Buying and Selling an Outfitting Business

Presented By

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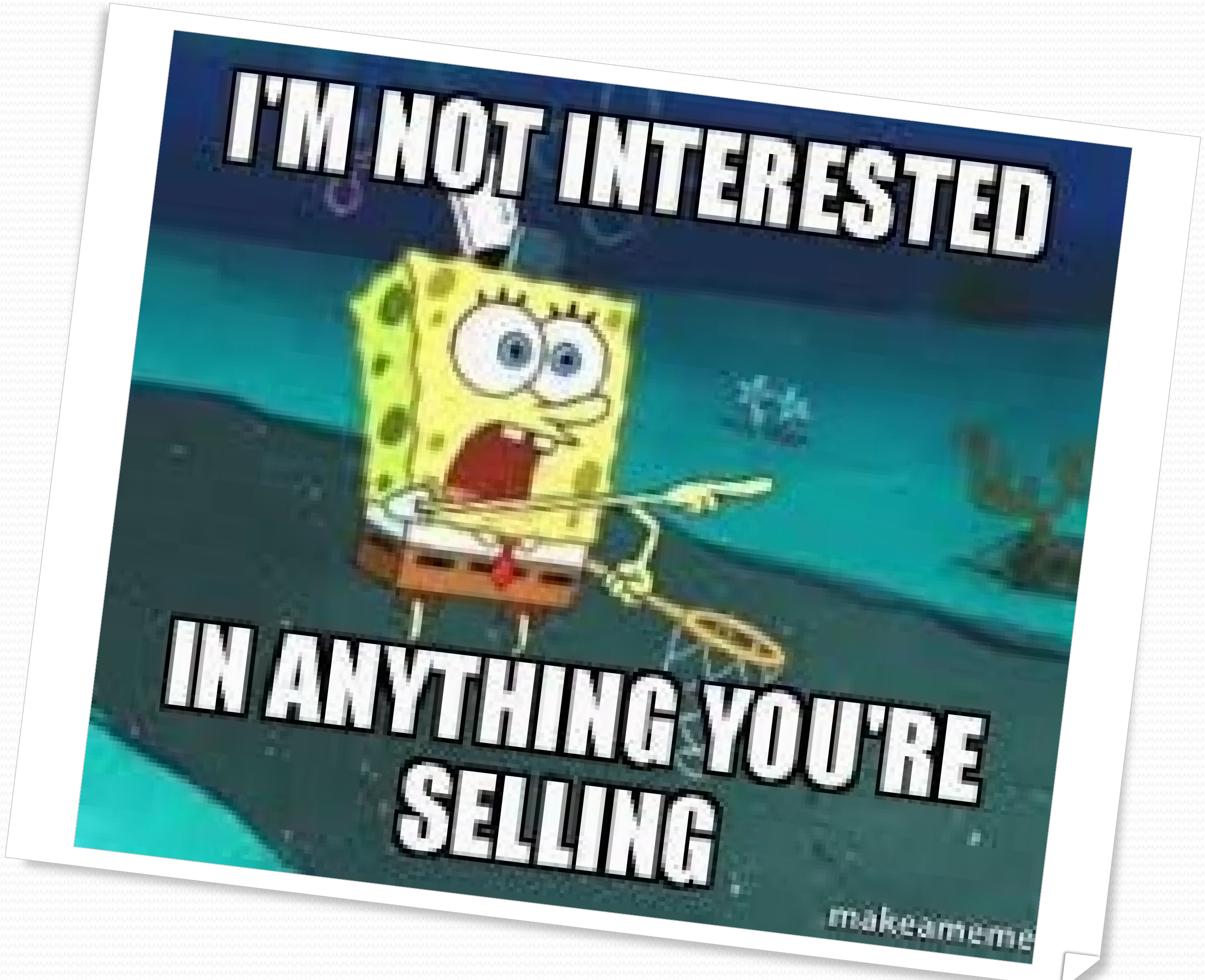
Agenda

- Quick Introduction
- Key issues for buying or selling of an outfitting business including:
  - Common pitfalls; tax/legal issues; the negotiation process; use of advisors; valuation techniques and methods; Dos and Don'ts.
- Succession planning-handing the business down to family members
- Valuation show stoppers
- Trends observed in the pricing and deal structure in the last 24 months
- Conclusions

Quick Introduction

- Own Swan Mountain Group, just completed gifting
- CPA for 25 years, consulting for 40 years
- Have advised on over 300 buy/sell transactions in last 27 years
- Currently consult on buy/sell of businesses, strategic planning, succession planning and business process improvement (BPI)

Key issues for buying or selling of an outfitting business

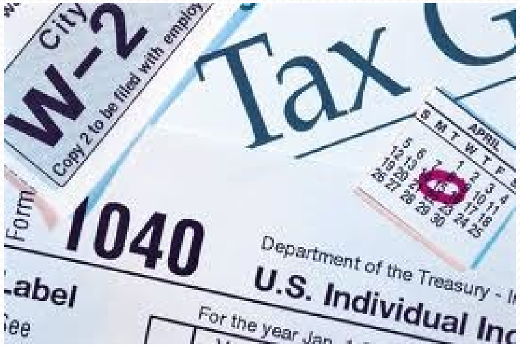


Common mistakes in valuations

- Assigning value to things you don't own
- Trying to put value on capacity versus results
- Failing to proforma P&Ls, therefore EBITDA isn't presented in a way the buyer can expect
- Double counting
- Not selling all the assets that made the EBITDA, but presenting EBITDA unmodified
- Not separating real estate valuation from business valuation

