The **Value**Builder System™

REPORT COMPLETED:

FREEDOM SCORE REPORT

Discover Your Financial Readiness to Exit

PREPARED FOR:

PREPARED BY:
Steve DeTray, Freedom Path Planning

Freedom Score Report

YOUR PERSONAL FREEDOM SCORE REPORT

Dear Bill:

I think you will find this report will clarify your financial readiness to exit ABC Manufacturing.

Freedom Path Planning is thrilled to provide you this report. Having worked with other owners like you, we believe this information could have a tremendous impact on helping you reach financial independence and happily entering into your next phase of life.

I'm looking forward to discussing this in more detail after your review. Do not hesitate to contact me if you have any questions regarding this report.

Sincerely,

Steve DeTray
Advisor
Freedom Path Planning

YOUR ADVISOR:
Steve DeTray

Steve DeTray started his career in 2004 in wealth management, helping business owners plan for the sale and exit of their business. Steve's main focus was on income and estate planning that came after the sale of the business. As a lifelong learner and reader, Steve was ideally suited to remain current with the quickly changing, emotional, and complicated environment in which the business owner had to navigate to be successful.

In 2019, Steve sold his extremely successful wealth management practice for below the industry average. He learned from this experience and became very motivated to help others sell their businesses for significantly above the industry averages, and at high multiples. Now as a certified Value Builder Advisor, Steve is an expert at building value and developing a plan for a successful exit using Value Builder's systematic approach to measure and grow the value of a business.

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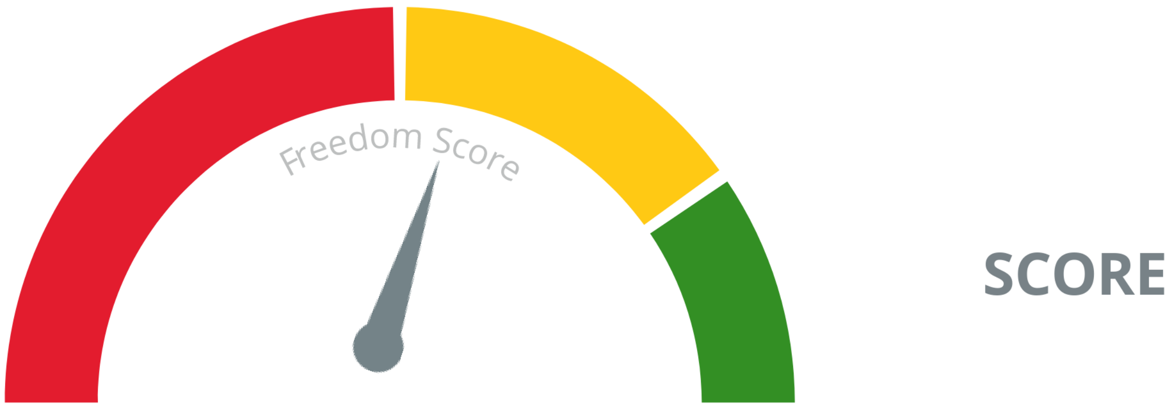


Your Freedom Score

Your Freedom Score is **60** out of a possible 100. You're on your way to reaching your Freedom Point, but there's still some work to do.

Your Freedom Score considers how much wealth you have built outside of your business relative to the nest egg you need to fund your desired lifestyle, along with the withdrawal rate you selected in completing the Freedom Calculator. Your withdrawal rate is defined as the percentage of your investable assets you withdraw each year to fund your lifestyle. The higher your anticipated withdrawal rate, the lower your Freedom Score. We do not include your primary residence in calculating your wealth outside of your business because you will always need to live somewhere.

Your Freedom Point Calculations

Desired Annual Income

Your Estimated Annual Income you will need to support your lifestyle without financial restraints

Expected Non-Investment Annual Income

Your Desired Annual Income that you expect to receive from sources other than your investments

Annual Income Required from Your Investments

The amount of annual income needed to support your lifestyle created from your investments

Your Selected Withdrawal Rate

fgsdaffds

Investable Assets Required Assuming a Withdrawal Rate of 3%

This value represents your investable assets required to sustain your Desired Annual Income

Wealth Outside of Your Business

How much wealth you've created outside of your business with any debt you have on those investments deducted. Sources of wealth include any investments, that can be sold easily such as stocks, bonds, and commercial real estate. Don't include your primary residence since you need somewhere to live.

