M-One Advisors, LLC

BRIDGING YOUR TWIN VALUE GAPS

Aligning your Personal and Business Goals

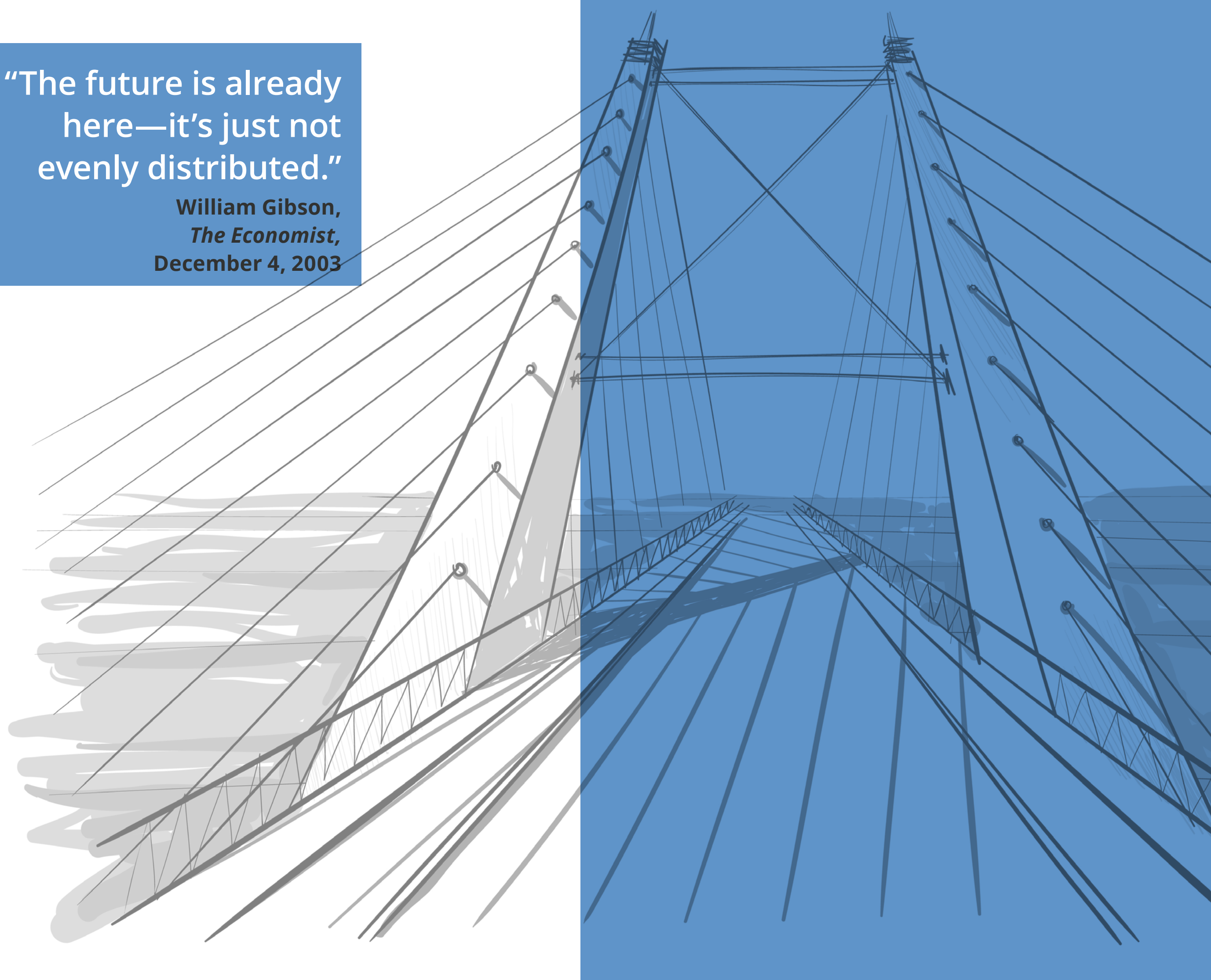
Too Many Business Owners Never Realize Their Dreams and Visions.