Tax, Regulatory & Legal Issues

- Need to research what the current basis is for assets being sold and understand tax consequences of various deal structures
- Although the ideal would be to sell shares of stock, few purchasers are willing to assume the risk
- Transference of several legal rights are required, e.g. trademarks, DBAs, titles, copyrights, domain names, etc. Crucial that an attorney is consulted



Tax, Regulatory & Legal Issues

- Special rules on licensing, must understand how selling impacts your license, the interplay of operating plans, booked clients under which license and your on-going obligation after the sale
- For instance in Montana, If the purchaser doesn't have requisite 100 guiding days experience in hunting and/or fishing, be prepared for on-going involvement for up to three years, timing and planning is everything

Tax, Regulatory & Legal Issues

- USFS permits are not transferable, and selling a business before approval constitutes a breech that terminates the permit, planning and communication is a must
- Many leases, permits, and other contractual relationships might preclude assignment. This must be sorted out and the impact on purchase price determined accordingly
- Make sure you utilize confidentiality agreements

Tax, Regulatory & Legal Issues

- Allocation of purchase price to benefit buyer often conflicts with seller tactics. Not only does this require planning, it also represents a negotiating or value point
- Can't emphasize enough the need to develop a plan to follow. It should contemplate the timing of the transaction in relationship to regulatory reporting, license agency meetings, permit reapplication deadlines, and of course seasonality of operations
- Use a buy/sell agreement to articulate all aspects of the deal

Negotiation Process

Negotiation Process

- Having a comprehensive "prospectus" will aid greatly in the process, components should include:
  - Executive summary of the package for sale
  - Components of the sales price being requested
  - List with Fair Market Values (FMV) of assets being sold
  - Pertinent detail descriptions of unique aspects of the business that drive value including areas accessed, ties to contracts or proximity to
- Have available for review at a minimum trailing 12 months P&L, prior three years operating statements and tax returns

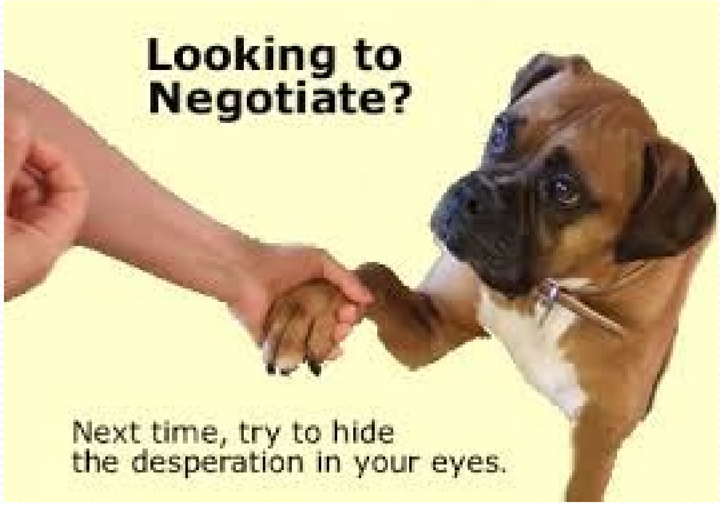
Negotiation Process

- Usually necessary to prepare statements pro-forma to remove all personal items from business performance so they can view it in a way that they can expect for it to perform
- Try to resist bottom lining from the start, if you draw the line too soon you will kill a deal that might have come to fruition
- Avoid negotiating it all your self, nearly impossible to separate your emotional ties to the business from your business judgment, best to leave the hard ball to someone else

Critical that you are able to be flexible in terms and deal points. Remember, there are many ways to skin a cat

Negotiation Process

- Work with advisors and family once you have a realistic view of what the business is worth what your asking price and floor price will be
- Identify up front what are the set-in-stone provisions versus ones where you have flexibility
- Don’t make decisions quickly, always program in some “sleep on it” time



Use of Advisors

- This the one area where you need the right experience for the job. Has your current accountant/lawyer assisted in the buying and selling of a business, how many, how complex, what role did they play, how long ago?
- This is the asset most likely of greatest value to you, is now the time to save on fees?

Use of Advisors

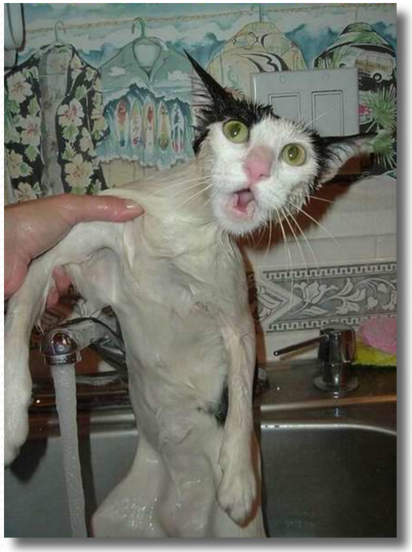
- Who are you going to use to broker the sale? Realtor, commercial broker, consultant? Be sure of their credentials in selling businesses, a good real estate broker isn't necessarily a good business broker
- Be clear on where and how they are going to market your business, ensure they don't erode your bookings

