

Essential strategies for business value growth



Planning towards a smooth transition

The UBS commitment to business owners

You've worked hard to build and grow your business. But have you thought about the day when you might walk away from it all to something new?

At UBS, we help businesses and entrepreneurs thrive. For more than a century, we have worked with business owners and their companies to support their goals. When it comes to designing effective business transition strategies, we focus on three key areas:

-
- 1 Maximizing the value of the business
 - 2 Planning wealth beyond the business
 - 3 Living and enjoying life after the business
-

This report titled, *Planning towards a smooth transition*, the first in our new series *Business Owner Insights*, provides a framework for how you can drive the value of your business and take it to the next level. It's not only about how you grow your revenue or income. It's about solidifying the value of your business to help make it more appealing to buyers.



Want to learn more?

See our recently published whitepaper, *Preparing for a Strategic Exit: Your guide to unlocking a lifetime of work*, or connect with your UBS Financial Advisor.

Planning for the future

Business transition planning is perhaps one of the most complex tasks you will encounter. You probably have a substantial portion of your family wealth invested in the business—and this then entails broader financial planning strategies to address retirement and estate planning needs. Our framework will help with your eventual transition out of your business, on your own terms and timeframe.

Many business owners lack a comprehensive plan to pass on their business. Now is the time to give a formal business transition plan serious thought. A well-crafted transition plan identifies a long-term strategy that can inform short-term decisions. We suggest planning along three strategic dimensions: A Liquidity strategy to help provide cash flow for short-term expenses, a Longevity strategy for longer-term needs and a Legacy strategy for needs that go beyond your own.* Organizing your wealth this way can help you pursue what matters most—for today, tomorrow and for generations to come.

Who's the Boss?



41%

of business owners intend to exit their businesses within the next 5 years **but almost 50% don't have a transition plan**



"I believe I could sell in a year, but I haven't prepared."

75%



"I have no strategy in place to shield sales proceeds from taxes."

37%



"I have never appraised my business."

58%

Source: *UBS Investor Watch* Report "Who's The Boss," February 2018 as well as responses to questions not previously published as part of the *Investor Watch* survey and therefore not sourced to a previously published document.

*Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

What drives the value of your business?

Do you know the value of your business today? Determining a reasonable range is a critical step in transition planning. To get the best price, be certain your business looks its best and that there are no unwelcome surprises during the sale process.

Improve the value of your business

When the time comes to sell a business, many deals collapse during a buyer's due diligence when problems come to light. So, start cleaning things up before it becomes an issue for a buyer.

Would you buy your company in its current condition? What would you pay if you were a potential buyer? Improving the value of your business might require a shift in mindset. Think about what factors a prospective buyer will care about.

- What will drive value for a buyer in the future?
- Will the business continue to operate effectively and grow if you're no longer at the helm?
- What roadblocks should be addressed now, instead of closer to the sale?

Reducing business risk or revitalizing it is a top priority in a proactive transition strategy. How can you make your business more professional and attractive for buyers? When your business is perceived as a solid opportunity, it may create a competitive buyer environment, increase value, improve negotiation and deal terms and minimize the time to close the sale.

What drives value?

Here are a few examples:

Objective or quantitative factors like

- Healthy diversified income streams
- Consistent and predictable earnings
- Intellectual property

Driven by, but not limited to

- Changes in revenues
- Gross and net margins
- Operating costs

And subjective or qualitative factors like

- Strategic business plan
- Management team strength
- Economic market outlook

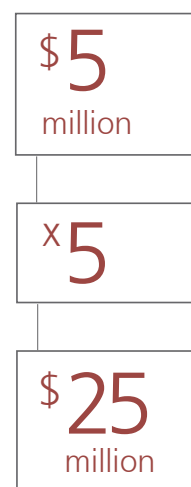
Understanding business value: Why EBITDA matters

Buyers often value businesses based on a cash flow measure called EBITDA (earnings before interest, taxes, depreciation and amortization). The EBITDA metric gives a standard short-term snapshot of the raw earnings potential of your business.

To get a ballpark value for your business, multiply EBITDA by a multiple

The multiple typically falls within a range. It's set by recent deal activity in your industry, and it moves with supply and demand. For example, a company with \$5 million of EBITDA and a multiple of 5 could be worth \$25 million.

Certain techniques can increase EBITDA while others can increase the multiple. With a focus on forward-thinking and strategic planning, you can take steps to improve your enterprise value. Figure out your company's enterprise value in consultation with an investment banker or a valuation specialist.



A company with \$5 million of EBITDA and a multiple of 5 could be worth \$25 million

Additional tips:



Assess your business's market valuation periodically using EBITDA or another metric such as revenue that may be used in your industry



Know how much of the value will support your family and your goals for tax-efficient philanthropic giving as part of the sale



Start your early-stage planning conversations with your UBS Financial Advisor, who will bring the resources you need to support your business goals and your long-term wealth preservation and planning concerns

Preparing for the future sale of your business

What if you were approached to sell your business tomorrow? Are you confident you could negotiate the best terms? How would you go about it? Here are several action steps for getting your business market-ready.