The failure of successful business owners to reach their goals is not due to a lack of effort or desire. In our experience, the main cause of failure is lack of clarity around the big picture and a myopic pursuit of short-term goals. Once set upon, there is a natural human tendency to stay on a path or charted course. Sir Isaac Newton said, “an object in motion tends to stay in motion.” This law of physics applies to the behavior of people.

This white paper is the culmination of three decades of academic and market research by Charles Richards and his team at CoreValue, which includes consultation with hundreds of owners of businesses of all sizes. The goal of this paper is to provide food for thought, as well as a clear methodology for you to:

1. Clarify your business and personal goals and determine how your business and personal life connect and coexist;
2. Re-assess the time that you spend in business and personal endeavors;
3. Gain a clear understanding of the resources you will need to accomplish your goals and how and when to best utilize these resources.

> “The future is already here—it’s just not evenly distributed.”
>
> **William Gibson,**
> ***The Economist,***
> **December 4, 2003**



"Time is more valuable than money. You can get more money, but you cannot get more time."
Jim Rohn

75% of business owners are disappointed with the results of selling their business.

76% of businesses have no formal exit strategy or succession plan.

30% of family businesses transition successfully to the second generation, Only **12%** to the third generation, and only **3%** to the fourth generation.

Source: Family Business Institute, 2011.

Taking Inventory

An important observation that we have made is that upon reflection, many people determine that they are spending far too much time in their business and not enough on the other important areas of their life. Most people aspire to happiness—but it is not until later in life that many find out what makes them truly happy. This is a reason that some of the great industrialists and many successful businessmen move from success to significance late in life. Think of Andrew Carnegie, John D. Rockefeller or Bill Gates—there are countless others who came to the same conclusion.

How do you re-align your time allocation to provide more balance? How do you set up your life so that you can achieve all of your goals—not just your business goals?

Typical CEO Time Allocation

Category	Current	Desired	Variance
Business	65%	35%	-30%
Health & Fitness	3%	8%	5%
Spiritual	2%	5%	3%
Family	10%	10%	0%
Travel	5%	15%	10%
Learning/Reading	3%	5%	2%
Charity	2%	5%	3%
Hobbies	3%	5%	3%
Socializing	4%	8%	4%
Community	3%	5%	2%
Total	**100%**	**100%**	**0%**

An example of a typical business owner's time allocation
Source: Chuck Richards, CoreValue® Software.

Exercise: What's Your Time Allocation?

In the first column write down what percent of your waking hours is spent in each area. In the next column write down how you would like to allocate your precious time.

Category	Current	Desired
Business		
Health & Fitness		
Spiritual		
Family		
Travel		
Learning/Reading		
Charity		
Hobbies		
Socializing		
Community		
Total		

If you are like most of the business owners whom we talk to, your answers will lead you to the following conclusion: Even if you love your business, you are spending too much time there and not enough on the personal side of your life. How do you rectify this imbalance?

Seeing that there is an imbalance between work and life, owners (especially baby boomer owners who are in their 50s and 60s) are seriously considering the need to transition and monetize their business in the next 5+ years.

How Does an Owner Go About this Transition?

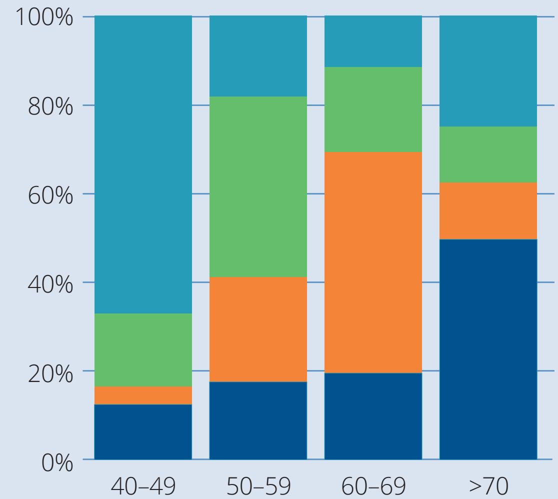
Creating a Formal Financial Plan

If you have enough personal resources now to support your personal goals and lifestyle...Congratulations!