Outstanding Personal Debt

Any personal debt you owe, excluding the mortgage on your primary residence

Your Gap to Reach the Freedom Point

This is the amount of additional investments you need to accumulate to reach your Desired Annual Income.

Could You Bridge Your Gap to the Freedom Point by Selling Your Business?

To bridge the gap to your Freedom Point by selling your business, we estimate you would need to sell your business for at least **$3,300,265**. Here's the math:

Gross Sale Price

Professional Fees and Commissions [1]

These are the costs you may expect to pay for intermediary commissions and legal fees.

Employee Thank Yous & Retention Bonuses

What, if any, proportion of your proceeds from the sale of your company do you anticipate sharing with employees?

Outstanding Debt Minus Cash on Hand

The value of any outstanding long-term business loans you owe to third parties

Subtotal

Your Ownership Stake

The proportion of your company you own

100%

Your Gross Proceeds

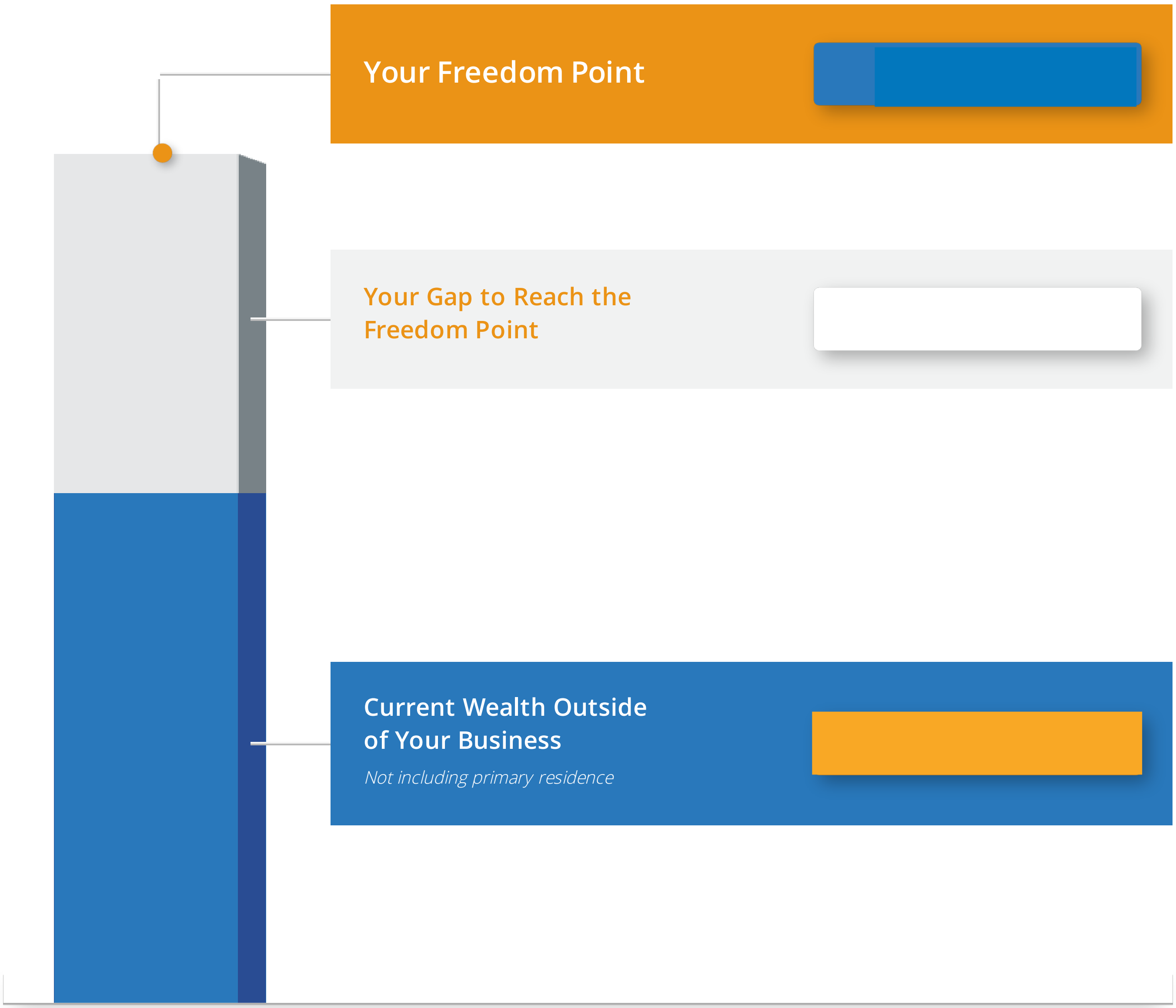
Your Tax on Proceeds Based on Your Ownership Position