Use of Advisors

- Need to define who is going to do what. Crucial that they are all on the same team, you define who will handle each part
- Don't let the lawyers over legalize, and the accountants over tax plan. If left unchecked both can put efforts into areas where the juice isn't worth the squeeze
- Will you prepare the prospectus or are you going to outsource? Careful of the special rules that apply to valuations

Establishing Value

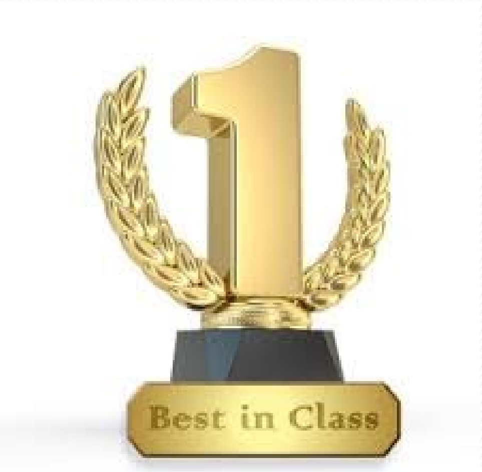
Valuation Techniques



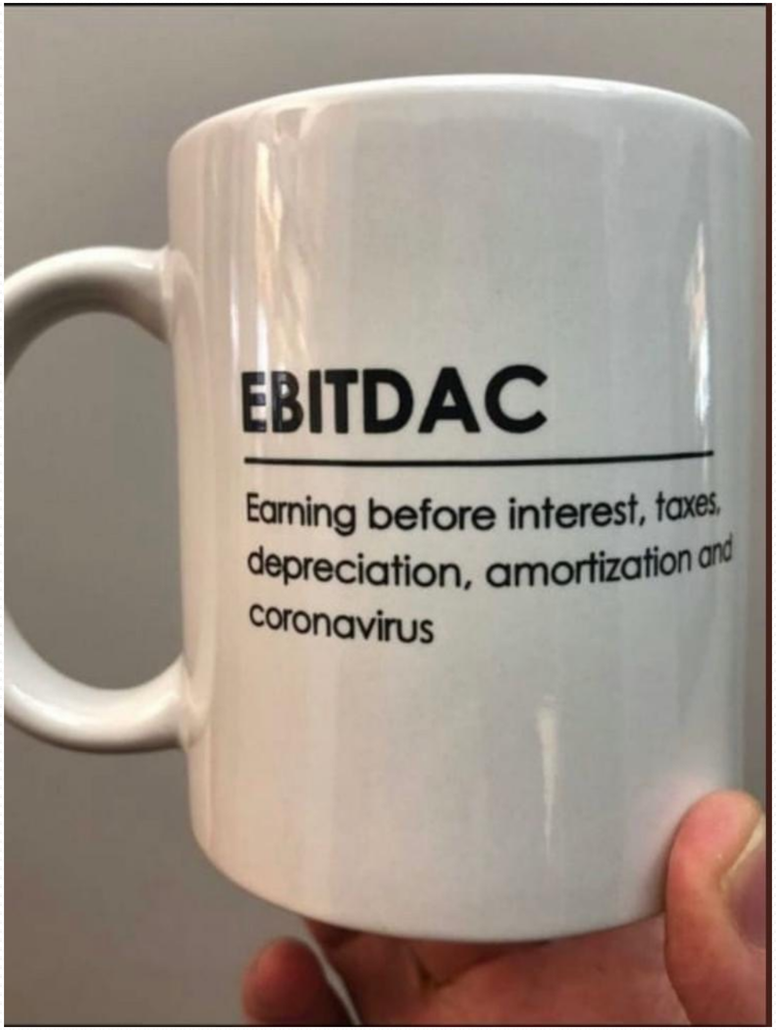
- Many different ways to value a business:
  - Multiple of Gross Revenue
  - Multiple of Cash Flow
  - Multiple of EBITDA (earnings before interest, taxes, depreciation and amortization)
  - FMV of assets being sold
  - Net present value of future earnings or cash flow
  - Comparative based, e.g. like-kind businesses (same as used for real estate appraisals)

Valuation Techniques

- Best and most accurate method is a hybrid: FMV of assets being sold plus multiple of EBITDA
- Multiples can run as low as 2 times to as high as 5 times.
- What will drive the multiples up is the intrinsic value of the business being bought, often referred to as the intangibles or value drivers



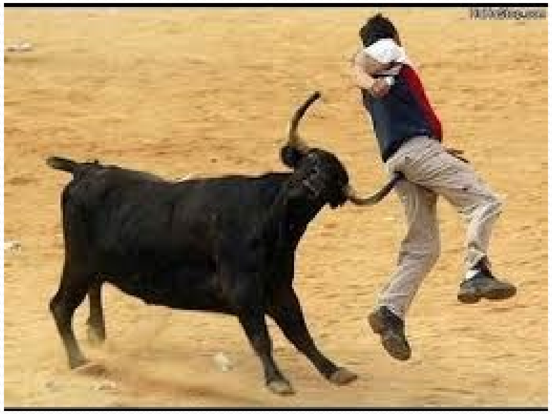
NEW EBITDA?