All you have to do is give up some responsibility or turn over some control of your business to someone. For most of us, however, this is not possible—we need to grow and monetize our business to achieve our goals. We know this intuitively, but we have not developed a plan.

According to The Exit Planning Institute's 2013 Business Readiness Survey, only a fraction of business owners have a formal written plan. The reason for this lack of planning is twofold. Most owners believe that if they work hard enough and grow their business, everything will take care of itself. The second reason is that many people do not know how to go about formulating a plan that encompasses both their personal and business goals.

Nearly 50% of business owners want to transition in the next five years.



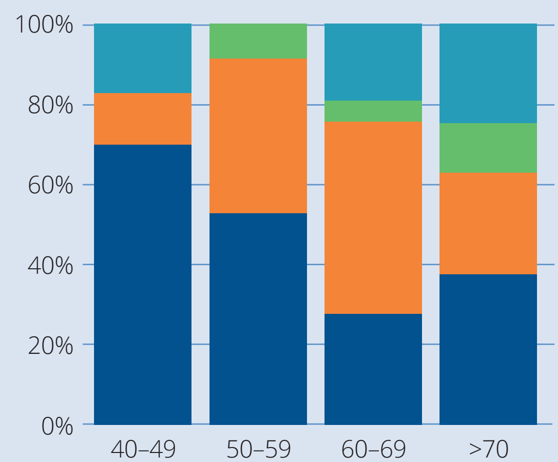
When are you planning to transition the company? (Overall)

- 1–2 years (20%)
- 6–10 years (27.4%)
- 3–5 years (28.2%)
- No plans (24.4%)

Source: Exit Planning Institute Business Readiness Survey 2013.

> **"If the ladder is up against the wrong wall, every step we take just gets us to the wrong place faster."**
> **Steven Covey**

Yet, only a fraction of business owners have a formal transition plan.



What best describes your transition plan? Plan/Documentation/Communication (Overall)

- No Plan (48.6%)
- Plan, Doc, No Comm (5%)
- Plan, No Doc or Comm (34.3%)
- Plan, Doc & Comm (12.1%)

Source: Exit Planning Institute Business Readiness Survey 2013.

The Intersection of Your Personal Planning, Business Planning and Monetization

Your financial plan may show you that your goals can be met with the assets that you have. It may show that you simply need to grow your business and invest more cash, further it may show that you need to monetize part or all of your business.

In speaking to experts on monetization, there are three things that need to align for you to be ready to sell or transfer your business:

1. **Your business needs to be ready;**
2. **You need to be ready; and**
3. **The market needs to be ready.**

1 Business (Business Value Gap)

YOUR BUSINESS NEEDS TO BE READY

How Much is Your Business Really Worth?

A challenge we encounter when helping owners through the planning process is that their biggest asset is easily their business, but they don't have a realistic expectation of what that business is worth.

Most of them understand that their company is worth a multiple of their earnings or free cash flow. We may even have a professional appraisal in hand telling them what their business is worth.

The reality is that your business is only worth what someone will pay you, and this amount (the multiple you receive on your earnings) depends on a lot of variables, many of which are out of your control. Consider what business owners were thinking in the years before major economic downturns—bad conditions to monetize their business. There are certainly enough imbalances in the world today to cause major financial and economic issues that could negatively impact your ability to sell or monetize your business asset.

Identifying Your Business Value Gap

Making the business more valuable is easier than saving the equivalent cash required to close your personal value gap.

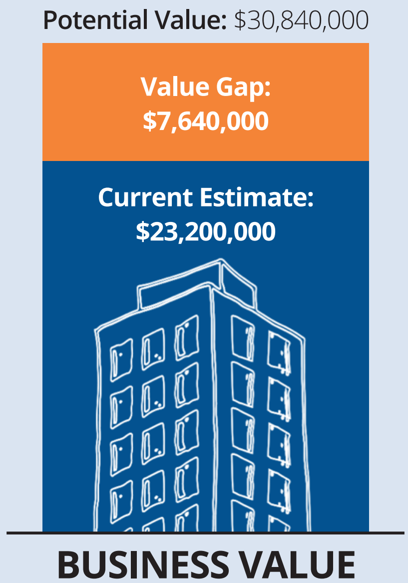
The difference between what a business is worth and what it could be worth if it were run efficiently is called the **Business Value Gap**.

