CALIBER

PROFITABLE BUSINESS EXITS GUIDE - 2024

# EXIT WITH CONFIDENCE

Make a plan to sell your business, reduce and defer taxes, then protect and grow the proceeds.

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# SUMMARY



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Should you have any questions regarding this or any other Caliber collateral, please do not hesitate to reach out to a member of our team.

PART I

# HOW TO SELL YOUR BUSINESS

## YOU'VE REACHED THAT POINT,

after years of long hours, hard work, and sacrifice, the business you've built from the ground up is mature, resilient and profitable through the ups-and-downs. Additionally, you've built trust throughout every level of the organization. The culture of excellence you've worked tirelessly to instill has taken root. If you feel like you've conquered this ground and are ready for the next challenge ... **IT'S TIME TO CASH OUT.**

PART I

# SUCCESSFUL BUSINESSES ARE ALWAYS IN DEMAND

**If you've waited until now to sell your business, *your timing is excellent*.**

Recent interest rate hikes helped drive mergers and acquisition deals down 19% in 2023.[1] Experts predict a significant rebound in 2024, which means today is a good time to position yourself for a big exit. Before you step into the mergers and acquisition ring, it helps to set clear objectives.

**In our experience, most business owners share three common goals:**

### MAXIMIZE EQUITY

You took the risk to start a business, and you've invested swear equity to build financial equity. You deserve the reward. Ensuring an equitable - and profitable - exit is possible with the right advice and preparation.

### MINIMIZE TAX OBLIGATIONS

Careful planning can significantly increase the proceeds of your business' sale that you keep in your pocket. If you want to maximize or defer at least some of the taxes, pay close attention to the terms of the deal.

### FIND A HIGHLY-ALIGNED BUYER

Many businesses carry the name of their founder or owner indicating how much they define a legacy. Finding a buyer aligned with your organization's values can ensure continuity and protect your reputation.

[1] Source: Gregory Daco and Mitch Berlin. "M&A outlook points to gradual rebound in deal market in 2024." EY. 17 Jan 2024.

PART I

# HOW DO I MAXIMIZE MY EQUITY?

**Maximizing the equity in your business is a lot like selling your home. You want to ensure it is in salable condition before putting it on the market, have an acceptable price in mind, and use a professional.**

## INCREASE BUSINESS VALUE PRIOR TO SALE

Every business owner wants top dollar for he business they've built. But staging your business for a top-dollar sale doesn't happen overnight.

Diversifying revenue, streamlining operations, and increasing profitability are just three ways to impact valuation on the open market.

## PICK AN EXIT STRATEGY

The exit strategy is your guide as you determine how to exit your business, and how profitable your exit will be.

## USE A PROFESSIONAL

A professional can help facilitate the sale. Use the professional that aligns with your business's annual profitability and comfort level.

**Many of the steps discussed on the next page address how to ensure a higher "multiple" when you sell your business. Common multiples used when pricing a business include price-to-earnings (P/E) ratio, price/earnings-to-growth (PEG) ratio, and price-to-sales (P/S) ratio.**

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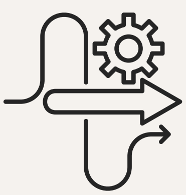
# CONSIDER THESE STEPS TO POTENTIALLY MAXIMIZE YOUR EQUITY:

DIVERSIFY REVENUE

A buyer wants to see a track record of predictable revenue. Buyers view a business that features a diversified customer base operating a recurring revenue model more favorably than relying on a few big customers. From the buyer's point of view, they're interested in making sure they have a low-risk revenue source from day one. Your business may be top-heavy if 80% or more of your revenue comes from the top-20% of customers. If so, seek ways to diversify!

EXPAND EBITDA MARGIN

Buyers view EBITDA, or "earnings before interest, taxes, depreciation, and amortization," as a barometer of the business' pricing model and differentiation. A strong EBITDA (which depends on the industry - the average medical care facility has an EBITDA of 17.07, but the average trucking company's EBITDA hovers around 9.54) is a threshold issue for many investors - even if your business narrative and other fundamentals are strong.[2] Diversifying your revenue mix or trimming costs to generate even modestly higher margins could yield a 0.5 to 1.0x boost to the exit multiple.



