

RISR + EVA

Guide to Engaging Business Owners

How to use RISR insights to deepen your relationship with business owners and give great advice.



Become the business owner's most trusted advisor

Nearly 60% of all private business owners are 50+ years old with many set to retire, sell, or transition out of their business over the next decade.

Yet, **65% don't have an advisor to help them.**

Build deeper relationships

Building deep relationships with business owners places you at the center of their life planning and opens doors to collaborating with other centers of influence.

RISR Insights give you the talking points you need to have meaningful conversations with business owners so you can do what you do best: **give great advice.**



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Every business owner is an optimizer at heart. Help your clients understand the practical levers to growing and reducing risk.

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How their business fits into their life plans

Are you planning on a liquidity event at exit to fund some of your retirement income?

Liquidity events can include a sale, merger, management buyout, capital restructuring, or employee stock ownership plan.

If so, do you know how much money you need from a liquidity event to fund your retirement?

In some cases, the owner will know how much cash from exiting they will need to accomplish their goals.

How much of your annual income in retirement is relying on cash from exiting the business?

Determine how reliant on income from the business the owner is after accounting for other retirement income sources like savings, social security, etc.

To reach those goals, your business needs be worth at least the Dream Value.

Review the owner's inputted **Ideal Exit** in the Insights Report Appendix. "Sale" and "Transition" may indicate reliance on a liquidity event.

If the owner knows how much they need from exit, review **Capital Needed to Achieve Financial Goals After Exit**. If the owner doesn't know how much is needed, RISR will help estimate it, as detailed below.

If they aren't sure how much they need, RISR asks for **Annual Income Requirement for Retirement** and **Age at Retirement** to estimate their capital needs. *RISR assumes retirement ends at age 99 and a real rate of return of 5% during retirement.*

Review the **Dream Value** with them. The capital requirements from exit, **Percent Ownership of the Company**, and an *assumed tax rate of 30% on cash received from exit* is used to determine **Dream Value**.

What their business needs to be worth to achieve their goals

How does your *Dream Value* compare to your *Current Value*?

Comparing the Dream Value to Current Value Estimates provides perspective on how reliant the business owner should be on their business to meet their goals.

Compare the **Current Valuation Range** with the **Dream Value**. Review the **Annual Income after Exit** for each valuation to put the estimates in relevant terms for the owner.

How much does the business need to grow to get there?

The amount of earnings the company generates is one of the largest indicators of company value. Help them understand how much their earnings need to grow to reach their goals.

Annual **EBITDA Needed to Reach Dream Valuation** identifies what their earnings need to be to reach their **Dream Value**. The **EBITDA: Historic v Dream Chart** provides a visual representation of how much they need to grow.

Is it reasonable to plan on realizing that growth before retirement?

Based on their historic growth, check how long it will take them to realize their earnings goal.

The **Years to Dream Valuation** estimate combines the **Projected Annual Revenue Growth Rate** with **Average Operating Margin** to estimate how long it would take for their EBITDA to grow enough to reach the **Dream Value**. Use **Average Annual EBITDA Growth** as a historic benchmark.

If not, should we plan to rely more heavily on other income sources for retirement?

In some cases, it may make sense to reevaluate the owner's reliance on the business value growing to fund their retirement.

Revisit the discussion on **how much of their annual income in retirement is relying on cash from exiting the business** as necessary to make sure inputs into RISR are reflective of how reliant their plans are on the business.

Ways they can grow and protect their business value

● ***Consider these best practices to grow revenue and reduce costs.***

Earnings can only grow via increases in revenue, decreases in costs, or both. Give the owner some ideas on how to do so.

● ***Reducing business risk is one of the best ways to make your company more marketable and valuable.***

Increasing value isn't all about growth, reducing risk also plays a major role. Most private businesses have risks that can be mitigated.

● ***You have worked hard to build your business. Make sure you're protecting your value.***

Help the business owner understand how they can protect the value they have with key insurances and plans.

Provide the owner with **Revenue Expansion Best Practices** and **Cost Management Best Practices**. These standard tips may help the owner brainstorm where there are opportunities.