EBITDAC
Earning before interest, taxes, depreciation, amortization and coronavirus

Valuation Techniques

- Common intangibles or value drivers:
  - Established repeat client base that will transfer
  - Long-term contracts that reflect future guaranteed revenue
  - Exclusivity
  - Geographical location that is a competitive advantage
  - Any attribute that leads to long-term competitive advantage

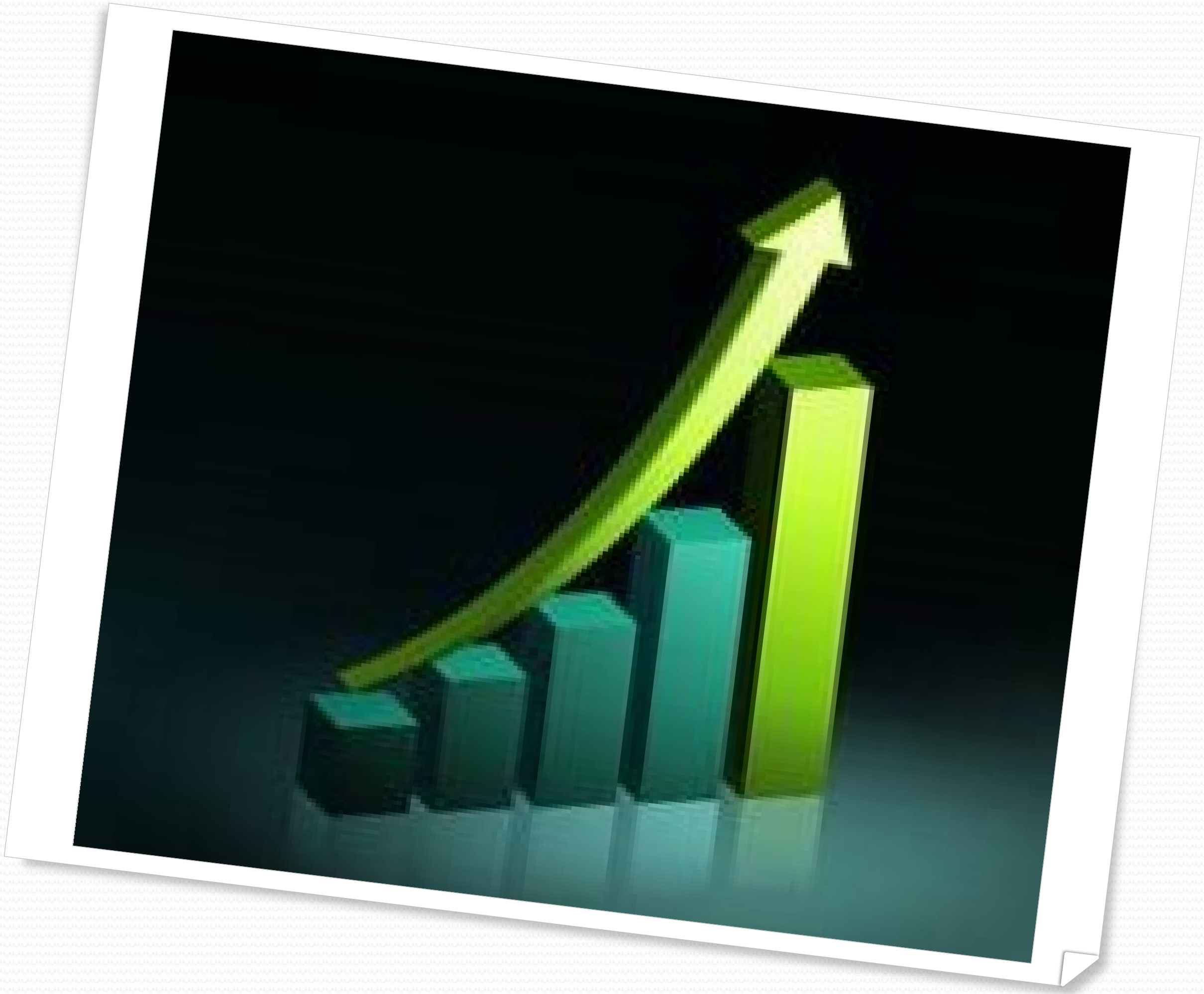
Valuation Techniques



- Common items that hurt intrinsic value:
  - Poor reputation in industry or with regulators
  - Low amounts of repeat business
  - Aging of stock and equipment, unrealistic values assigned to list
  - Poor accounting records, lack of historic information to get a read on previous business performance
  - Major contracts or leases that are due to expire
  - Permits and/or leases that are in areas less desirable due to environmental, policy or public issues

How to Determine a Multiple?

As attributes accumulate that differentiate a company. So too does the value rise as measured by its multiple