Company Value: The Math

Company Value = Earnings x Multiple

Source: CoreValue 2013.

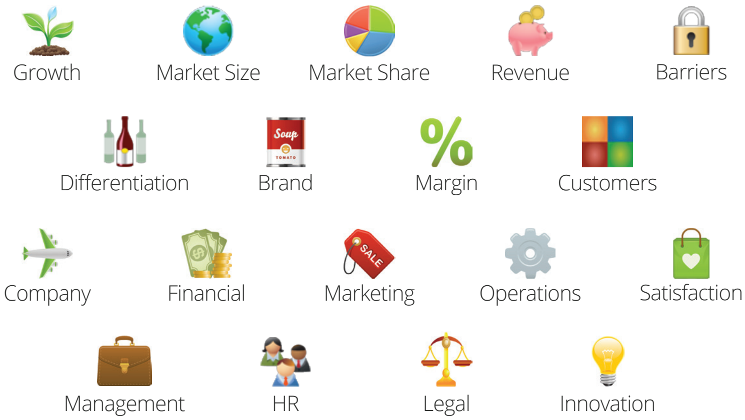
Business Value Gap



Source: CoreValue.

Enterprise Value Drivers

How can you effectively create a well-run company in order to obtain a higher multiple? Research from Charles Richards, CEO of CoreValue Software, and from MIT shows that there are 18 drivers of value for companies.



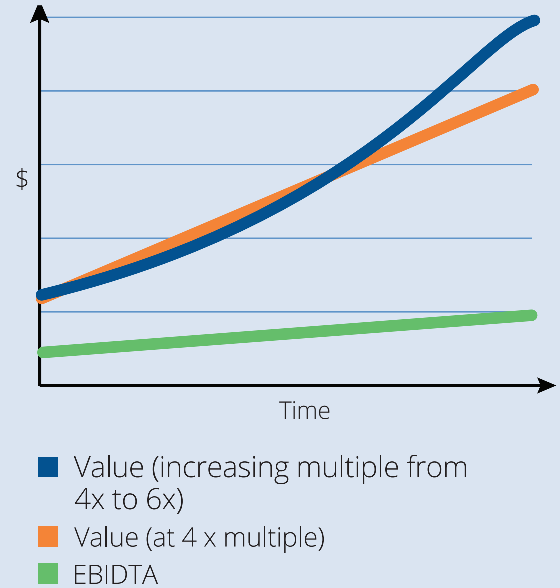
Source: CoreValue.

Your Business is an Engine That Drives Value

These drivers act as gears in your business engine. The output of the engine is revenue and profit. A reliable cash flow or profit stream is what may drive a higher multiple and in turn will reduce or eliminate your personal value gap.

Source: CoreValue.

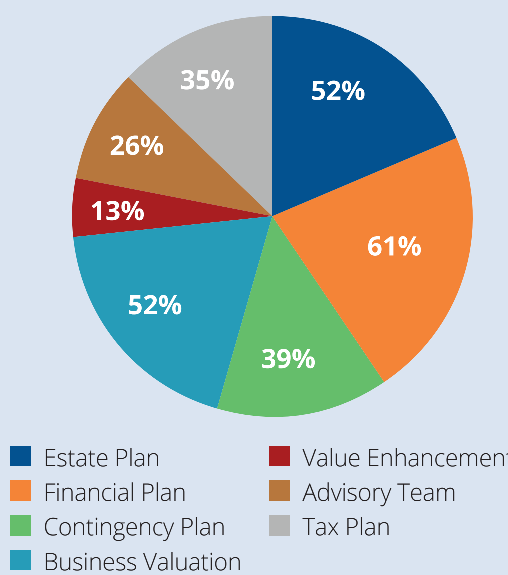
Research shows that better run companies sell for higher multiples.



Source: Doug Smith, Partner, B2B CFO.

The alarming fact is that while operational efficiency is critical to getting your business transitioned or sold, only 13% of business owners stated that their plan involves value enhancement strategies.