Provide the owner with the **Risk Assessment**. Owners are scored from Low to High across several risk factors and provided with best practices based on their risk level.

A breakdown of each risk score is provided on Page 7 of this guide.

Review the **Insurances** the business owner has in place both personally and as a business to see where there is opportunity to help them better protect their value.

Current Valuation Insights

Current Valuation

See [RISR's Business Valuation Guide](#) for details on how Current Valuation is calculated.

Annual Income from Current Valuation

Represents the annual income in retirement a liquidity event at exit would generate if the owner exited at their indicated retirement age for the Current Valuation Estimate. This assumes a real rate of return of 5% during retirement and a tax rate of 30% on any exit cash.

If the owner did not share a retirement age, it is assumed they are retired for 24 years.

Industry

Industry is a key factor in estimating business value. The industry the owner selects is used to reference past transaction data from comparable companies to estimate the business value.

Earnings Before Taxes, Interest, Depreciation, and Amortization (EBITDA) and Revenue multiples are adjusted based on differences in company size.

Risk Profile

The Risk Profile insight displayed here is a composite risk score based on the individual risk factors RISR scored the company on. See Page 7 for a breakdown of risk scoring.

Current Valuation

Estimates	Key Factors
<p>Current Valuation Estimate</p> <p>\$5,550,500</p> <p>Current Valuation Range</p> <p>\$5.1M - \$6M</p> <p>Annual Income after Exit</p> <p>\$80,000</p>	<p>Industry</p> <p>Manufacturing</p> <p>Risk Profile</p> <p>Moderate</p> <p>Projected Sustainable EBITDA</p> <p>\$56,345,567</p>

Projected Sustainable EBITDA

RISR represents estimates of future earnings as [Projected Sustainable EBITDA](#) within the platform and in generated reports. This value reflects the net cash flow that invested capital is expected to generate in the event of a transition or sale.

To estimate, RISR takes a weighted average of historic EBITDA values and then normalizes that average to account for discretionary expenses or “add-backs”.

These add-backs are represented by the [Profit Sharing Expenses](#) and [Other Discretionary Expenses](#) line items on the Profit & Loss data collection page. Adjust these inputs to normalize EBITDA as needed.

Dream Valuation Insights

Dream Valuation

The Dream Value represents what the business needs to be worth in order for a liquidity event at exit to meet their capital needs for retirement.

During data collection, owners can either provide their **Capital Needed to Achieve Financial Goals after Exit** or they can provide their retirement info and RISR estimates their capital needs.

If the owner provides a **Capital Needed to Achieve Financial Goals After Exit** value, the **Percent of Company Ownership** and an assumed 30% tax rate on exit cash is used to estimate what the business needs to be worth to generate that capital requirement at exit.

If the owner provides retirement information instead, **Annual Income Requirement** and **Age at Retirement** are used to identify the **Capital Need to Achieve Financial Goals** first using a present value calculation, then Dream Value is estimated as listed above.

Annual Income from Dream Valuation

If retirement information is provided, the **Annual Income Requirement for Retirement** provided by the owner is displayed here.

Otherwise, a time value of money calculation is applied to **Capital Needed to Achieve Financial Goals After Exit** to estimate income in retirement under the same assumptions listed for **Annual Income from Current Valuation**.

Dream Valuation

Estimates





Valuation Needed at Exit
\$8,900,000

Annual Income after Exit
\$100,000

Legacy Funding
\$10,000

Planned Retirement Age
65

Key Considerations

-  **Tax Plan**
Estimates shown are based on assumptions. Create a personalized plan.
-  **Estate & Legacy Plan**
Identifying and estimating what your cash needs are.
-  **Retirement Plan**
When you retire and your cash needs. Make your Dream Valuation align with your goals.
-  **Succession & Exit Plan**
Create a practical plan that aligns with your goals.

Legacy Funds

In the event the owner provides their retirement information, **Legacy Funding** will be displayed within the Dream Value insights.

This represents the sum of the owner's legacy goals for philanthropy, weddings, education, and other funding items.

