

The logo for INA is a circle with a multi-colored border (teal, green, orange, red, grey) and the letters 'INA' in a bold, black, sans-serif font in the center.

INA

The title 'EXIT STRATEGY Guide' is centered within a circle with a multi-colored border. The words 'EXIT STRATEGY' are in a large, bold, black, sans-serif font, and 'Guide' is in a smaller, italicized, black, sans-serif font below them.

the Nanny Agency
**EXIT
STRATEGY**
Guide

The title 'Planning the SUCCESSFUL SALE of your Agency' is centered within a circle with a multi-colored border. 'Planning the' is in a black, sans-serif font, 'SUCCESSFUL SALE' is in a large, bold, italicized, black, sans-serif font, 'of your' is in a smaller, italicized, black, sans-serif font, and 'Agency' is in a bold, black, sans-serif font.

Planning the
***SUCCESSFUL
SALE***
of your
Agency

WHAT'S INSIDE

Exit Strategies

3

Business Valuation

5

Pitfalls

7

About INA

8

WELCOME



It's hard to imagine that some day your hard-earned effort to build a nanny-placement agency could turn into a nest egg for retirement, or a launchpad to your next endeavor. But it can.

This is a comprehensive guide for experienced nanny agency owners who may be planning a successful exit from their business. If that's not you today, you may want to consider that it might be, down the road. Even if you're not sure, the business records you keep today will provide value in the future as you assess your opportunities as an owner of a mature and successful business.

In this guide, we review some of the widely used exit strategies and explain the benefits of each option.

With ever-changing business market conditions, generating and recording revenue and expenses is more important than ever. Aligning the priorities and circumstances of your agency with the right exit approach can expose the best-fit solution for you, your employees and your customers. Choosing the best exit strategy means knowing the available options, understanding the potential challenges and weighing them against the best interest of the business.

Nanny agencies have a life cycle like any other business. They are formed, grow and mature. While there is no set end-of-life for an agency, many of them may experience a change in ownership. The period during in which ownership changes is referred to as

the **transitional phase**. In this phase, you end your interest in the business as another party takes over. You can decide to sell the business to another agency or company in the same industry, sell it to employees or even to your family members.

Robust nanny agencies are full-scale businesses with various assets and liabilities, with strong book balances. When determining an exit strategy, an owner needs to consider the agency's full-scale business operations. These provide a clear picture of the historical and present capacity of the agency, which are crucial to valuation.

Nanny agencies do more than simply match nannies with families. These agencies use complex systems for recruiting, screening, evaluating and matching the right nanny candidates to families with different childcare needs. Apart from these services, there are also organizational processes such as licensing, payroll, taxes and other costs that are part of the agency's operations. Finally, there is maintenance of the logistics systems that are used to place nanny candidates with the right families.

Therefore, the nanny industry is much more than a match-making service. There are various resource needs, unanticipated circumstances, uncertain calendars and the task of matching qualified nannies with children, all of which affect the agency's balance sheet. The complex operations of nanny agencies must be considered when determining an exit strategy.

EXIT STRATEGIES



1. SELLING TO OTHER BUSINESSES

When a company is sold to an independent buyer or groups of buyers it is known as a “transaction sale.”

Buyers may include existing business owners such as other nanny agencies looking to restructure or further develop their own businesses. Individual strategic investors may be interested in an acquisition once they have assessed the benefits derived from operational and financial synergies between an agency and other assets they own. To sell your agency to an individual or another business entity, the buyer must have the necessary capital for the transaction and carry out due diligence regarding the solvency and stability of the company under consideration. These include current assets and liabilities, financial statements for the last couple of months, market share information and year-over-year growth or decline.

Prior to the sale, a buyer will review the various systems each agency uses and determine any economies of scale or opportunities to blend legacy systems. Often, infrastructure such as marketing and recruiting software, human resources technology, financial and accounting reporting, and customer service tools are deeply embedded in the operations for the agency. A buyer must consider absorbing, combining or replacing some of this legacy infrastructure for a smooth transition after purchase.

Interested buyers may include other nanny agencies looking to grow through acquisition, or other home health care agencies that want to expand into the nanny arena. Nanny agency owners best understand

where promising buyers may be found, by tapping into local connections or through strategic alliances. Industry conferences and gatherings provide networking opportunities as an agency seller begins his or her research.