What do your plans encompass?



Source: Exit Planning Institute (Business Readiness Survey 2013)

Personal
(Personal Value Gap)

YOU NEED TO BE READY

Purpose-Based Lifestyle Planning—Identifying Your Personal Value Gap

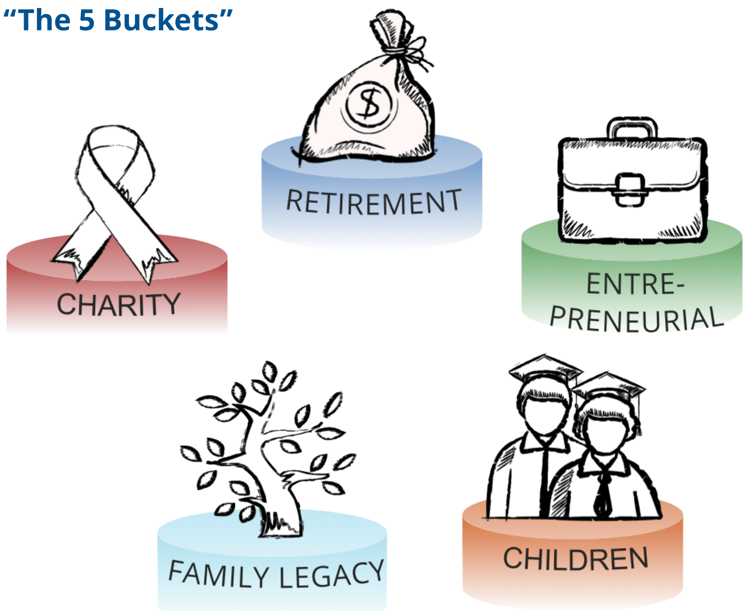
According to *The Wall Street Journal*, a Certified Financial Planner (CFP®) is the most significant credential for creating personal wealth. A CFP has passed a rigorous test administered by the Certified Financial Planner Board of Standards about the specifics of personal finance. CFPs must also commit to continuing education on financial matters and ethics classes to maintain their designation. The CFP credential is a good sign that a prospective planner will give sound financial advice. Moreover, some clients with specialized needs benefit from a CFP who brings additional relevant professionals and resources to their purpose-based lifestyle planning process.

Typically, the planning process involves:

- Taking inventory of your assets and liabilities;
- Listing your goals, with a dollar value and what it will take to accomplish each of them;
- Listing the dates by which you hope to achieve your goals.

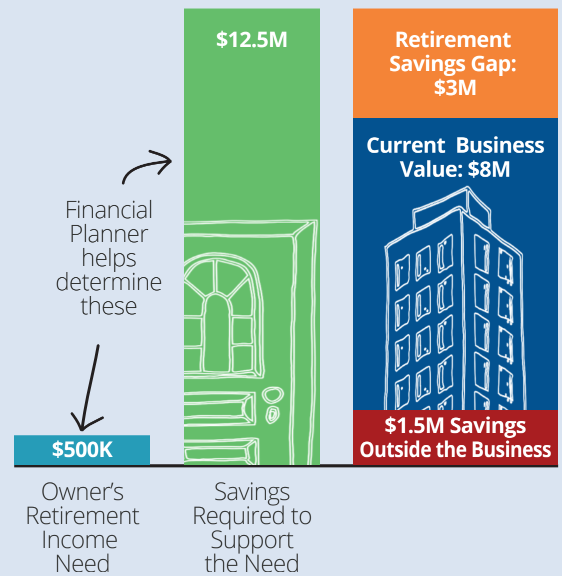
The probability of actually seeing your goals accomplished goes up by an exponential factor when you get specific and write them down. (*Source:* Harvard Study, 1979.)

"The 5 Buckets"



Once your goals are determined, you may find you have a **Personal Value Gap.** That is the difference between the assets needed to fund your goals, and the liquid assets that you have saved.

The Owner's Personal Value Gap



Source: Doug Smith, Partner, B2B CFO.

Exercise: How well do you know your Personal Value Gap?

