Welcome to

Advanced Textiles EXPO®

ORGANIZED BY ATA



FROM RISK TO READY

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Overcoming the Challenges of Selling a Textile Business

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THE TRUTH

- Exiting may not be eminent.
- The life cycle of every business owner is FINITE.
- Selling a textile business is challenging.
- “Buyers aren’t afraid of the textile category. They’re afraid of risks they can’t control.”
- Whether you are 1 year or 25 years away from transition, ATA believes planning your exit starts long before you sell.
- Never too early to know the obstacles you face and how to overcome them.

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Today's Agenda

- What are the RISKS buyers see in your business
- Inventory & Revenue Composition
- Financials Documents & Timing
- Owner Dependence
- Key Takeaways to Combat Risk
- How Sunbelt can help



Important Valuation Realization

Your business is worth exactly what??

- We use market-based statistics to forecast what we believe your most probable sales price is
- As you probably know…no two businesses are the same
- Sunbelt has 2 different valuation products for ATA members.
- A big part of a buyer/bank evaluation are the RISKS inherit in your business.

The Risks

Some of the major potential risk categories in selling a textiles business include:

- ❑Inventory
- ❑Revenue Composition
- ❑Financials
- ❑Timing
- ❑Owner Dependence



Inventory

Question How much would you pay for this business?

- ✓ $1.3M in Sales
- ✓ $150,000 Owner benefit
- ✓ $900,000 Inventory



INVENTORY (CONT.)

Let's say we think we could get 1x SDE + Inventory. That price would be $1.05M.

Now, let's amortize that loan assuming current conditions:

- 10-year term, 9% interest rates, 10% down and $50,000 in working capital and loan costs.
- Total loan = $995,000
- Monthly payment = $12,604
- Annual Payment = $151,248

No buyer or bank wants a loan where the annual payment exceeds cashflow. Too risky

INVENTORY (CONT.)

Excess/slow turning inventory erodes value: KNOW YOUR BUSINESS.

- ✓ Inventory is discounted in pricing
- ✓ Dead stock drags working capital
- ✓ Inventory in a notebook is no longer acceptable
- ✓ Buyers do not want to plan inventory resets after closing.

Key insight:

Buyers don't pay for inventory nostalgia.

INVENTORY (CONT.)

This is where inventory, that once felt like strength, becomes fear.

Buyers won't pay you what you paid for inventory.

Reality check question:

"If a buyer reset your business tomorrow, how much inventory survives?"

TAKEAWAY: Inventory management prior to the sales process is ultra critical.

Financials

Key truth:

Buyers don’t pay for explanations. They pay for **clarity and repeatability**.

Tax efficiency today, value destruction tomorrow. Or much more candidly, you can’t get paid twice.



FINANCIALS (CONT.)

Modify our initial business value question: How much would you pay for this business?

- ✓ $1.3M in Sales
- ✓ $150,000 Owner benefit
- ✓ $900,000 Inventory

Seller says they take about $125,000 in cash 'off the books'.

DOES THAT CHANGE YOUR PRICING OPINION?

FINANCIALS (CONT.)

Common tax minimization tactics:

- ✓ Cash
- ✓ Personal expenses paid by the business
- ✓ Personal inventory run through the business
- ✓ Family on payroll
- ✓ Inventory adjustments masking margin reality
- ✓ Seasonal swings misinterpreted or not understood clearly

FINANCIALS (CONT.)

Takeaways:

Owners make a choice: Tax mitigation OR value at sale?

- ✓ Having good, clean, organized books makes or breaks a sale.
- ✓ Bank trust! Landscape company example.
- ✓ Buyer trust! **Deal creativity NEEDS to increase if buyers and banks cannot see the money.**

Revenue Composition

Concentration examples:

- ✓ One major selling season
- ✓ One or two large customers
- ✓ One category driving profit

Buyer risk view:

- ✓ Customer dependence
- ✓ Seasonality dependence
- ✓ Category cyclicality



REVENUE COMPOSITION (CONT.)

