



## EXIT PLANNING CASE STUDY

### **Telecom Partners, Inc. Sale to a Third Party**

#### **Introduction:**

Tanya Paxton's first job after completing college was an entry level position in a call center providing customer service, collections and support functions. Tanya found the work environment stressful and morale among employees was low. Tanya's solution was to move up as quickly as possible to more senior positions in lower and middle management. The promotions provided her with goals to achieve and helped her develop her skills for working with many different kinds of people in a variety of business situations. Of course, Tanya also learned that not all of her brilliant ideas would be adopted by her supervisors in such a large and complex organization. She felt that a higher level of service, improved efficiency and a positive work environment would increase profitability but she did not have the seniority to push major changes through. So Tanya started her own small business, Telecom Partners, Inc., and began building what she thought would be the "right" kind of customer service call center business. Over the years, Telecom Partners has grown substantially and now specializes in more complex and higher level customer service contracts. Tanya's ideas about making the workplace enjoyable and managing efficiency through technology have really paid off.

The mission of Telecom Partners is to develop and deploy innovative methods of handling a high volume of high-end, high-quality customer service, product training, technical support and inside sales (upgrade opportunities) functions from a single call center staffing location in order to consolidate call-in activities and create efficiencies through cross-trained staff.

Tanya lives a comfortable life in Reston, Virginia with her husband Karl, a history professor at a local university. She and Karl have one adult daughter, Katie, who also lives nearby but does not work in Tanya's business.

Telecom Partners has grown into a fairly lucrative business over the years. Bringing in one customer after another on multi-year contracts, Tanya has enjoyed her role as a business owner. Tanya recently learned of Exit Planning for business owners when she received an interesting *Exit Planning Review* newsletter article forwarded by a business owner friend. At first, Tanya was not sure how Exit Planning related to her situation – she had reduced her involvement in the Company from working 80 hours per week in the early years to around 40 hours per week now. Tanya is not quite ready to leave her business, but she has the sense that her energy and flow of creative ideas will start to wane in a few



years and she'd like to plan for the future of the business before she burns out. Tanya feels confident that she'll remain actively engaged in the business for the next five to seven years, but then she believes she'll be ready to sell the business. She has never sold a business before so she has no idea what to do or when to do it in order to be ready for a business sale.

Tanya has interests she would like to pursue, such as starting a new business – possibly in the telecommunications hardware field. So she doesn't see a future sale of the business as an exit so much as a doorway to her next phase of her life. Tanya is also charitably inclined, and would like to somehow benefit her two favorite charities, The American Red Cross and Teach for America, if she is able to build enough value in the business in the next few years.

### **Telecom Partners Basics:**

Telecom Partners is a C corporation formed in the state of Virginia in 1990 by Tanya. Tanya has been the sole (100%) owner during all years of operation. The Company has one location that it operates in Reston, where all call center, administrative and leadership personnel are located. This single business location is a leased office space and there are three years remaining on the existing lease, which Tanya believes has favorable terms and market rates for rent.

While Telecom Partners has performed well over time and has remained competitive in a rapidly changing customer service environment, many of its competitors fell victim to the increased availability of overseas call center service offerings. Telecom Partners has found a niche in combining multiple call center functions and is able to differentiate itself on that basis.

Tanya and Telecom Partners work with a variety of professional advisors but no one has ever attempted to coordinate the advice of these professionals. Even as the business has grown Tanya suspects that certain fundamental aspects of her business have gone unattended as she focused on more interesting or challenging areas. For example, Telecom Partners has no written employee procedures or handbooks, and its accounting systems are struggling under the weight of operations that have outgrown basic accounting methodologies. Tanya has not reviewed or updated customer contracts in many years, despite advice from her business attorney to do so. Tanya occasionally wakes up during the night thinking about the business practices and intellectual property she has put in place over the years, wondering if a competitor can pull the carpet out from under her by copying her systems, scripting, work flows, client database, etc., none of which have any protection mechanisms in place.



### **Telecom Partners Employees:**

Telecom Partners has a total of 105 employees, 75 of which are call center staff and the remainder are administrative and executive staff. Among these employees are two who are considered to be “key employees” by Tanya.

The first key employee is the Vice President of Sales for Telecom Partners, Patrick Avery (age 46). Pat has worked for Telecom Partners for eleven years and earns a base salary of \$110,000. Pat has been critical to the success of Telecom Partners from a marketing and sales perspective, and brings in most of the new major contracts at this point. Tanya feels that Pat has the leadership skills to motivate the entire employee base and encourage people to strive for success, but he sometimes lacks the patience to perform detailed planning.

The second key employee is Katrina McMahon (age 44). Katrina is the Vice President for Technology and Development and has been with Telecom Partners for fifteen years. Katrina earns a base salary of \$215,000. Katrina is an analytical type and thrives while working on projects that involve detailed comparative analysis of technology options or results of implementation of new processes. Katrina struggles in the areas of corporate vision or creative thinking, but her team is very loyal to her and she always acts in the Company’s best interests.