The tax rate you anticipate paying on the sale of your company

Net Proceeds After Taxes and Expenses [2]

1. For the purpose of this exercise, we estimated professional fees and commissions.
2. This is an estimate for illustration purposes only. Please consult a ***Value Builder advisor***.

Summary of Your Results



Using your withdrawal rate of **3%**, you will need an investment nest egg of **$5,833,333** to generate **$175,000** in annual income from your investments. Therefore, you'll reach your Freedom Point when the net proceeds (after taxes and expenses) from the sale of your business exceeds **$2,333,333**. (This is calculated by taking your required investment amount of **$5,833,333** less your net wealth outside of your business today of **$3,500,000**.)

Understanding Your Report and Taking Action

Passive Income Versus Operating Income

As a business owner, your company likely makes up a significant portion of your wealth, so you may be asking why your company's value doesn't impact your Freedom Score. The answer comes down to risk. To feel free, you need passive income (i.e., a nest egg of investable assets) that meets your lifestyle needs for the rest of your life. You likely get income and dividends from your company. Still, they are contingent on your role as the operator of your business. As long as your income is derived from operating your business, you are exposed to several risks.

Potential Risks of Operating Your Business

Operating Risk

No business is foolproof, and even the most successful companies can be sideswiped by an unexpected event. Lehman Brothers was considered a blue-chip investment house until the financial crisis of 2008 caused it to fail. Both General Motors and Chrysler needed to be bailed out the following year. In 2020 the coronavirus pandemic caused the failure of lots of companies, including luxury retailer Neiman Marcus. Good companies fail when bad things happen.

As long as a large portion of your net worth is tied to your shares in your private business, you shoulder the operating risk associated with an unexpected event impacting your business and undermining your wealth. In the worst-case scenario, you may decide to inject some of your savings into your business, which could jeopardize your Freedom Score.

Key Person Risk

You indicated your business would suffer a lot but survive if you were unable to work for a period of three months. When your business would suffer in your absence, experiencing a health event could impact the value of your business. Worst-case scenario, you may be forced to sell your company quickly, which could negatively impact its market value.

Divorce Risk

Sadly, some marriages end in divorce. In the event of a divorce, you will likely have to divide your assets between you and your spouse. This process may require you to sell your business earlier and faster than you had hoped, which can cause you to have to discount its value.

TAKE ACTION

Put a checkmark beside the risks that concern you the most. Make a note of any strategies you might use to minimize your risk in each area.

POTENTIAL RISKS	POTENTIAL MITIGATION STRATEGIES
☐ Operating Risk	
☐ Key Person Risk	
☐ Partner Risk	
☐ Divorce Risk	

Not Ready to Retire Quite Yet?

If your enthusiasm for your business is starting to wane but you're not yet ready to move on, you might want to consider one of the options below, which will allow you to transition out of your business gradually while diversifying your wealth:

Sell a Minority Stake

In a minority recapitalization, you sell less than half of your ownership. Often sold to a financial investor such as a private equity group, a minority recapitalization allows you to take partial sale proceeds and diversify your net worth while continuing to control your business.