STREAMLINE OPERATIONS

Businesses with messy books and jumbled operating procedures will never earn the same multiple as those with clean financial statements and clear and documented processes. Preparing for a sale means making it easy for potential buyers to review your business records (a process called due diligence). Deals close faster and at higher multiples if these documents are in good order.

Selling a business is time-consuming. Many owners who are happy with their exit experience relied on professionals to streamline the process, even if they incur costs. Accountants, lawyers, and investment brokers all help a business change hands in an orderly and equitable fashion. Hopefully, the final payout makes the process worthwhile.

[2] Source: "EBITDA multiples by industry." full:ratio. https://fullratio.com/ebitda-multiples-by-industry. Retrieved 23 Jul 2024.

PART I

# PICK AN EXIT STRATEGY

**You're the captain of your business exit team, and you define the exit strategy best aligned with your objectives.** The most important part of your exit strategy is one that leaves *you* feeling good about the outcome, which can include factors beyond the money you walk away with. There are seven common exit strategies; while no one method is perfect for every business, one will likely meet your needs.

## COMMON FACTORS

MAXIMIZING PRICE

REDUCING THE TIME TO EXIT

MINIMIZING REGULATION

MAINTAINING CONTROL OVER THE PROCESS

REDUCING DISRUPTION OF THE BUSINESS

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# COMMON EXIT STRATEGIES

1 **Initial Public Offering (IPO)** takes your business "public" by selling shares of the business on a public market. An IPO can raise significant capital but may be slow, expensive, and challenging to negotiate, with no guarantees of the money you'll raise.

2 **Mergers & Acquisitions (M&A)** combine your business with an existing business. A typical M&A asks the business owner to stay on in a management role through the transaction. M&A's can provide highly profitable exits if the owner is patient.

3 **Management and Employee Buyout (MBO)** sell your business to the current management team and/or employees. An MBO can take place quickly and minimize disruption, but it also relies on sufficient interest and capital among the employees to ensure the price you want.

4 **Friendly Buyers** are interested parties (like partners or family members) who want to buy your business. Like an MBO, friendly buyers can reduce disruption in the transition of your business. Many business owners who find friendly buyers don't maximize the price they get for their exit.

5 **Acquihires** leverage the value of a skilled workforce and allow the business owner to maintain ownership of any real property held by the business. This strategy can help protect jobs in the business, but are fairly specific to certain industries and require a specific kind of buyer.

6 **Liquidation** is commonly used for less successful businesses and involves the sale of assets owned by the company. The business owner gets whatever value is available from the property, infrastructure, equipment, and/or intellectual property that's been acquired. Compared to alternatives a liquidation generates relatively little value.

7 **Bankruptcy** is a last resort for business owners. This exit strategy transfers control of the business's assets to a trustee, who then manages the assets for the benefit of any creditors. A bankruptcy has implications for owners, investors, employees, and customers.

PART I

# BUILD A TEAM OF EXPERIENCED PROFESSIONALS

**A satisfying and profitable exit takes time, attention, and expertise.** If you want to maximize the exit value of your business, you may need to attract multiple buyers. If you want to stay on the right side of the law before, during, and after your sale, you need the expertise of trained professionals. The makeup of your transition team will depend on a variety of factors, but many business owners are glad their team includes:

## BUSINESS BROKER OR INVESTMENT BANKER

Depending on how you estimate the value of your business (an easy rule of thumb is add together the past two years of revenue) you'll need the expertise of a business broker (for small- and mid-sized business) or an investment banker (for businesses worth $250 million or more). Like a real estate agent, business brokers help find buyers for businesses for a commission. They'll be your best guide and a trusted resource.

## BUSINESS ACCOUNTANT

Even if you have a bookkeeper on staff, many business owners are happy they hired a third party to review the books and help with the specialized structure of business sales. An experienced business accountant can also help prepare you for the unique taxable events that often occur with business sales.

## BUSINESS ATTORNEY

Many business owners have an attorney to help with day-to-day operations. You might want to consider hiring special counsel to ensure you walk away from the sale without additional liabilities and with all the money you intended to get. This attorney makes sure you understand the process, and negotiates, drafts and reviews all the agreement, and a lot more paperwork.