2. SELLING TO EMPLOYEES OR FAMILY MEMBERS

Current agency managers or employees may also be interested in acquiring the agency where they work. Selling to employees can be a win-win situation as the seller is faced with a known entity who understands the value of the agency and who sees this path as true advancement in an area of expertise.

Just as in the case with selling to outside investors, the employees interested in owning an agency need to determine how to finance the purchase, either directly through cash, with a loan, or via another arrangement made with the agency owner.

In cases where an agency owner has the opportunity to sell to a loyal and proven employee, the owner may accept part of the sale in cash and the balance over time via a monthly payment drawn from agency revenues. Certainly, with agency owner-employee negotiations, trust and experience may lead to innovative solutions.

Depending on the interest an owner wishes to maintain in her company, a complete or partial sale to family members can be arranged. Some agency owners simply groom a successor and retire from active management of the company; others may take on a management or board role.

Maximize the return on your investment by exploring options that yield the best financial results.

The optimal buyer of your business will have nanny agency experience or own other investments with a similar business model.

EXIT STRATEGIES



3. LIQUIDATION

Liquidation is a process by which an agency's assets are sold off and agency operations are terminated. The merits and financial benefits of liquidation depend upon the resources and assets ascribed to the venture, market share and recent performance as captured in the balance sheet.

If liquidation is a serious option, steps should be taken to shore up operations, and to feature the agency's strengths to be captured in a valuation.

4. SELLING IN THE OPEN MARKET

When you are looking to exit from a business, the entity can be put up for sale at a certain price in the open market. Here, a buyer may be a private investor, a rival nanny agency, or anyone interested in buying an established small business.

The sale can also involve opportunistic buyers. These are people who are looking to purchase a business that has inherent flexibilities and strong financial

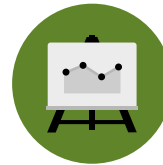
background. These buyers may be looking to manage the business, or shop for new buyers after making the purchase.

To improve the chances of your agency being bought, reach out to potential buyers in advance of listing it on the open market. Keeping detailed financial records can attract investors and secure a profitable price to the owner.

The Takeaway

Maintain meticulous records and tight organizational processes to ensure a smooth transitional period when it is time to sell.

BUSINESS VALUATION



An agency's valuation is defined simply as the price at which another buyer is willing to pay to own the agency. In addition to financial records that illustrate revenue and costs, the value may be affected by market and industry factors such as local competition, reputation, and years in business. The most common method of evaluating an agency is multiplying its annual net profit by a profit multiplier.

Value = Adjusted Net Profit x Profit Multiplier

Keeping all things constant, the value of a service business is the worth of your expected future profits, less liabilities and bad debts. A profit multiplier is determined using a set of variables which will help determine its expected future value to a new owner.

For example, a food services business may consider its profit multiplier to be 2 times earnings, whereas a retail establishment may only deserve 1.5 times earnings in value to a prospective buyer.

For a nanny agency, determining a profit multiplier requires a look at all the variables that impact the health and longevity of your business. Consider: the number of customers, level of repeat business, duration of each assignment, seasonality, competitive activity (local and online) as well as your reputation. Then, determine the total expenses you incur in order to maintain this earnings level, including outstanding loans, unpaid debts and other payments.

Depending on the marketing conditions and trends in the industry, a company may be acquired for a higher or lower multiple of its current value. If the future of the market looks strong, the agency may be acquired at a

higher price, usually a multiple of the current value over a number of years. This only applies if your assets and profits are more than your liabilities and bad debts.

Your accountant or business manager may be able to look at your balance sheet and annual performance to help you establish a fair profit multiple, and an appropriate valuation for your agency.

CHALLENGES

The exit strategies for nanny agencies can be challenging due to the unwritten belief that these companies simply offer "advanced babysitter services." This oversimplified view serves as an obstacle when agency owners are attempting to outline the value their agency carries. Owners know full well that they are managing huge and complex businesses; the key is to make sure a potential buyer recognizes the value.

There will always be challenges when a business changes ownership. However, with clearly identified goals, crisp project management and strategic planning, it is possible to derive significant deal value in today's market. Comprehensive processes, detailed financial records and a strong business infrastructure (such as software, marketing tools and customer service) will support the valuation of your business.

The Takeaway

Performing an in-depth analysis of your business will help you negotiate the best price for your agency.

Watch revenue trends and changes in your operating expenses in order to justify a realistic valuation for your company.