- ❏ I have a Personal Financial Plan—using a range of values for my business upon exit, and I will meet my personal goals.
- ❏ I believe that once I exit my business, the proceeds should be enough to meet my personal goals.
- ❏ I am not sure that my business will meet my personal goals.
- ❏ At this time, the business will not provide enough to meet my goals.

Personal Financial Plan

We recommend our clients take the range of values for their business and use these values as inputs into a financial plan. Typically, we will run multiple scenarios that take into account different variables such as timing of exit from business, amount received upon exit, lifestyle, rate of return on investments, taxation and other factors. We will run each of these scenarios under three different sequences for the same return.

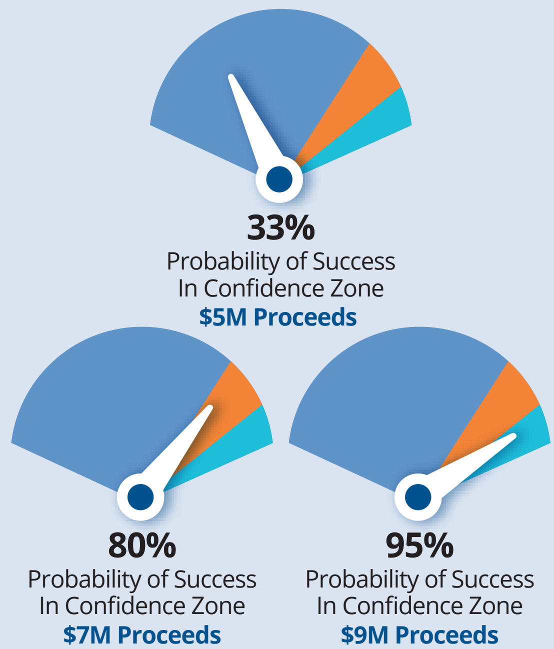
1. Straight Line—using the same return every year.
2. Stress Test—assuming that once you leave the business or retire, you immediately experience a bad market environment.
3. Monte Carlo Simulation—runs a large number of different sequences of market returns to determine the probability that your financial plan will work. We recommend that your plan has at least an 80% probability of success. This process can help tie the value of your business to your personal goals.

Filling Your Gaps and Reducing Risks

Diversification is one way to help reduce risk.

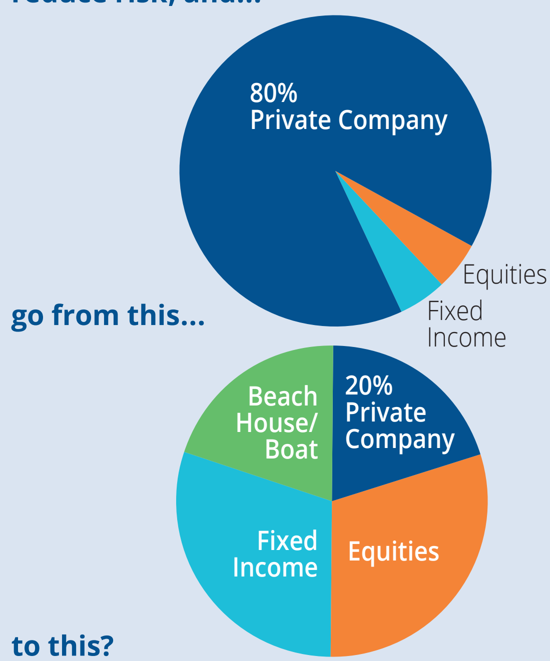
We discussed two out of three of the factors in planning for your business and personal value gaps. Your business needs to be ready and you need to be ready. The third factor is that the market needs to be ready. Many times this personal readiness happens as we get older and our priorities change. Reflecting on your personal goals, time allocation and running a personal financial plan can help you analyze this extremely important decision. Another factor, which is often overlooked, is risk. As we grow older we should naturally reduce our financial risk since we don't have as much time to make up for mistakes, adverse market conditions, or other factors such as legal risks.

Likelihood of funding all goals



Source: Monte Carlo was based on the work at Los Alamos Lab by Unislav Unum.

How will you achieve diversification to reduce risk, and...