Sell a Majority Stake

In a majority recapitalization, you sell more than half of your shares to an investor (often a private equity group) who will most likely ask you to continue to run your business for many years to come. You get to diversify your wealth and keep some equity in your business when the investor sells. However, you may lose controlling ownership of your business.

Earn-Out

When you sell your company, you'll likely have to agree to a transition period of some sort. A popular transition method is called an earn-out, where you decide to continue to run your company as a division of your acquirer's business for a set amount of time. Your earn-out may be as little as a year or as long as seven, but the average is three years.

TAKE ACTION

Consider the pros and cons of each diversification strategy.

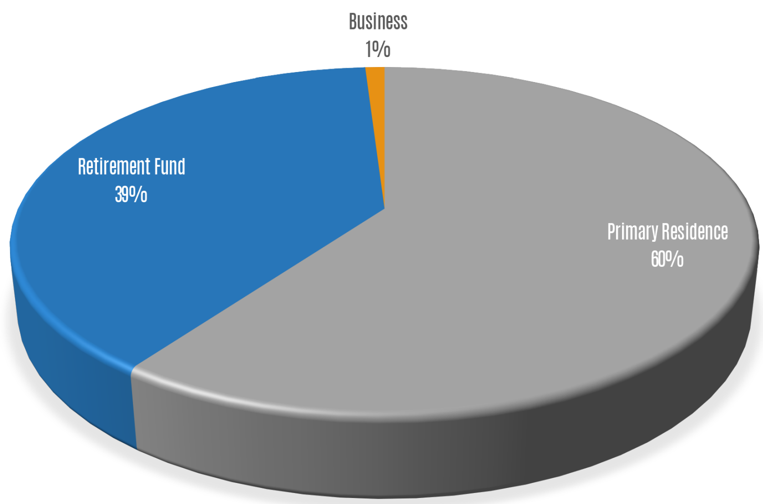
	PROS	CONS
Sell a minority stake		
Sell a majority stake		
Sell with an earn-out		

Are You Risk On?

When was the last time you calculated the percentage of your net worth tied to your company's value? When you started your business, it was probably negligible. Unless you purchased or inherited your company, it wasn't worth much when you opened your doors, but over time, the proportion of your assets tied to your business may have crept up.

Let's imagine a hypothetical business owner named Tim, who starts his company at age 30. He has a little bit of equity in his first home and a small retirement fund. When he starts his business, it's worthless, so by definition, it doesn't really factor into Tim's net worth calculation

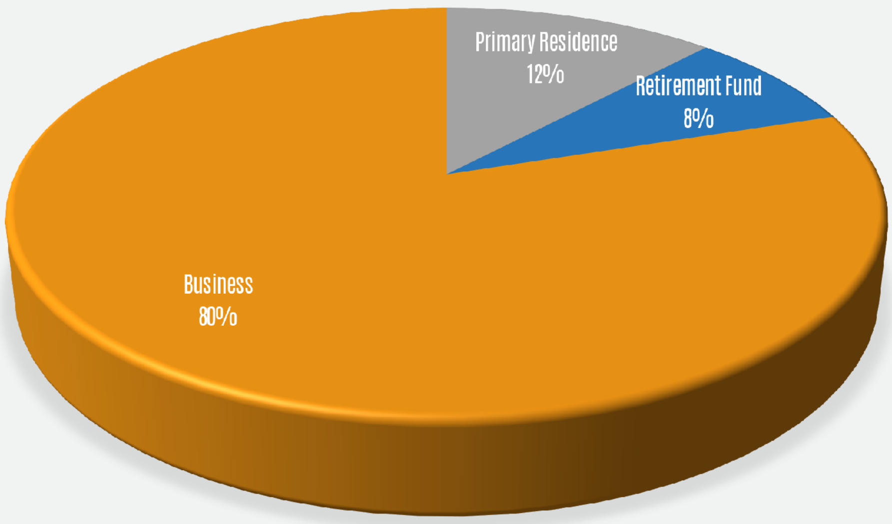
Tim's Net Worth



*For illustration purposes only

By the age of 50, Tim has built up $600,000 worth of equity in his home, his retirement nest egg has grown to $400,000, and his business has blossomed to be worth $4,000,000. Over two decades, Tim's company has crept up to represent 80% of his net worth.