## APPRAISER

Valuing your business can be a complex and emotional event. An experienced business appraiser can look at your hard assets to help set a good foundation for your evaluation.

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# TEAM OF EXPERIENCED PROFESSIONALS

### INSURANCE BROKER

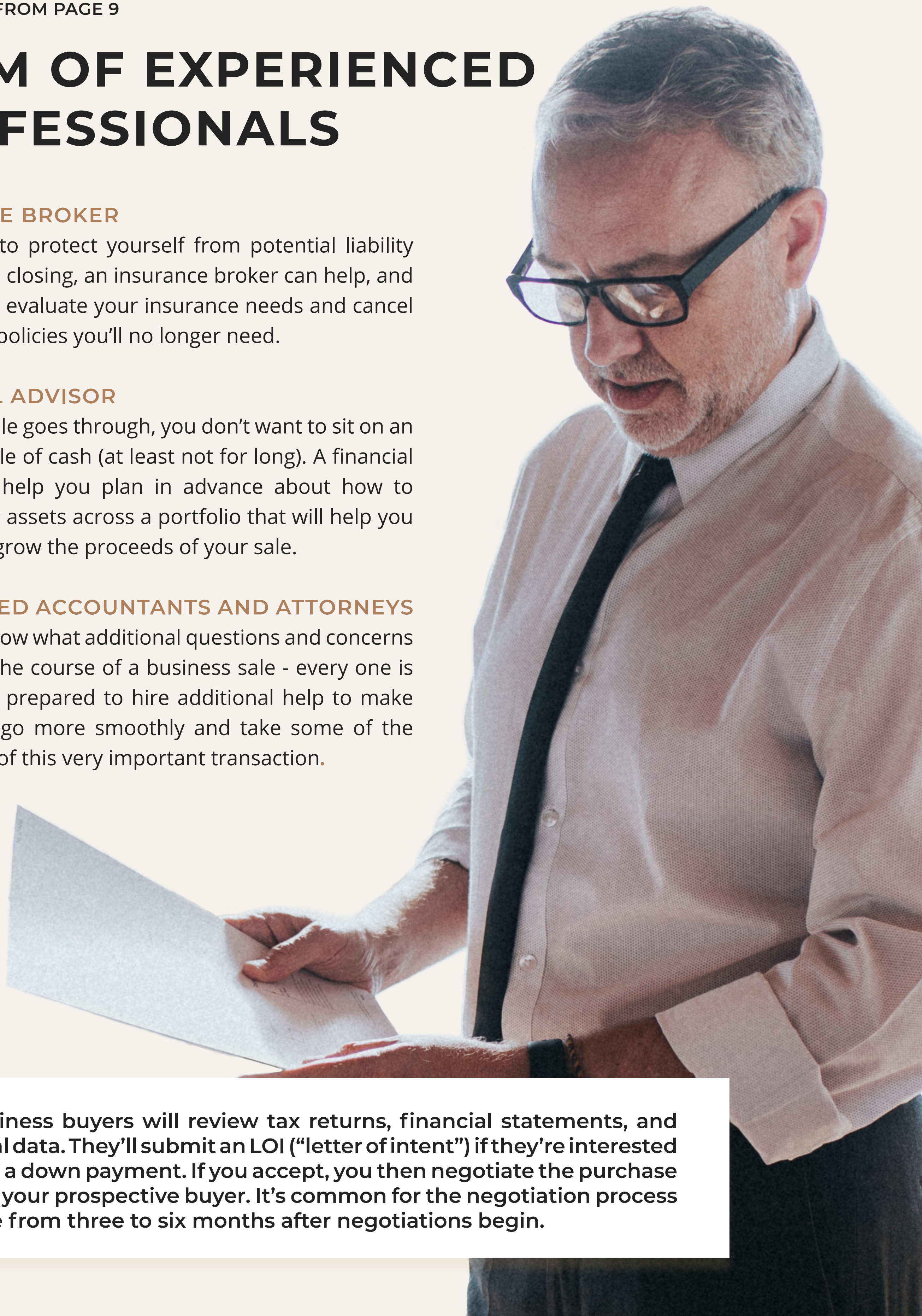
If you want to protect yourself from potential liability following the closing, an insurance broker can help, and can help you evaluate your insurance needs and cancel any existing policies you'll no longer need.