Tanya believes that Pat and Katrina are the key to a successful future for the business and that the Company will suffer if either of them is lost. Tanya has delegated enough responsibility to these two key employees that it would be difficult for her to step back in and immediately lead the Company, so retaining them is critical in her mind. Ultimately, she hopes to sell the business before that risk becomes a real problem.

### **Telecom Partners Financial Performance:**

Telecom Partners consistently generates a healthy profit. Average revenue over the past three years is \$14 million with an average annual profit or cash flow over the same time frame of \$3.5 million. Tanya doesn’t spend the income the Company produces, nor does she save it – most of it is either reinvested in the business or given to charity, with the remainder being used by Tanya and her husband to support a comfortable, but not lavish, lifestyle. Historically the Company’s cash flow has grown at an average rate of approximately 3% per year, but every few years, cash flow and profitability jump up as Telecom Partners brings in a particularly large new client – over the two to three years that follow the new client is successfully absorbed into the Company’s operations and growth stabilizes. This growth pattern is expected to repeat every three years or so during the next five to ten years.



The last time Tanya conducted a complete personal financial planning review she obtained a preliminary business valuation estimate (calculation of value) at the suggestion of her financial planning advisor. The preliminary business valuation returned a value of \$12 million (which does not reflect any discounts), performed by a certified business valuation specialist, Brian Valez.

Telecom Partners is financially strong, but does still carry approximately \$2 million in long-term corporate debt in connection with a major expansion of facilities and equipment a few years ago. Tanya's personal assets as well as all of the Company's assets are pledged to guarantee this debt. An ongoing line of credit with United Bank of Missouri provides periodic cash flow assistance when Telecom Partners is required to make large purchases or hire new groups of employees to service a new customer. Tanya is subject to a personal guarantee on the line of credit as well, which currently has a balance of \$750,000.

About ten years ago, Tanya caused the Company to purchase a \$1 million key person (20-year term) life insurance policy from Great American Insurance after she attended an event sponsored by that insurance company and met one of their sales representatives. Tanya did not purchase any other insurance because she does not have a co-owner and so does not have a buy-sell agreement in place at this time.

### **Tanya's Objectives:**

Tanya would like to see Telecom Partners sold to a strategic buyer in the customer service outsourcing industry in order to receive maximum value for the business. She is aware of four or five larger players that operate in a similar space. Telecom Partners has certain unique business practices and a few noteworthy clients, so Tanya believes the Company will be a valuable addition to a larger player's activities. Tanya would like to find a buyer who will pay 100% cash at closing, but admits that in the right situation she is willing to accept stock, a promissory note or an earn-out for up to 10% – 15% of the sale price. Tanya is not especially inclined to retain ownership or continue working after the sale transaction.

The management team (Pat and Katrina) will be critical to the future of the business, growth of the Company leading up to a sale and transition to new ownership. For these reasons, Tanya would like to incentivize Pat and Katrina to focus on growing Telecom Partners revenue over the next few years, while maintaining the systems and processes that have allowed the Company to be profitable. New high profile customers will potentially play a key role in this effort. Tanya also wants to find a way to encourage Pat and Katrina to enthusiastically work for the benefit of the buyer for a period of time after the sale but she is not sure how to do that.



Tanya would like to combine the proceeds of the sale of Telecom Partners with her other personal assets to achieve financial independence for herself and her family. Tanya's most recent personal financial assessment concluded that Tanya and her husband Karl will need a combined net worth of \$13 million to meet their personal financial goals, \$12 million of which (measured as a lump sum, after tax amount) must come from the sale of Telecom Partners. Tanya and Karl do not require the entire amount to support their lifestyle, but Tanya and her financial planning advisor have calculated that this amount will be sufficient to satisfy the family's financial needs as well as fund charitable and new business interests Tanya has identified (as described above).

Telecom Partners represents Tanya and Karl's most valuable asset by far, so they are hoping to get some advice about how to protect it and protect themselves as the possibility of selling the business begins to take shape in Tanya's mind. Tanya does not want the Company to be a burden, financial or otherwise, on her family if something happens to her. Karl, although totally uninvolved, does have the ability to keep a cool head and make good decisions in a difficult situation, so he can be relied upon to use good judgment if something happens to Tanya, even though as of today he does not have any useful information on which he can act. Tanya's entire employee group is important to her, and she feels that they are "like family" so she is interested in ideas regarding protecting their jobs and/or smoothing out any disruptions that may occur as a result of a sale or any emergency that may take place before a sale can be completed.

Tanya and Karl are unsure of how best to provide financial security to their daughter Katie. While they want to provide a financial safety net for her, they do not intend to transfer great wealth to her at the time of the sale of the business (or at any other time, for that matter). Tanya and Karl's estate plan has not been reviewed or updated since it was last revised around the time that Katie was born.