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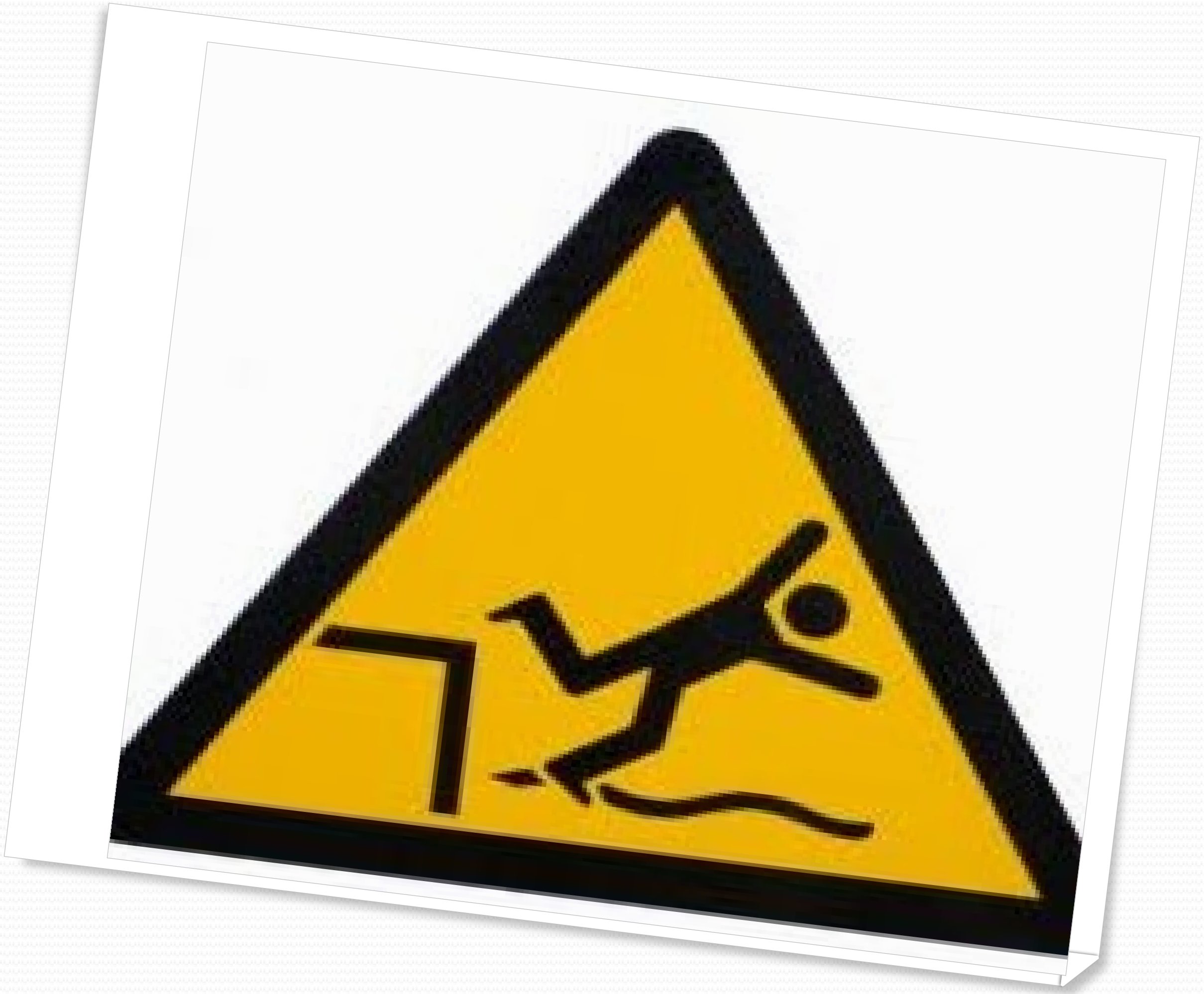
Matrix of Attributes that Drive Multiples of Value

Attributes	Multiples						
	2	2.5	3	3.5	4	4.5	5
Market Share							
Under 20%	•	•					
20-40%		•	•				
40-60%				•	•	•	
Over 60%						•	•
Web Site							
Simple presence	•	•					
Highly functioning		•	•	•			
SEO, enhanced features				•	•	•	
Best-in-Class, social media/viral/multi-media							•
Marketing Collateral							
Little marketing done, use location	•	•					
Basic ads, rack cards		•	•	•			
Suite of applications				•	•	•	
Best-in-Class, multi-faceted using all mediums							•
Customer Base							
Walk-in	•	•					
20% repeat		•	•	•			
30% repeat, plus growth in client base				•	•	•	
Over 40% repeat, plus growth in client base							•
Pricing							
Lower than 75% of advertised competitors	•	•					
Lower than 50% of advertised competitors			•	•			
Higher than 50% of advertised competitors					•	•	
Higher than 75% of advertised competitors							•
Systems & Administration							
Minimal, mostly done manually	•	•					
Outsourced, some documents and forms used			•	•	•		
Company has a complete system, but mostly copied				•	•	•	
Best-in-Class, multi-faceted using all mediums						•	•

When SMCG Evaluates Value we rate attributes in major categories:

- Market Share
- Website
- Marketing Collateral
- Customer Base
- Pricing
- Systems/Administration
- Permits
- Safety Record
- Long-term contracts
- Geographical Location

Dos & Don'ts



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Succession planning

Succession

- Although it is a noble gesture, passing a business down to the next generation is more often than not, unsuccessful. In fact, statistics show that only one-third of all family businesses are successfully transferred to the next generation and only 13% are transferred onto the third generation

Succession

- Three levels to a business succession plan
  - Management
  - Ownership
  - Transfer taxes
- It is important to recognize that management and ownership are not the same. The day-to-day management of the business may be left to one child, while ownership of the business is left to all of the children (whether or not they are active in the business). It is also possible that management may be left in the hands of key employees rather than family members

Transfer Taxes

- The transfer tax component of business succession planning involves strategies to transfer ownership of the business while minimizing gift and estate taxes. The gift and estate-tax consequences deserve special attention. Unanticipated federal estate taxes can be so severe that the business may need to be liquidated to pay the tax
- There is great uncertainty regarding the future of estate tax and it is a political hot potato

Transfer Taxes

- For business owners with taxable estates (estate tax exemption $11.18 mil for singles and $22.36 mil for married couples), a gifting program can be used to reduce estate taxes. This will change in Biden administration
- Gifts of business interests up to $15,000 ($30,000 for married couples) can be made annually to as many donees as the business owner desires
- While a business owner can gift shares in the business outright, consideration should be given to making the gifts in trust

Transfer Taxes

- For business owners with very large estates, there are sophisticated gifting strategies that can be used with little or no gift tax, such as installment sales to a grantor trust, private annuities, grantor retained annuity trusts, and self-cancelling installment notes
- The overall key to a successful transition involving a related party or employee is to start early. If the seller is 10 years out, they should start tomorrow. If they are 5 years or less, they should have started yesterday.
- Please download the “20 Dos and Don’ts for Family Businesses” located at our virtual booth.