Tim's Net Worth

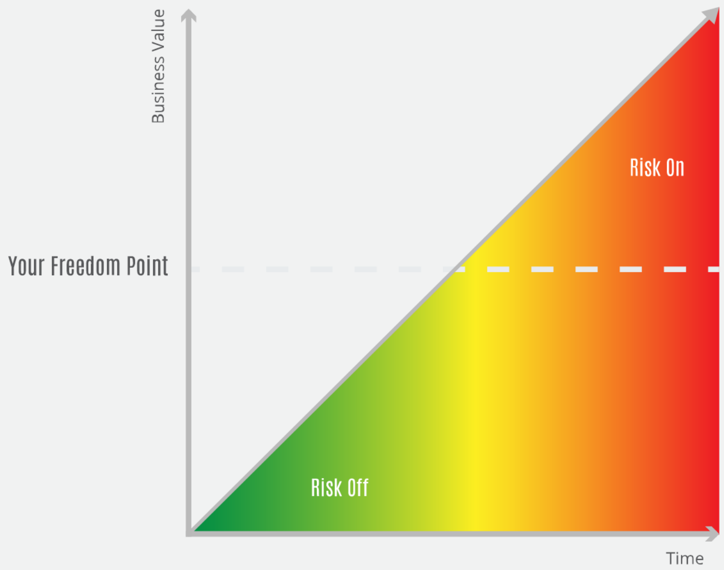


*For illustration purposes only

Tim knows the first rule of investing is to diversify, which he is careful to do with his retirement account. Still, he has failed to achieve overall diversity given the success of his business.

What's more, he may have unconsciously passed the Freedom Point, which is when the net proceeds (i.e., after taxes and expenses) of selling his business would garner enough money for him to live comfortably for the rest of his life. In the parlance of Wall Street traders, Tim has moved "Risk On" — a situation where he is taking on considerable risk.

"Risk On" Factor



*For illustration purposes only

Frictional Costs of Selling: The Big 3

When you sell your business, you're likely to incur a number of frictional expenses:

Legal expenses

Budget around 1% of the deal value, but it could be more or less depending on the complexity of your deal.

Selling Expenses

Your broker or mergers and acquisitions (M&A) professional will charge a commission upon the successful sale of your business.

Taxes

Depending on where you live, the sale of your privately held business could attract considerable tax.

How Much You Need to Sell Your Business for to Reach Your Freedom Point

The most common way business owners bridge their gap to the Freedom Point is to sell their company. According to the information you provided, you will need to sell your business for **$3,300,265** to cover the frictional costs of selling your business. This will provide enough income after taxes and expenses to fund your desired lifestyle for the rest of your life.

Why Does My Freedom Score Decrease as I Increase My Withdrawal Rate?

