

# Investigating Exit Options

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## *Jim's Manufacturing Succession Journey*

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### Summary

A working case study of a 63-year-old second-generation precision manufacturer with a \$6.7 million business, a \$15.3 million wealth gap, and four years to a stated exit. The session put the chapter's members in the advisor's chair on a company that is, on the numbers, not yet sellable: attractiveness scored 58% and readiness 49%, with a single customer at 22% of an \$18 million revenue base and only 30% of revenue recurring.

The financial arithmetic was the first thing the room challenged. A \$28 million retirement target against \$6 million of outside assets and a \$6.7 million business cannot be closed by EBITDA growth inside four years, which reframes the engagement from "how do we sell" to "what is the actual number, and what timeline does it require." Several groups pushed toward a longer runway of four to six years, on the reasoning that continued owner income during a phased transition shrinks the gap from both directions.

The harder problem is structural rather than financial. Jim works three hours a week yet holds the customer relationships, the engineering judgment, and the goodwill; his siblings hold 30% and are disengaged; his two credible successors have the talent but no equity and a materially different vision for the company. Every intangible capital score except human capital sits at two or three out of five. The recurring recommendation across groups was to depersonalize the decisions — formal assessments for the successors, independent appraisals for the siblings' stake, an ROI matrix for the traditional-versus-modernize debate — so that family dynamics stop standing in for analysis.

### The Owner and the Objective

- **Owner.** Jim, 63, second-generation precision manufacturing owner; seeks exit by 67.
- **Ownership.** Jim holds 70%; siblings hold 30% but are disengaged, causing friction. Jim's wife is on payroll but inactive. Jim works roughly three hours per week in a strategic role covering engineering and key customers.

- **Financial goal.** Target retirement assets of \$28 million; current outside assets of \$6 million; business valued at \$6.7 million (3× recast EBITDA of \$2.235 million, a 12.4% margin); wealth gap of approximately \$15.3 million.
- **Leadership.** Joy, Jim’s niece, is a likely successor with strong technical talent but no equity. Brian, VP of Operations, has M&A experience and an interest in ownership.

## Company Financials and Risk Profile

- **Revenue.** \$18 million. Customer concentration: a single customer at 22%, a major risk. NASA work at 10%, valuable for credibility. Recurring aerospace and energy work at 30%. One-off projects at 38%, and unpredictable.
- **Risk scores.** Attractiveness 58%, just above high-risk. Readiness 49%, indicating neither the owner nor the business is prepared.
- **Human capital (3/5).** Long-tenured staff and strong performers in Joy and Brian, but no job descriptions, no succession plan, an aging workforce, and heavy tribal knowledge.
- **Social capital (3/5).** Goodwill tied to Jim personally; no advisory board, alliances, or broad industry engagement.
- **Customer capital (2/5).** 22% concentration; relationships tied to Jim; no CRM or formal account management.
- **Structural capital (2/5).** Lacks SOPs and an employee handbook; outdated legal documents and buy-sell agreement.

## Transition Tensions and Strategic Themes

- **Vision conflict.** Jim’s traditional, conservative approach against Joy and Brian’s modernization and scale ambitions.
- **Owner dependence.** Jim is “half in, half out,” wearing many hats; his limited presence undermines governance and value creation.
- **Sibling equity misalignment.** 30% held by disengaged siblings with unclear objectives; a need for fair value discovery and agreement on dilution or recapitalization.
- **Modernization and diversification.** Invest in hybrid manufacturing aligned with Joy and Brian’s tech-forward plan; diversify beyond government contracts; evaluate NASA work for repeatability and profitability; address aging workforce upskilling.
- **SOPs and structural capital.** Document customer relationship ownership; transfer knowledge from Jim; address engineering inefficiencies and role ambiguity.
- **Governance and financial readiness.** Clarify operating and buy-sell agreements covering rights, first refusal, and death or disability contingencies; obtain independent appraisals; improve financial reporting, benchmarking, and clean add-backs; assess EBITDA and owner compensation optics, since a high salary increases reliance risk.
- **Decision framework.** Use an ROI matrix to evaluate strategies objectively across timing, cash, and organizational context, to reconcile competing visions and depersonalize debates.
- **Buyer pathways.** Internal succession offers lower friction and existing trust; an external sale offers higher upfront cash and strategic capabilities. Consider direct competitors for

a bolt-on, strategic buyers treating it as a fixer-upper, or an internal sale, with criteria set by priorities — continuity against valuation.

- **Financing constraints.** Company EBITDA supports potential lending, but Jim's reluctance to borrow is tied to personal guarantee concerns and the family ownership structure.

## Group Feedback

- **Financial target scrutiny.** Question the realism of the \$28 million need. The short timeframe is unlikely to close the gap through EBITDA growth alone; prioritize tax planning for both the sale and ongoing earnings.
- **Successor readiness.** Assess Joy's client relationships, leadership, and financial stability. Engineers may not be ideal CEOs. Perform a SWOT on Joy and Brian, segregate roles, create an emergency succession plan, and consider consultant support.
- **Governance and focus.** Establish an org chart, improve Jim's communication to the right audiences, delegate effectively, and monitor financial metrics tied to exit value.
- **Owner time risks.** Limited engagement enables negative influences and missed opportunities.

## Human Capital and Workforce Stability

- **Leadership assessment.** Formal assessments for Joy and Brian to gauge strengths, development needs, goals, and the importance of equity to each; avoid bias in evaluation.
- **Retention strategy.** Equity or alternatives such as deferred compensation with rolling vesting tied to metrics; determine the risk of departure if equity is not granted.
- **Workforce planning.** Identify key roles; understand employee future plans; make strategic outside hires; implement SOPs; cascade communication from Jim to leaders to departments; transition key client relationships; implement a CRM, starting simple; formalize the leadership structure with regular meetings and development pathways.

## Exit Strategy, Timing and Execution

- **Buyer attractiveness.** The business is currently perceived as unattractive due to owner dependence and its risk profile.
- **Phased transition.** Define a timeline of four to six years for the leadership handoff; decide between an external strategic sale and an internal family or management sale; Jim must accept the new direction after the sale.
- **Financial analysis.** Conduct a thorough analysis to validate actual retirement needs. A longer runway may shrink the wealth gap, as Jim continues to derive income during the transition.

## Next Steps

- Clarify sibling objectives and negotiate paths for their 30% through valuation, buyout, or recapitalization; explore an ESOP or strategic partner financing for buyouts and next-

generation equity.

- Review and update operating and buy-sell agreements; define sale rights, first refusal, and succession contingencies; obtain independent appraisals; involve appropriate legal counsel.
- Establish a defined leadership team; conduct formal assessments; set roles for Joy and Brian; design equity retention or deferred compensation plans; plan for emergency succession.
- Build a sales and marketing function to reduce the 22% customer concentration; implement a CRM; transition key relationships away from Jim.
- Document critical SOPs; address engineering process gaps; institutionalize knowledge transfer from Jim.
- Assess the feasibility of hybrid manufacturing; plan workforce training and upskilling; evaluate NASA and other government contracts for repeatability and profitability.
- Improve financial reporting and benchmarking; clean owner add-backs; review EBITDA drivers; address owner compensation optics.
- Implement an ROI matrix to guide strategic decisions between traditional and tech-forward approaches.
- Define criteria and a decision deadline for internal succession against external sale; align financing and guarantee considerations.