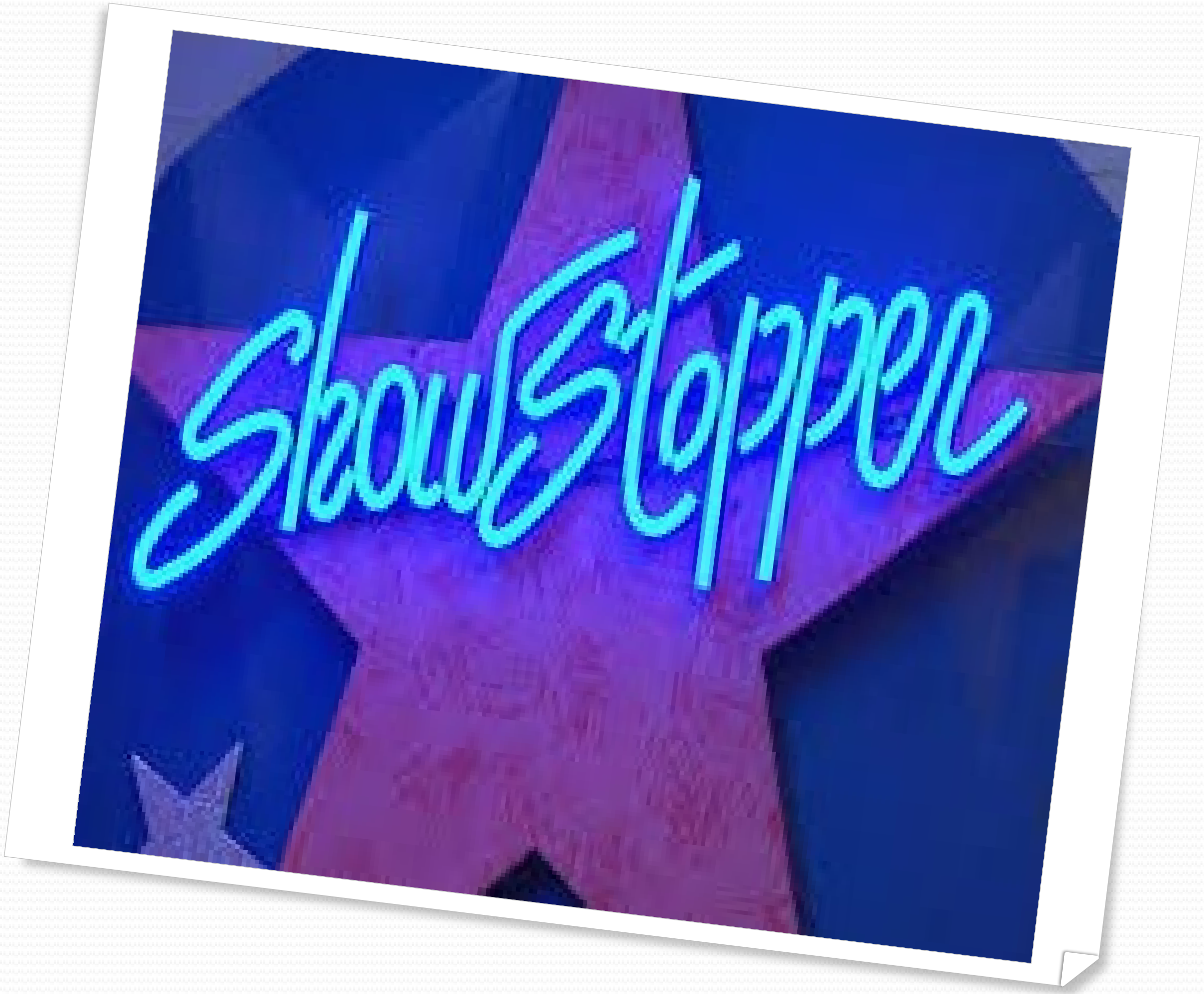
Life Insurance

- Life insurance often plays an important role in a business succession plan
- Life insurance can provide the children receiving the business the cash necessary for them to pay for the business and perhaps taxes
- Owner can use life insurance to provide those children who are not involved in the business with equitable treatment
- Insurance is a popular way to provide the cash necessary for the business or the surviving owners to purchase a deceased owner's interest pursuant to the terms of a buy-sell agreement

Employee Buyouts

- What Does Employee Buyout - EBO Mean?
  - A restructuring strategy in which employees buy a majority stake in their own firms
- Different Forms
  - MBO
  - LBO
  - EBO
  - ESOP
- Even higher rate of failure than Family Succession, Why?
  - No Money

