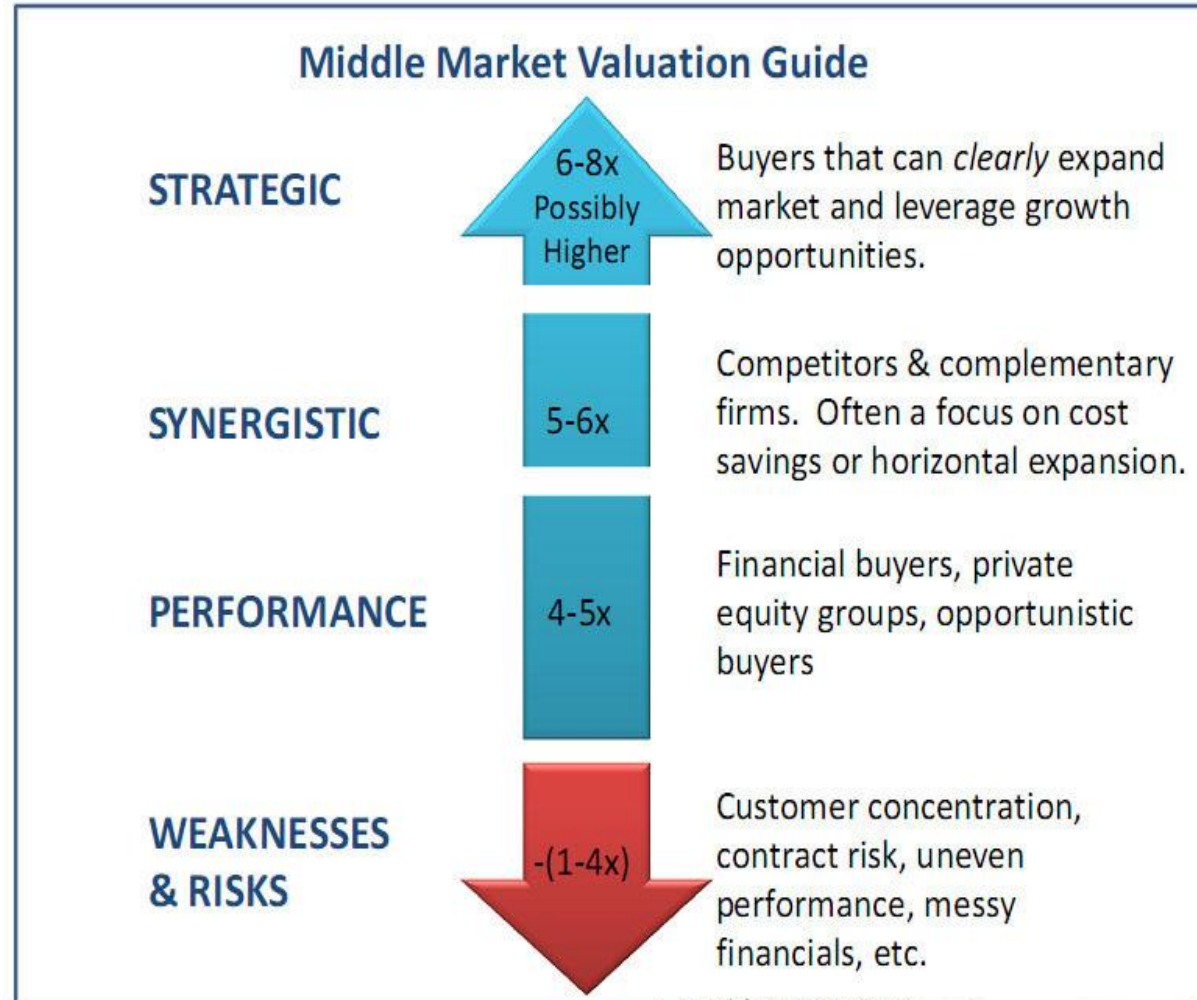
Risk Management

Increased Price – Better Odds

Assisting in your Journey to a Successful Exit



Middle Market Valuation Guide



Risks

- Customer Concentration
- Owner dependency
- Messy anything
 - P&L, balance sheet, facilities, etc.
- Industry / Market Risk
- Supplier concentration
- Any “Stroke of the pen” risk
 - Regulatory
 - Government contracting
- Reliance on key employee (Talent concentration)

Customer Concentration

- Reduce the concentration
- Acknowledge it's a serious issue
- Solidify or create contracts if you can
- Groom your customers to be your champion. Talk to them.
- Think about risk – how to confidently tell buyers it isn't a big risk

Messy Anything

- Profit and Loss statement
 - Document all adjustments
 - Not just Visa statements
- Balance sheet items
 - Shareholder loans, weird stuff
- Outstanding legal issues
 - Stock buybacks, options, employee issues
- Clean facility before visit
 - If you don't want to alarm employees, do it gradually over a year

Market / Industry Risk



Stroke of the Pen Risk



And it doesn't even have to be a nice pen...

Your Risks

- What are you “guaranteeing”?
 - Representations and Warranties in the purchase agreement
- You are not promising future EBITDA
 - Its OK to show your confidence in the business
- You are promising certain things
 - Definitely: That your historical financials are materially true and correct
 - Maybe: That you have not received anything in writing from your major customers that indicates they will drop you
 - Perhaps: That to your knowledge, no major customers plan to drop you.

Positive, Stabilizing Factors

- Recurring Revenue
- Solid contracts / service contracts
- Long standing customers
- Steady revenue, gross margins and earnings
- Large market share