### FINANCIAL ADVISOR

Once your sale goes through, you don't want to sit on an enormous pile of cash (at least not for long). A financial advisor can help you plan in advance about how to allocate your assets across a portfolio that will help you protect and grow the proceeds of your sale.

### SPECIALIZED ACCOUNTANTS AND ATTORNEYS

You never know what additional questions and concerns will arise in the course of a business sale - every one is different. Be prepared to hire additional help to make the process go more smoothly and take some of the mystery out of this very important transaction.



**Prospective business buyers will review tax returns, financial statements, and other operational data. They'll submit an LOI ("letter of intent") if they're interested and may include a down payment. If you accept, you then negotiate the purchase agreement with your prospective buyer. It's common for the negotiation process to last anywhere from three to six months after negotiations begin.**

PART II

# NEXT-LEVEL PLANNING

## REDUCE THE TAX IMPACTS OF YOUR SALE

### TAXES ARE A BALANCING ACT

When you sell your business, you may face a significant tax bill. Poor planning could result in you paying more than half the purchase price after all taxes are paid! Skillful planning can minimize or defer a significant portion of these taxes.

You will be taxed on the profits from selling your business, but you many be able to control the timing through structure and terms of the sale. What is good for the tax picture of the seller is often bad for the buyer, so be prepared to negotiate many of the terms discussed below.

Selling a business means selling a collection of tangible and intangible assets. Part of the negotiation process is agreeing on the same 'allocation' method, per IRS guidelines.

As the seller, you want to allocate as much towards capital assets as possible because these are taxed at capital gains rates rather than ordinary income.

The legal structure of your business also plays a role. Whether your business is structured as a sole proprietorship, partnership, limited liability company, or corporation, there are many ways to structure your business sale. There are trade-offs to consider based on how the sale is structured.

PART II

# STRUCTURE YOUR SALE AS PART OF YOUR TAX PLAN

**The allocation of your sale is not the only way to prepare for future tax consequences. The structure of your sale will have significant impact on how and when you're taxed.**

## INSTALLMENT SALE

As the name implies, in an installment sale the business transitions to the buyer incrementally. You provide them with seller financing where they promise to make monthly payments in exchange for taking ownership of your business. The IRS allows you to spread your tax burden throughout the installment contract. That is why those assets qualify for installment payments when you go to sell them. On the one hand, your business will be more attractive to potential buyers if seller financing is available. On the other hand, offering seller financing to a buyer can be risky. Installment sales don't necessarily minimize taxes. An installment sale spreads the payment over several years, meaning you owe taxes on the amount you receive each year rather than the entire amount.

Installment sales may especially appeal to owners who are selling to friendly buyers or through an MBO, because it also limits the amount of upfront capital needed to close the sale.

## SALE TO EMPLOYEES (ESOP)

Businesses organized as a C corporation and with a longer exit time horizon may consider exiting through an Employee Stock Ownership Plan (ESOP). This structure allows a business owner to transfer the business to their employees. Selling to your employees can save a lot of time, headaches, and costs while creating significant goodwill. Set a reasonable price for the sale and receive cash from ESOP. You can then roll over the proceeds into a diversified portfolio to defer tax on the gain.

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# STRUCTURING YOUR SALE

## INVEST IN AN OPPORTUNITY ZONE FUND

Owners who realize capital gains on the sale of their business can defer tax on that gain if they act within 180 days of the sale by investing in a Qualified Opportunity Zone Fund (QOZ). By investing in an opportunity zone fund, you may be able to defer the taxes due on your initial gain. You can exclude up to 15% of the original gain from taxation. You may pay no tax on the growth in your investment value for your entire holding period, assuming a minimum of a 10-year hold. Taxes will always play a role in the sale or purchase of an asset. Fortunately, there are ways to structure your tax liability to be as advantageous as possible (within the legal requirements, of course).

