

Business Risk Assessment

A review of the risk factors that impact the marketability and valuation of your business.

Business risk score









Business risk score

 **Moderate**

Estimated impact of risk on value

 **4-6%**

Component business risk factors

 Owner dependency risk High	Delegate strategically, build process, and empower your team. It is likely that profitability declines if you leave the business today. Delegating responsibilities, documenting processes, and empowering your team fosters a more sustainable and marketable business.
 Key employee dependency risk High	Take steps to retain key employees and reduce dependency on them. Explore executive benefits plans for retention and consider Key Person Insurance to safeguard your business's continuity.
 Customer concentration risk High	Expand and diversify your customer base. Relying heavily on a few customers for the majority of revenue increases business vulnerability. Diversify your customer base to enhance stability, mitigate risks, and fortify your business against potential fluctuations.
 Supplier diversity risk Moderate	Review your supplier relationships routinely. Your business may be at risk of relying too much on your top vendor. Review your supplier relationships routinely to diversify as able.
 Liquidity risk Low	Your short-term liquidity is strong. Assets that can be easily converted to cash are meaningfully greater than liabilities due in the next year. Consider using this foundation to explore strategic investments, optimize working capital, or fortify your financial position.
 Financial practice risks Low	Partner with a bookkeeper and CPA to maintain your financial records. Working with accounting professionals to maintain disciplined financial records ensures compliance and enhances the marketability of your business to potential buyers or investors.
 Revenue quality risk Low	Maintain and expand recurring revenue streams. Identifying ways to continue securing and expanding your recurring revenue streams enhances the stability and marketability of your business.
 Leverage risk Low	Your Debt to Estimated Equity Valuation is 0.15. A debt-to-equity ratio between 1 and 2 is considered healthy for small businesses. This may vary significantly based on industry, business goals, and risk tolerance.

Protecting the value of your equity

Why it matters to you

You have worked hard to make your business what it is today. An updated buy-sell arrangement protects the value of the equity you own in the event of death, disability, or dispute.

Benefits to you, your family, and your business

- Protects the value you have built
- Protects the longevity and continuity of the business
- May open opportunities to optimize estate tax

How it works

Buy-sell arrangements consist of the following two components.

1. A legal agreement

A legally binding contract among business owners is required to govern how equity is valued and what happens to your equity in the event of death, disability, retirement, or voluntary exit.

2. A funding mechanism or insurance policy

In order to be viable when triggered, buy-sell agreements must be backed by funding. Common vehicles include life insurance, disability insurance, or cash reserves.

Work with your advisor

Work with your financial advisor to review the status of your buy-sell agreement.

Maintaining an up-to-date buy-sell arrangement

- Agreement and insurance should be reviewed annually.
- Valuation methodology is clearly listed in the agreement, typically via an attached Schedule A.
- Funding levels reflect recent business valuation estimates.
- Insurance policies cover unforeseen events.

Value of equity owned

\$8,656,961

Risk to equity owned

Moderate

Status of buy-sell arrangement

Needs review

Example buy-sell structures

Cross-purchase plans

Each owner purchases an insurance policy on the other owner(s) to fund the buy-sell arrangement.

Entity redemption plans

Business buys separate insurance contracts on the owners, pays the premiums, and is the beneficiary.

Special purpose entities

In some cases, a new entity may be created to buy separate insurance contracts on the owners, pay the premiums, and act as the beneficiary.

Disclosures

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