Show Stoppers



Showstoppers

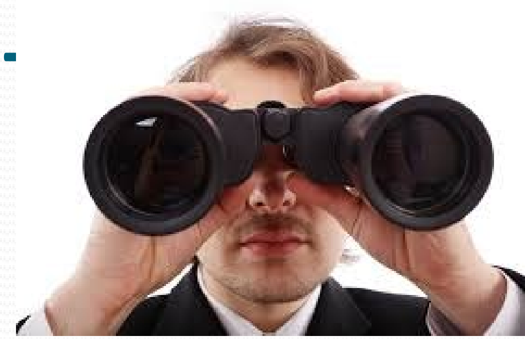
- Don’t get petty about quantities or overall value of assets if time has lapsed from your prospectus until you execute sale unless material
- Expect minor deal revisions due to finance issues or timing
- I will say it again, don’t let the lawyers over legalize, and the accountants over tax plan. They’ve been known to kill deals getting wrapped around the axle
- Buyer/Seller remorse or resentment, if you are selling you will need to let go and accept they will do it differently

Trends in the last 24 months!

Recent Valuation Results

- Swan Mountain Consulting Group conducted a study of recent sales of ORCs
  - Included 500+ companies
  - Consisted of river outfitters, rental/shuttle operators, campgrounds, dude ranches, trekking/bicycle, zipline, horseback services, destination resorts, hunting/fishing outfitters and adventure travel companies
  - Took purchase price data and converted to hybrid formula that we have been promoting as basis for valuation of ORCs

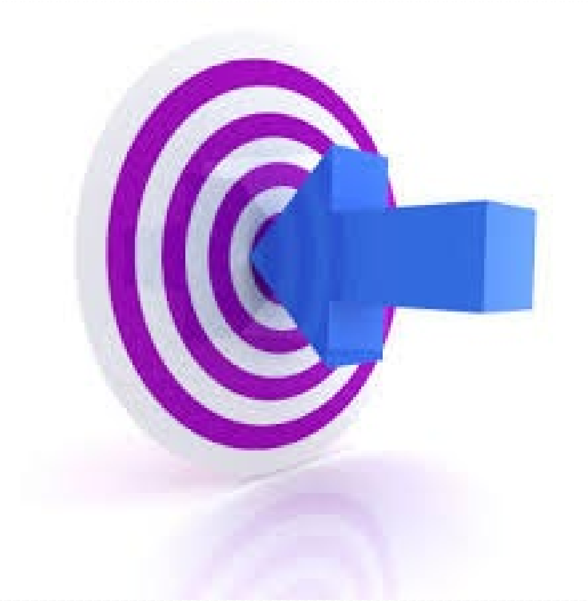
Recent Valuation Results - General Observations



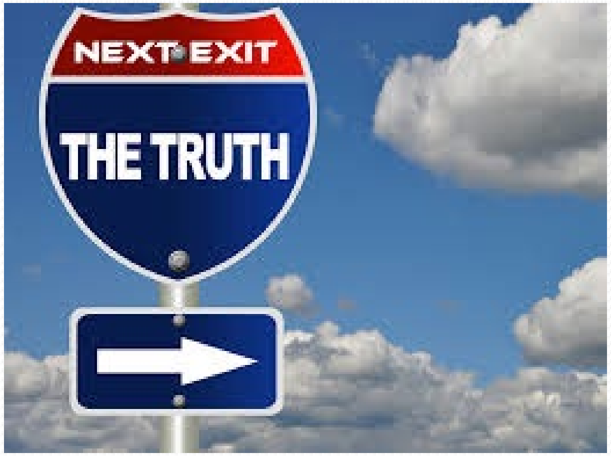
- FMV of assets trended to 46% of cost
- FMV of real estate driven by comps, starting to get hot in certain recreation markets
- Multiples of EBITDA stayed in a tight range between 2 to 5 times
- Bandwidth of multiples driven by distinguishable market differentiation features
- High credit given to ORCs that were turnkey, in other words could be owned by someone else
- Hybrid Method tracked other valuation methods with some parallel, typically never an instance when purchase price exceeded gross sales (excluding real estate)

Recent Valuation Results - Ranges

- Multiple of EBITDA averages by category of Recreation Company
  - River Outfitters – 3.4x
  - Dude Ranches – 4x
  - Trekking/Bicycle – 3.8x
  - Zipline – 3.8x
  - Horseback Outfitters – 3.1x
  - Recreation Destination Resorts - 4.5x
  - Adventure Travel Companies - 4.1x
  - Hunting Outfitters – 3.0x
  - Park Concessionaires – 4.1x



What is Selling and What's Not?



- Outfits that are poorly priced
- Tired businesses
- Deals that don't accommodate seller financing
- Outfits that can't demonstrate a better then 35% consistent EBITDA
- Outfits in hyper-competitive markets where they don't have meaningful market share
- Deals saddled with heavy real estate or ones that require major debt financing