Legacy Funding inputs are used to estimate the business owner's capital needs at exit from a liquidity event if they don't provide that requirement themselves.

RISR assumes **Legacy Funding** is needed at the time of exit/retirement, rather than some number of years after exit.

Growth Opportunities

Annual EBITDA Needed to Reach Dream Valuation

This insight represents the annual EBITDA the business needs to reach to realize the valuation needed to support the owner’s financial goals at exit (Dream Value).

The **EBITDA: Historic v. Dream** chart provides a visual comparison of any historic EBITDA data available and the EBITDA Needed to Reach Dream Valuation.

Years to Dream Valuation

years to dream valuation provides an estimated number of years to achieve **EBITDA Needed to Reach Dream Valuation**.

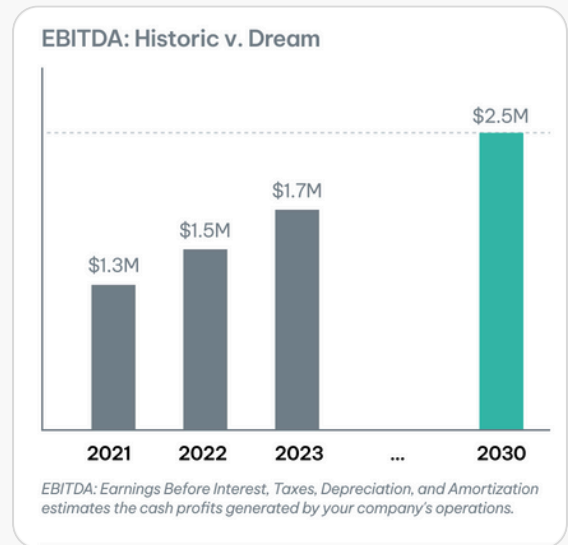
This insight is estimated by assuming the business grows at the **Projected Revenue Growth** provided by the owner while maintaining the **Average Operating Margin** it has historically.

Projected and Average Annual Revenue Growth

Each owner is asked how much they expect their revenue to grow in the next year. This **Projected Annual Revenue Growth** is used to determine how many years it may take to reach the EBITDA needed for their Dream Value. As a benchmark, the historic **Average Annual Revenue Growth** is also calculated for the years of data provided.

Revenue and Cost Management Best Practices

The best practices listed in the report are useful tips to help your client think about optimizing and growing their business. Though every business is different, implementing best practices can have meaningful impacts on efficiency, stability, and opportunities for the business.



Annual EBITDA Needed to Reach Dream Valuation
\$2,587,567

Years to Dream Valuation
6 years

Based on Projected Annual Revenue Growth and Average Operating Margin

Average Annual Revenue Growth 5%	Projected Annual Revenue Growth 10%
Average Annual EBITDA Growth 6%	Average Operating Margin 18%

Risk Assessment

Risk factor scoring

Based on a client's response to questions about their operating practices, component risk factors are scored and weighted to gauge the risk profile of the business.

Supplier Diversity

Based on the percent of revenue that relies on one vendor.

Owner & Key Employee Dependency

Based on the likelihood of profitability and/or revenue declining in the event the owner or a key employee departs the business today.

Customer Concentration

Based on the number of customers the business has and how much revenue is generated by the top two customers.

Liquidity

Based on the ratio between the company's Current Assets and Current Liabilities. This assessment gauges the company's ability to meet its short-term obligations with the liquid assets it has.

Leverage

Based on the company's Debt-to-Fair Market Value of Equity ratio. This assessment references balance sheet data and the Current Valuation Estimate to gauge leverage.

Financial Practice

Based on whether bookkeeping and accounting professionals are used to maintain financial practices for the business.

Supplier Diversity Risk

High

Owner Dependency Risk

Moderate

Liquidity Risk

Moderate

Key Employee Dependency Risk

Low

Financial Practice Risks

Low

Customer Concentration Risk

Low

Leverage Risk

Low

RISR + EVA

Better Insights.
Better Advice.
Better Outcomes.



How can we make our insights better?

You know your clients best.

If there is a data point or question your clients need answered that helps you engage them please send it our way!

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