Source: John J. Yetman, CIMA®, The Capitol Bay Group, Senior Portfolio Manager, Senior Vice President, Financial Advisor.

3 Market (Monetization)

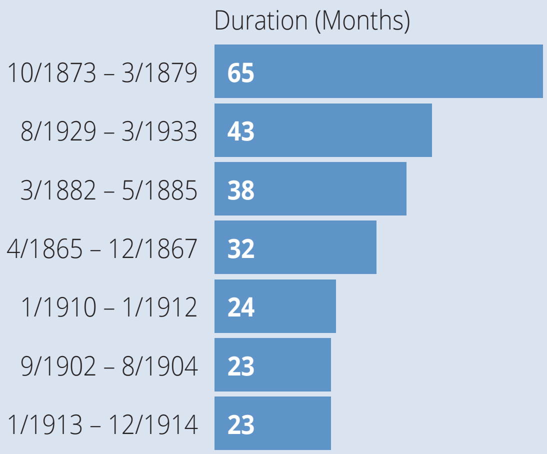
THE MARKET NEEDS TO BE READY

Timing for Monetization

The graph on the right shows the length of the longest recessions, but it does not show the depth and severity. For example, although the 2008 recession only lasted 18 months, we are still recovering from it. The depth and timing of these recessions factor into the valuation of your business.

While many financial and economic issues are uncertain, one certainty is demographic trends. Baby boomers own 66% of private businesses (per Axial 2013) and they, like you, are going to need to monetize and sell their business. Simple economics tells us that this could create a glut of businesses for sales and could depress the market. Following is an excerpt from SME Research:

The longest economic recessions



Source: National Bureau of Economic Research.

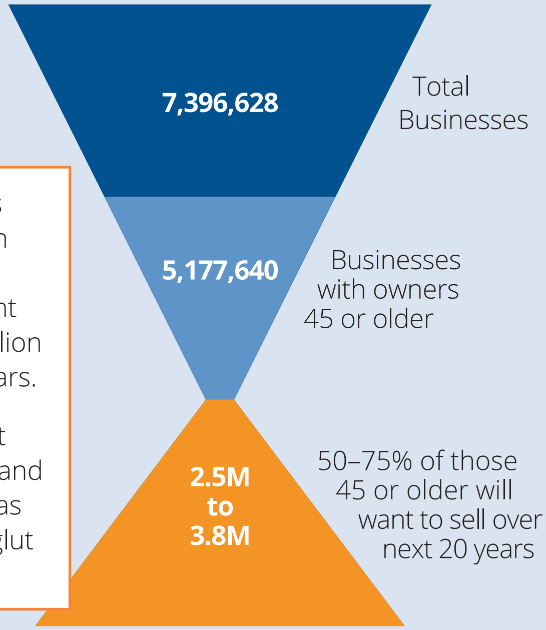
Baby Boomer Business Owners: Will There Be A Mass Sell-Off?

By Carey McMann, SME Research LLC—September 2010

For this analysis, we identified the current business owners who were 45 or older in the 2010 American FactFinder Survey of Business Owners study and applied the same algorithm of 50-75% who will want to sell their business, which results in 2.5 to 3.8 million firms that could hit the market over the next 20 years.

With such a large supply on market, we believe that there will surely be downward pressure on pricing and a potential consolidation in some industry sectors as existing businesses seek to take advantage of the glut to grow by acquisition at very favorable prices.

The effect of demographics on your business



Source: 2010 American FactFinder Survey of Business Owners Study.

The Effect of Interest Rates on Your Business

Finally, another factor to consider is the relationship between the value of your business and interest rates: there is an inverse relationship between interest rates and the present value of money. You don't need to know how to calculate present value; you just need to realize that if rates go up substantially, economic growth and the market for private businesses could be affected negatively.

Interest rates have been falling for 30 years. Many economists expect interest rates to start to rise again.

What could cause interest rates to rise? Generally more demand for money, which is caused by a growing economy. At present, however, there is a factor that has never before been present to this degree—the size of the Federal Reserve's balance sheet. Our view is that at some point the Federal Reserve will likely reduce their holdings of bonds. Many economists believe that the effect of this "unwinding" of these holdings will be to raise interest rates. (*Source*: JP Morgan)

The Federal Reserve has printed trillions of dollars in what economists call 'Quantitative Easing.' What happens to the economy, interest rates and your business when this Fed policy is reversed?