*Get the most out
of your investment by
avoiding these
common mistakes.*

PITFALLS



Below are four of the common exit strategy mistakes that nanny agency owners should avoid:

1. SELLING BY YOURSELF

Some entrepreneurs decide to oversee the selling process by themselves. Running an agency while working on the exit strategy is time consuming and draining. If you fail to market your agency properly, you can lose lucrative opportunities. Selling your business while trying to run it leads to mediocre results in both areas.

If you have a larger agency, you may want to leave the exit work to a professional business broker. The experience of the broker is key to the success of implementing an exit strategy. Look for individuals or companies that have a long history of successfully selling small businesses and building relationships with parties specifically looking to buy nanny agencies. The brokers have a significant advantage in the exit strategy process and are more knowledgeable about negotiating and compromising in order to close a deal. Broker services are calculated as a percent of the sale price of the business, so agencies with small margins

may not be able to negotiate a successful sale using a broker without sacrificing profit.

2. FAILING TO SELL AT THE RIGHT TIME

Most business owners think of selling their agencies for the first time when they get an inbound call from a potential acquirer. As flattering as this may be, it is much wiser to have a plan in place as the business grows. Agency owners might start thinking through an exit strategy when they are no longer running a startup. The agency is bound to face hurdles over the course of its operations. These hurdles can be overcome without slowing down agency growth. Business brokers can help agency owners identify those hurdles early in their business and educate them on how to improve. Brokers can also help by presenting an agency to strategic potential investors that are known to be interested in similar kinds of businesses.

As an agency owner, selling is a way to diversify investments and reduce personal financial risk. Taking control of the exit process means more control over the assets you've invested in your agency. By exiting early without a game plan, you may be increasing your financial risk.

PITFALLS



3. ASKING TOO MUCH FOR THE BUSINESS

Companies are valued individually based on their margins, business models, size and unique relationships or intellectual properties. Sometimes, buyers of other agencies have overpaid and setting expectations based on those transactions may be unrealistic.

The value of nanny agencies has fluctuated in the past few years. However, historical multiples do not determine today's multiples. Agency owners should avoid relying on historical purchases or M&A (mergers and acquisitions) activity as benchmarks for today's sales opportunity: today's market is different from yesterday's. Business owners who are ready to begin the exit process should be comfortable with the current competitive environment and the market conditions that exist when they're ready to sell.

4. WAITING TOO LONG TO SELL

Timing the sale of your agency may be the most critical aspect of a successful exit. In today's economic climate, buyers are seeking to acquire businesses in order to diversify their client bases and


product offerings as well as to build financial health. Along the same line, sellers with strong agencies are eager to exit their businesses and reinvest their gains in new ventures or enjoy their retirement. Acknowledging the right time to sell will increase your chances of walking away with a significant profit.

To stay ahead of their competition, buyers looking to invest in attractive markets must do so early; sellers must be ready to sell or watch market opportunities pass them by.

The Takeaway

Hire a business broker to mitigate undervaluation and negotiate with potential buyers on your behalf.

Acknowledging market conditions will help you set a realistic goal when selling your agency.



Taking control of the exit process means more control over the assets you've invested in your agency.

About **INA**

INA is a volunteer, not for profit educational association that is committed to providing information, education and guidance to the public and to industry professionals. We look to people like you, who are interested in the professionalism of the in-home child care industry, to partner with us and support our efforts.

JOIN US

For more information on joining INA, please visit our [member benefits](#) page on the INA website, www.nanny.org.

If you have questions or comments about INA, please contact us by phone at 888.878.1477 or by email at admin@nanny.org.

Membership is open to:

- Nannies and all other in-home child care providers
- Nanny Employers
- Nanny Placement Agencies and Staff
- Industry Service Providers
- Individuals who support the in-home child care industry
- Industry Educators

INA's Weekly Brief

Each week, INA distributes fresh ideas and valuable resources for Nannies and Agencies via email. Topics include business solutions for effective agency management, innovations in recruitment and family-client communications, and more. [Subscribe here.](#)

INA Annual Conference

Each year, INA holds an industry conference attended by agencies, nannies and related business partners from around the world. This three-day event features speakers and workshops that help INA members improve business performance, connect with the nanny community, and address challenges and opportunities across a range of issues. [Learn more about this year's INA Annual Conference, including our workshop agenda, keynote speakers, costs and dates.](#)