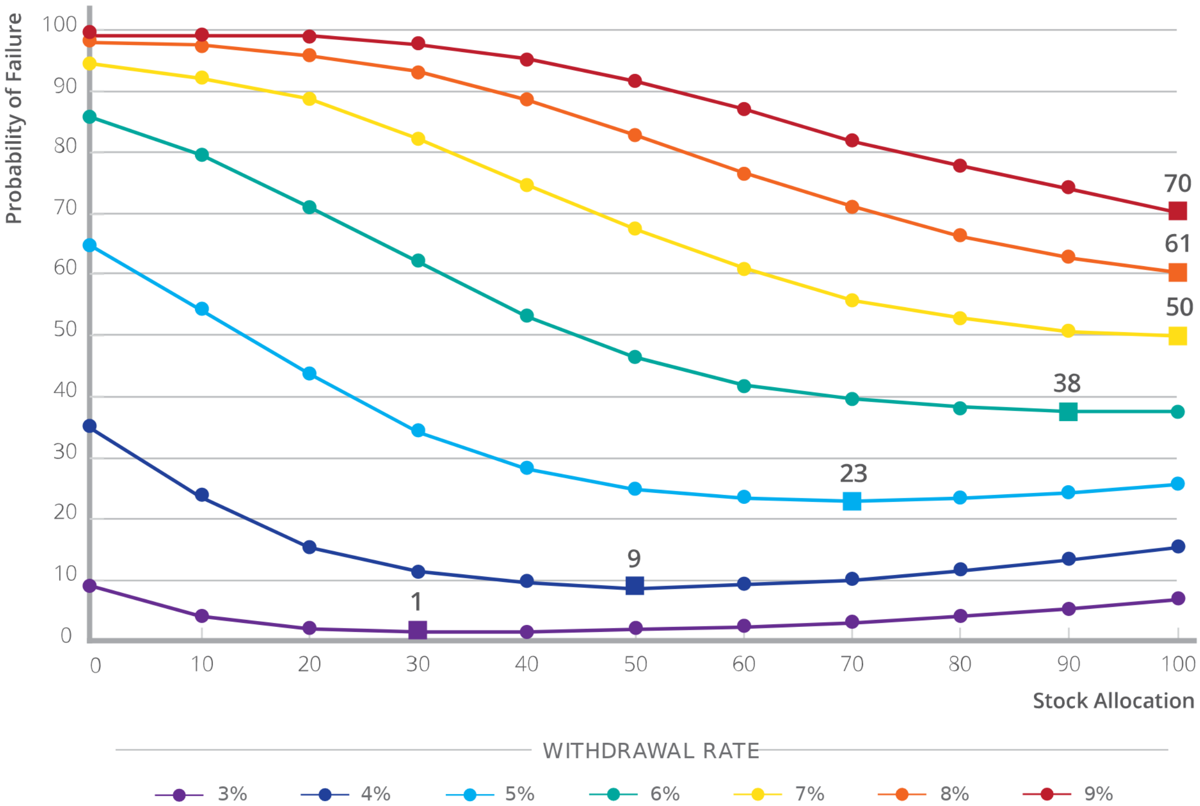
Your Freedom Score moves in the opposite direction of your withdrawal rate because a higher withdrawal rate means you are increasing the likelihood that your portfolio will not be able to fund your desired lifestyle long term.

You may have heard of "The 4% Rule," which was based on an analysis of stock and bond returns over 50 years, from 1926 to 1976. Skeptical of whether this amount was sufficient, financial advisor William Bengen conducted a comprehensive study of historical market returns in 1994. Bengen's analysis considered the severe market downturns of the 1930s and early 1970s. It concluded that, even during choppy markets, no historical case existed in which a four percent annual withdrawal exhausted a retirement portfolio in less than 33 years.

Duncan Williams and Michael Finke of Texas Tech University further updated the 4% rule of thumb in Determining Optimal Withdrawal Rate: An Economic Approach. Williams and Finke looked at the probability of failure of an investment portfolio over 30 years. They considered stock and bond allocations and arrived at the possibility of an investment portfolio failing (i.e., running out of money) under various circumstances. Williams and Finke determined that with a 9% withdrawal rate and a 60/40 split between stocks and bonds, your chances of running out of money over a 30-year retirement are almost 90%. Dial back your withdrawal rate to just 3%, and keep your 60/40 allocation between stocks and bonds, and your chances of running out of money drop to close to zero.

3. Investopedia, "The 4% Rule," https://www.investopedia.com/terms/f/four-percent-rule.asp

Failure Probabilities for Inflation-Adjusted Withdrawal Strategies Over a 30-Year Retirement Horizon



Source: New Research Challenges 4% Rule.
https://www.fa-mag.com/news/new-research-challenges-4-withdrawal-rule-8674.html

Deciding When to Sell

If you're like a lot of founders, you're probably trying to time the sale of your business for when it peaks and coincides with the top of an economic cycle.