10 Year Treasury Note Rate Fearful Symmetry
1950–March 2012

Source: US Department of the Treasury.

Total Assets on the Fed's Balance Sheet, (In Trillions)

Source: Quartz, Data: Federal Reserve.

WHERE DO YOU GO FROM HERE?

Creating a Business Advisory Team for Growth and Succession

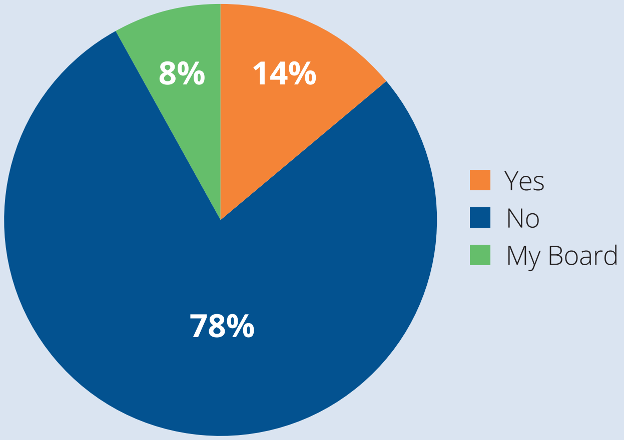
We recommend business owners find a business advisor and a financial advisor who can work together and have access to planning tools. It is also important that these advisors work with your existing advisors to create a plan that ties your personal goals and your business goals together, executing your plan. Part of this process is to find a "quarterback" who can work with all of the professionals needed to achieve your plan.

Have you established a planning/transition team?

When business owners were asked this, only slightly over 20% said they have created a team in this regard.

As part of this process you should take stock and re-evaluate all of your professionals. You may have outgrown some of your existing professionals, you may be missing some key players or you may simply not have effective coordination between them.

Have you established a formal transition advisory team?



Source: Exit Planning Institute (Business Readiness Survey 2013)

Exercise: Rate your existing business advisory team

Rating:
1 = Extremely Satisfied
2 = Somewhat Satisfied
3 = Neutral
4 = Not Satisfied
5 = Not Applicable

Advisors	Name	Rating
Business Advisor		
Financial Advisor		
CPA Personal		
CPA Business		
Corporate Attorney		
Estate Attorney		
Business Valuation		
Executive Coach		

The Time To Act is Now

Nobody can accurately predict the future but a case can be made that a window of opportunity exists while interest rates, the economy, geo-politics and demographic trends are in your favor. After all of the time, energy, sweat and resources you have poured into your business it makes sense that you should adopt the motto “Be Prepared.” This entails re-assessing your work/life balance, and developing a plan to align your business and personal financial lives. These plans should take into account the resources you will need to achieve your goals, including a realistic valuation of your business. Lastly, you should find the right group of experienced professionals who can work together as a board of advisors to navigate whatever the future may hold and help make your financial dreams a reality.

> “If you don’t know where you are going, any road will get you there.”
> **Lewis Carroll**

The views expressed herein are those of the author and do not necessarily reflect the views of M-One Advisors, LLC or its affiliates. All opinions are subject to change without notice. Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

M-One Advisors, LLC and Madison One Clearinghouse Network do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning and other legal matters.

PLEASE CALL OUR OFFICE OR EMAIL US WITH ANY QUESTIONS OR COMMENTS.

M-One Advisors, LLC

Thomas N. Agnello
President and CEO
13895 Ingersoll Lane
Sterling, NY 13156
agnellotn@gmail.com

585.978.9523 Mobile
315.947.6370 NY Office
941.722.3181 FL Office

A Partner with the

Madison One
CLEARINGHOUSE NETWORK

Certified Advisor

CoreValue
Building Valuable Businesses™
www.corevaluesoftware.com

M-One Advisors, LLC is a member of the

Madison One
CLEARINGHOUSE NETWORK

www.madisonone.net
tom.agnello@madisonone.net