1 Get your business documentation in order

Start by making sure all your business operation and process documentation is up to date. Formalize and extend key customer and vendor contracts and confirm that well-documented procedures are in place.

2 Organize your financial statements

Make sure your financial recordkeeping and reporting are transparent and easy to evaluate.

As part of your financial review, take a close look at non-business-related expenses that may appear on your business's income statement.

As you think about making your business more professional, look for clear lines of separation between personal and business expenses.

- Track certain income or expenses, like excess compensation, as they can impact value and, if necessary, be adjusted.
- If some personal expenses will remain after you pass on your business, you'll need to include them in your post-transition wealth plan.

While you may have previously focused on increasing costs to reduce income and taxes, as you move closer to a sale, it may be smart to maximize income to receive a higher bid. Your tax advisor can review the right strategies for your situation.

Another consideration for a buyer is a "quality of earnings" analysis, typically conducted by an independent Certified Public Accountant (CPA) to determine if earnings are reliable and sustainable. Paying for a quality of earnings analysis before going to market may help identify areas of weakness.

Financial statements: the path to professionalism

Early stage:
You're in charge

Manage your own books and records or leverage an independent CPA for basic preparation.

Early-middle stage:

Compiled financials: Work with an independent CPA to close your books periodically without implying or assuring accuracy or completeness.

Late-middle stage:

Reviewed financials: Work with an independent CPA who is not only helping put together the data but also reviewing it for limited assurance of accuracy or completeness.

Late stage:
Most professional

GAAP audit of your financial statements from an independent CPA who provides reasonable assurance about whether the statements are free of material misstatement.

3 Develop formal strategic plans

Look to reduce risks and dependencies that may decrease the value of your business. Start with your business's core competencies.

- What is your long-term vision?
- What is your strategy to diversify your customer base?
- How will you continue to expand?

Have a strategic plan for each key area of your business, such as sales, marketing, operations, technology, finance and legal. Know how your business is valued in your industry and look to boost the key metrics.

4 Create business succession and contingency plans

Prepare formal succession plans and communicate them to your leadership team. Decisions around who takes over and how can be essential to the survival of your business.

Make contingency plans. What if you get sick and can't be involved with the business for several months or longer? Will the value you've built be protected for you and your family?

Who could run the day-to-day operations? Could this person ultimately take over for you? Answers to these questions are critical when it comes to running a professional business and building confidence with prospective buyers.

5 See that legal records are in good order



Are your employee procedures and agreements solid, with changes in control in place?



Are there any environmental, compliance or regulatory issues that need your attention?



Is there a chance to extend lease agreements or take a closer look at real estate holdings?



Is your intellectual property adequately protected?



Are your legal contracts in order?

6 Secure your leadership team

The confidence that comes from knowing you have a strong management team is crucial as you think about passing on your business.

Do you have a leadership team that is ready for a smooth transition when the time comes? What are the family ownership versus management dynamics? Do you have structures to keep management in place, like deferred compensation, stay bonuses and non-compete agreements?

If yours is a larger business, think about phantom stock or other long-term incentive plans to keep management in place. Consider de-risking with key-person insurance to keep your business operating in the untimely loss of a critical employee.

7 Consider a formal board of advisors with outside members

Establish an advisory council or a formal board of directors. Look to include outside members who own or have owned successful private companies. Outsiders bring fresh perspective, provide guidance and can help you see the big picture differently than insiders.

8 Minimize your business's reliance on you

Many business owners are justifiably proud to be the leading driver of sales and revenue, but to truly drive a growth strategy, you need to make the business less reliant on you.

Without you, what will be the effect on your lenders, vendors, customers and employees?

Many owners ultimately assume a Chairperson role versus that of the entrepreneur. As management transitions, you should work on the business more and work in the business less.



The next step: Let's start the conversation

Each business is different and preparing for a transition is a complex process.

Your UBS Financial Advisor understands the challenges and can help you on the journey, working with your other trusted professionals to help you feel confident that every aspect of the process is aligned, including your own personal wealth planning.

Let's have a conversation about your business plans and how they fit with your future.

UBS Financial Services Inc. and its affiliates do not provide legal or tax advice. Clients should consult with their legal and tax advisors regarding their personal circumstances and before they invest or implement. This report is provided for informational and educational purposes only. Providing you with this information is not to be considered a solicitation on our part with respect to the purchase or sale of any securities, investments, strategies or products that may be mentioned, including estate planning strategies. In addition, the information is current as of the date indicated and is subject to change without notice.

As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review client relationship summary provided at ubs.com/relationshipsummary, or ask your UBS Financial Advisor for a copy.

©UBS 2025. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS AG. Member FINRA/SIPC

UBS Financial Services Inc.
ubs.com/fs