On the surface, timing your exit seems to make sense. If you speak with mergers and acquisitions professionals, they'll tell you that an economic cycle can impact valuations by up to "two turns," which means that a business selling for five times earnings at the peak of an economic cycle may go for as low as three times earnings at a low point in the economy.

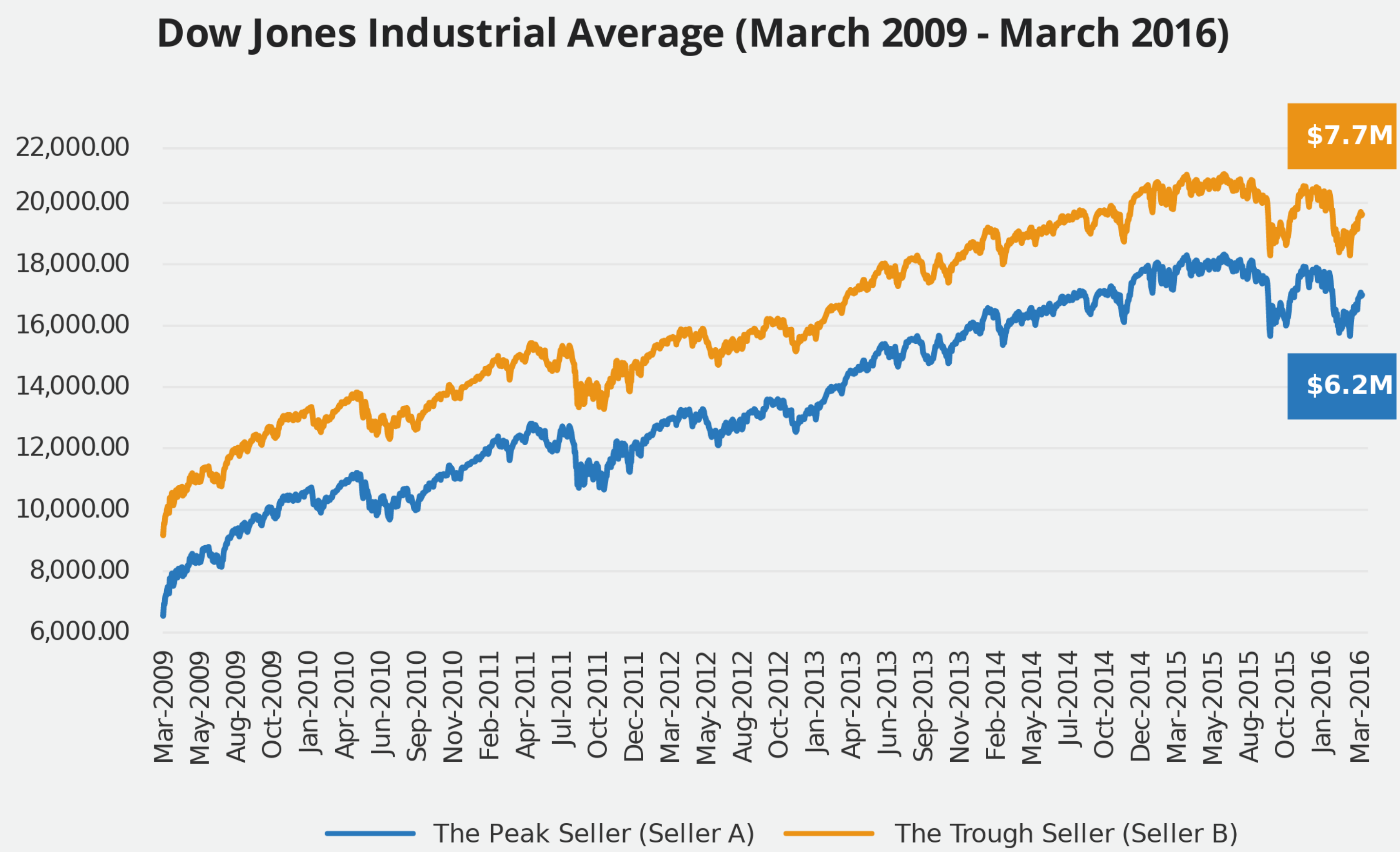
The problem is, when you sell your business, you have to do something with the money you receive, which usually means buying into another asset class that is being affected by the same economy. Sure, you may diversify a bit, but most asset classes you'll consider—from residential real estate to stocks to vacation property—generally move in the same direction as the economy.