## 1031 EXCHANGE

A 1031 exchange provides another avenue for potentially reducing taxes upon the sale of your business. This strategy allows for the deferral of capital gains taxes by reinvesting the proceeds from the sale into a like-kind property within a specified time frame. Particularly beneficial for real estate investors, a 1031 exchange enables the deferral of taxes on gains from property sales, preserving capital for continued investment.

## DELAWARE STATUTORY TRUSTS (DSTS)

Investing in a Delaware Statutory Trust (DST) offers another option for investors seeking tax-deferred solutions. DST's allow investors to defer capital gains taxes while maintaining ownership interests in high-quality real estate assets. By holding a portfolio of income-generating properties, DST's provide a streamlined approach to diversifying portfolios and potentially reducing tax liabilities.

### Structure transactions tax-efficiently to help optimize financial outcomes

Taxes will inevitably play a role in the sale or purchase of assets, but structuring transactions tax-efficiently can help optimize financial outcomes within legal requirements. Consultation with tax professionals and financial advisors is recommended to determine the most suitable strategies based on specific circumstances and investment goals.

PART III

# PROTECT AND GROW THE PROCEEDS OF YOUR SALE

**No matter how you structure your sale and who you find as the buyer, a successful business exit will result in you having a significant amount of cash all at once.** A smart financial plan will consider your goals through three dimensions:

**GROWTH—**

How important is it that you continue to accumulate assets, either for retirement or to pass on to future generations?

**PROTECTION—**

Are you willing to allocate a portion of your new wealth are you willing to place in less-risky assets that may provide lower returns?

**INCOME—**

Do you want to allocate some of your proceeds to assets that will generate passive income immediately, in the short-term, or after five or more years?

**Your financial advisor can help you evaluate your new needs and build an investment portfolio to help you reach your goals. As you become a more sophisticated investor, new opportunities will open for you.**

PART III

# DISCOVER A NEW UNIVERSE OF INVESTMENTS

**As your financial assets grow, you may discover new doors opening for you to invest. These unique asset classes can help meet a broader array of needs and can provide some unique risks.** A well diversified portfolio may include allocations to a wide array of asset classes including:

1. **Precious Metals** like gold and silver offer an opportunity as a store of value and a possible hedge against inflation or other crises.

2. **Rental Real Estate** provides cash flow benefits and a store of value. It can also be highly labor-intensive if you have to renovate or repair properties and may not produce cash flow if you don't have renters.

3. **Private Equity** allows you to invest in or start a new business or passively participate in private (not publicly available) business investments run by a specialty manager.

4. **Private Debt** lets you make a loan to a business and collect interest or lets you pool money with other investors to make a number of loans and defer risk.

5. **Private Real Estate** offers access to larger and more sophisticated property types like commercial, multi-family, residential, hospitality, and entertainment, with assets managed by a professional manager.

PART III

# PLAN FOR AN EXCITING NEXT PHASE

**Entrepreneurs who have successfully sold their business often experience a broad range of feelings from relief to excitement.** Good financial professionals ensure that you're well-positioned to attack the next phase of your life with confidence.

!

**If you're planning to sell your business or if you've recently completed an exit, your financial advisor will help you make a plan so your money is the least of your concerns.**

# WHO IS CALIBER?

## ABOUT CALIBER

(CALIBERCOS INC.) | (NASDAQ: CWD)

With more than $2.9 billion of managed assets, including estimated costs to complete assets under development, Caliber's 15-year track record of managing and developing real estate is built on a singular goal: make money in all market conditions. Our growth is fueled by our performance and our competitive advantage: we invest in projects, strategies, and geographies that global real estate institutions typically do not. Integral to our competitive advantage is our in-house shared services group, which offers Caliber greater control over our real estate and visibility to future investment opportunities. There are multiple ways to participate in Caliber's success: invest in Nasdaq-listed CaliberCos Inc. and/or invest directly in our Private Funds.

**$2.9 BILLION+**

ASSETS UNDER MANAGEMENT & ASSETS UNDER DEVELOPMENT

**$667 MILLION+**

EQUITY RAISED

**15+ YEARS**

PROVEN PERFORMANCE ACROSS MARKET CYCLES

## CONTACT US

**For more information contact invest@caliberco.com, or visit our website at caliberco.com**