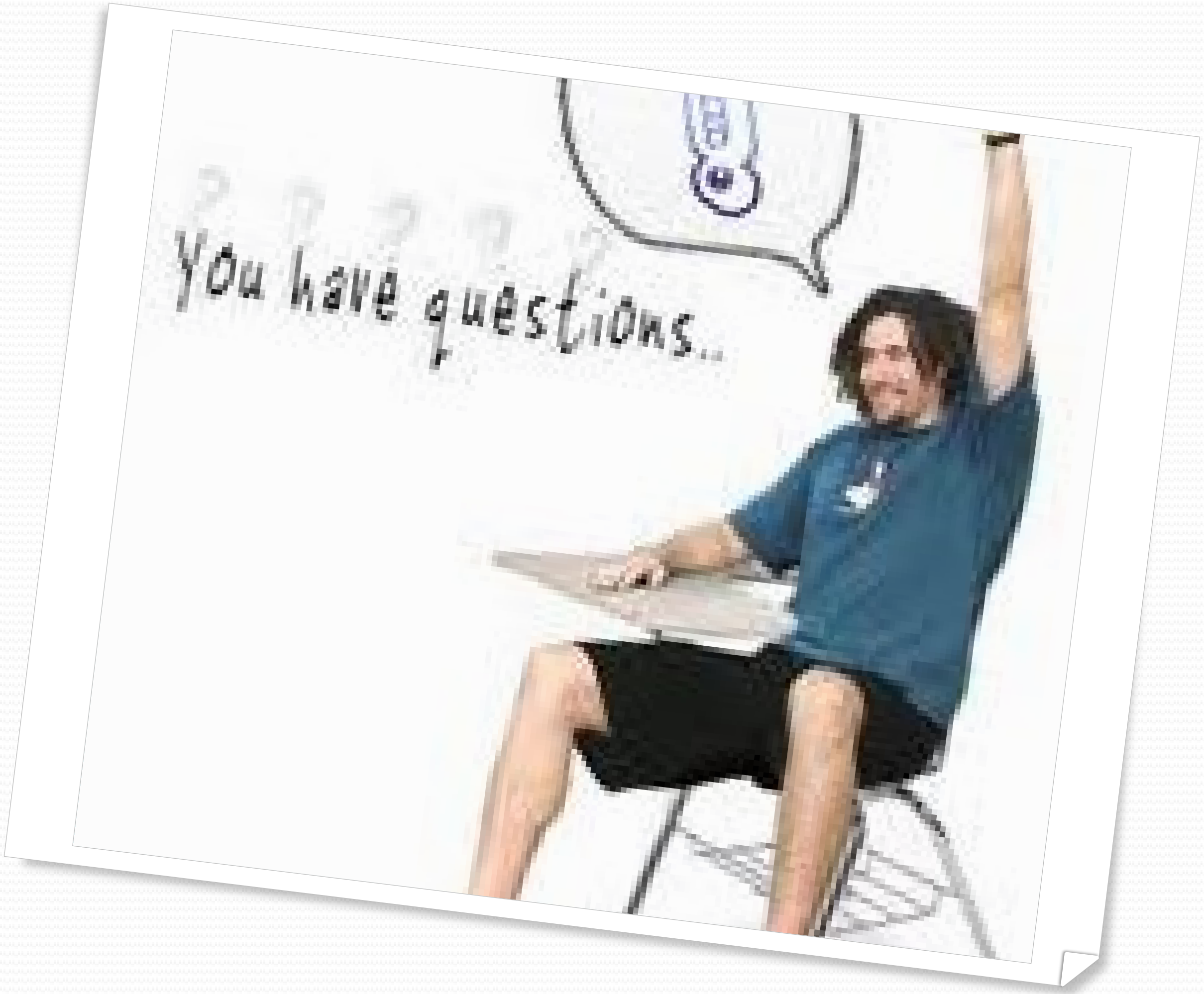
Conclusions

- Pick the right advisors and you will get a more realistic sense of what your business is worth and likely make more money on the sale
- Take the time to prepare a prospectus that has the right information, skimping here only hurts how quickly you will sell and what you will likely get
- Begin the process to sell or execute a succession plan very early (as much as 5 years in advance)

Conclusions - continued

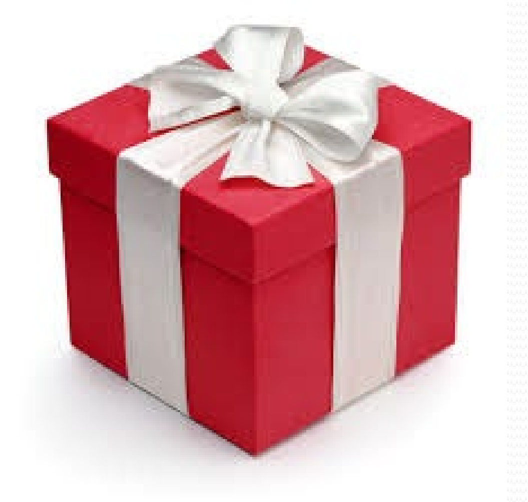
- What another ORC got for his business may or may not be what you get. The value of your business should be calculable. The price that you ultimately get will be a function of what you did to prepare it for sale, how desirous your business is to a would-be buyer at that time, and how flexible and creative you are in the negotiations. Remember willing buyer = willing seller
- Create a checklist of all the various regulatory, legal, accounting and operating tasks that must be accomplished long before you start to market the business

Questions & Answers



We Come Bearing Gifts!

- Please visit Swan Mountain Consulting Group Virtual Booth, free to download:
  - 20 Dos and Don'ts for Family Businesses
  - 25 ways to cut prevent or detect employee th
  - 50 Ways to Cut Expenses in an ORC
  - Common Pitfalls and Dos and Don'ts When Buying-Selling an Outdoor Recreation Company
  - Feasibility & Expansion
  - ORC Risk Management Thoroughness Assessment Questionnaire



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- Email pat.tabor@swanmountainoutfitters.com
- Call or Text 406-249-1401

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