Peak Seller Versus Trough Seller

For example, let's compare two hypothetical sellers. Seller A and Seller B have identical businesses in the same industry, both generating $1,000,000 in pre-tax profit leading up to the Great Recession of 2008. To keep things simple, let's imagine they were both living in a country that required no tax to be paid on the sale of a business.

Seller A sat stealthily on the sidelines until the economy reached the absolute peak and sold his business for $5,000,000 (five times pre-tax profit) in October 2007. Seller A then took his $5,000,000 and bought into a Dow Jones index fund when it was trading above 14,000. Eighteen months later—after the Dow Jones had dropped below 7,000—Seller A would be left with less than half of his money. Even though Seller A cleverly waited until the peak of the economic cycle, by March 9, 2009, having invested in the index, he would have effectively sold his business for less than 2.5 times earnings and would be left with less than $2,500,000 from the proceeds of his sale.

At first glance, Seller B waited too long and sold her business in early 2009—the trough, or lowest possible point, in the economic cycle—and got only three times earnings: $3,000,000. Yet notice that even in the trough, Seller B got 20% more than if she had sold at the peak like Seller A and bought an index fund at the top of the market. As you will notice on the following page, Seller B ends up more than a million dollars richer than Seller A five years after the transaction.



The Seller A scenario is just like selling your house in a good real estate market; unless you're downsizing, you usually buy into an equally frothy market. When you sell, you can't put your money under your mattress, which is why timing the sale of your business on external economic cycles is usually a waste of energy.

Although rare, the one exception to this rule is if you are in an industry that is consolidating quickly, where major players are snapping up your competitors in a race to tie up market share. Under this scenario, it may make sense to time your exit to ensure you are not the only independent company remaining in your sector after the major acquirers have finished their buying spree.

Want to Explore Further?

Your Freedom Score of 60 means you still have some work to do to reach your Freedom Point. This is the point at which you have enough money built up outside of your business to fund the lifestyle you aspire to have.

Consider these additional steps that will help you prepare for a successful exit.

Explore Your Personal Readiness to Exit

Get Your PREScore™

PREScore™ (or Personal Readiness to Exit Score) is an 8-minute, online assessment that evaluates your readiness to exit your company on a personal level by identifying your status on each of the 4 drivers of a satisfying exit (i.e., Future Vision, Structuring Flexibility, Personal Detachment, and Team Involvement).

PREScore™ helps identify the at-risk areas and provides personalized recommendations for improvement, helping you create a personal plan that ensures a happy and lucrative exit.

Are you personally ready for what should be the happiest day of your life?

Find Out How You Score on the 8 Factors That Drive Your Company's Value

Get Your Value Builder Score

Join over 60,000 business owners and get your score on the 8 factors that drive your company's value. This requires completing a 13-minute assessment that allows you to look at your business as an acquirer would. You'll get your score on the eight factors professional buyers look for and an action plan for how to improve your score on each.

We've discovered those companies with a Value Builder Score of 90 or higher receive offers that are more than double the average business.

DISCLAIMER:

The calculator and generated report are self-help tools made available to you for your independent use and aren't intended to provide financial advice. Freedom Path Planning does not guarantee the applicability/accuracy relating to your circumstances. Examples are only illustrative/general, and the results are estimates. The accuracy of calculations depends on the data you provide and doesn't account for future changes to interest rates, policies, laws, etc. Seek personalized advice from a qualified financial professional for all personal finance/tax issues. We assume no liability for the use of or reliance on this calculator.

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The Value Builder System™ is a simple software for building the value of a company and is used by thousands of businesses worldwide. The Value Builder System™ incorporates several diagnostic tools, including the Value Builder Score, PREScore™, and the Freedom Score, to ensure that when the time comes, you're personally and financially ready to exit your business without any regrets.