Buyer pricing logic:

- Concentration = volatility
- Volatility = risk
- Risk = lower multiple at sale

Important nuance:

It's not that textile businesses are unsellable… it's that buyers price **uncertainty**, not ideology.

Timing

Every owner should understand:

- ✓ The best deals happen *before* the owner has to sell.
- ✓ Best price? When the business is ready, not always when the owner is ready

Triggers that force exits (human factors):

- ✓ Burnout
- ✓ Health
- ✓ Regulation fatigue
- ✓ Lease events
- ✓ Shrinking margins

Human factors far more easier to explain than financial factors



TIMING (CONT.)

Don't forget about your real estate:

Sell to business buyer or be the landlord? YOUR CHOICE

- Either way, prepare your real estate just like you are preparing your business
- Curb appeal, operations efficiency, customer experience

Understand the ramifications

- Taxes (for both business and real estate…it may be different!)
- Long term cash flow

TIMING (CONT.)

Takeaway:

- ✓ Sell when you can maximize value, not when you have or need to sell.
- ✓ Don't forget the real estate component. It may be larger than the business.
- ✓ If you are waiting for the 'perfect time'...

Owner Dependency

Owner dependent businesses sell for less…. or not at all.

Buyers see:

- ✓ Vendor relationships tied to the owner
- ✓ Buying decisions based on instinct and/or experience
- ✓ Seasonality decisions not systemized
- ✓ Key customers only trust “the owner”
- ✓ Compliance and operational knowledge living in one head



OWNER DEPENDENCY (CONT.)

Why value drops:

- ✓ Buyers discount risk they can't replace
- ✓ Lenders hesitate
- ✓ Deals stall or die

Takeaway:

<u>Build your business to run without you.</u>

RISK and VALUE

Exactly how does having these risks in your business affect value?

Risk brings:

- ✓ Smaller buyer pool
- ✓ More contingencies
- ✓ Deeper/longer due diligence

Risk, at BEST, brings a price reduction. Risk, at WORSE, stops you from actually selling your business.



MAKING YOUR BUSINESS READY

If not already, START TODAY… even if you are years from selling. Begin the following:

- ✓ Reduce owner dependency
- ✓ Technology to run the business
- ✓ Rationalize inventory velocity
- ✓ Clean financial visibility
- ✓ Balance category risk
- ✓ Document compliance systems

Mindset: You don't need to sell, but you need the ability to sell

- ➢ Most every business in this room has at least one of these risks
- ➢ Remove the risk to increase both your price and salability

RE-SALES TODAY AND TOMORROW (CONT.)



That is what this presentation is all about… ATA wants to help you build a ‘sellable business’ regardless of when you are ready to exit



Having a business that buyers will find desirable will give you a huge advantage in a crowded market



Most business owners are not properly preparing for the end…for you to know something that most everybody else doesn’t know is powerful and can be financially rewarding

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The Sunbelt Advantage

REACH & REPUTATION

- Largest business broker in the United States since 1978
- Helps more people buy and sell small businesses than any other company
- Named “Best Business Broker” by FitSmallBusiness.com
- Works for you
- Has buyers and a successful track record in your industry

COVERAGE & SERVICES

- More than 140 offices across North America
- Top-ranking website: www.sunbeltnetwork.com
- Broker services, valuation, and consulting
- Experienced professionals facilitating thousands of deals annually
- Complimentary Value Range Analysis

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Learn More

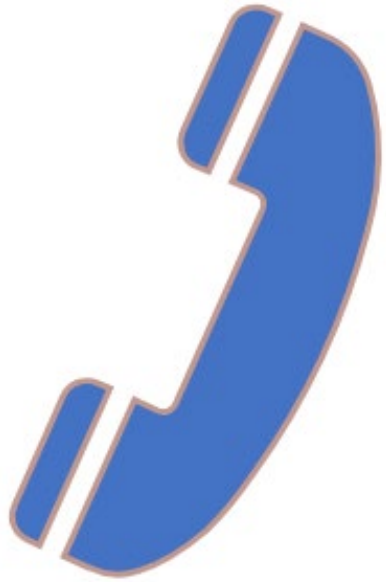
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