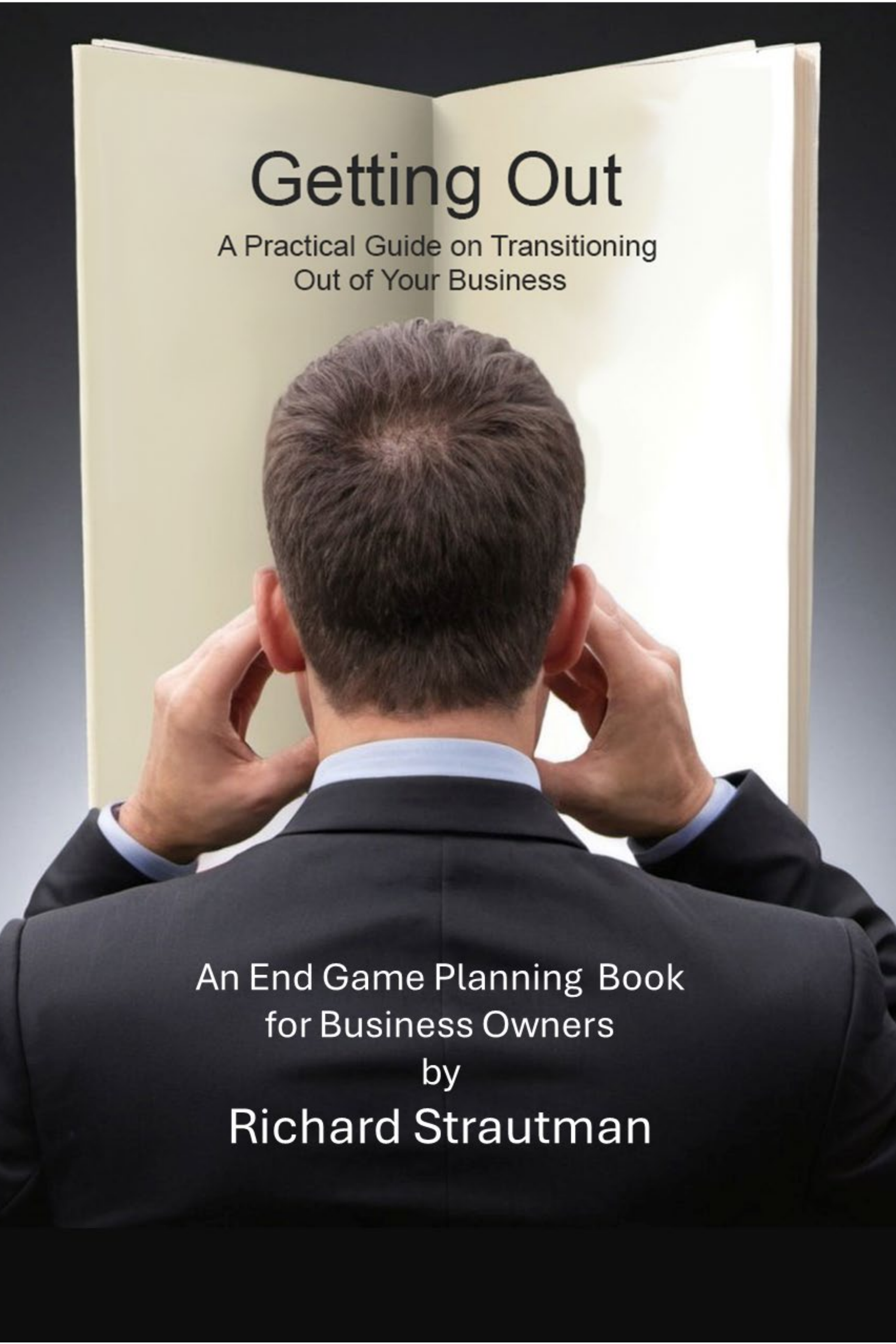

Getting Out

A Practical Guide on Transitioning Out of Your Business

An End Game Planning Book for Business Owners

by

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Getting Out: A Practical Guide on Transitioning Out of Your Business

Introduction

Congratulations! You have worked very hard to build a successful business. You may have grown up with the company or purchased the company along the way. As a business owner your journey has likely taken many different turns. You may have had good years and challenging years. You may own the company yourself or have other shareholders.

But now you may be considering "what's next" in your journey. You may have factors that are pushing you to exit your business. You may have factors that are pulling you to do something else.

You likely have different possible exit strategies to consider.

This book has been written with you in mind. It will review in detail the many factors that impact when and why you might decide to exit your business–and will present some of the many reasons that business owners avoid creating their end game plan.

Three case studies will be provided showcasing owners who have exited their business and their motivations for doing so.

I will discuss some of the anxieties and fears that most owners face when developing their end game and review the many stakeholders in your business that will be impacted by the decisions that you will make.

Information will be provided on how to calculate the net sale proceeds from the sale of your business and how to determine if you have enough cash flow to support your planned lifestyle.

This book will cover the components of the processes you will need to consider in order to exit your business. Your process will vary depending on which exit option you choose.

You will learn what the best time to exit your business might be and how to determine if you and your business are properly prepared to exit.

You will be provided with an overview of the different types of advisors and the advice you will likely need to achieve the best possible end game outcome.

And much, much more . . .

To help you create your own personalized written End Game plan, there are a series of exercises to complete and a sample End Game Plan to assist you in developing your own plan. You can write in this book, or you can download these exercises and two End Game Plans from our website – www.exitendgame.com.

Definitions

End Game Planning/Exit Planning

Throughout this book, references are made to End Game Planning and Exit Planning. Sometimes these phrases are used synonymously. In my experience, End Game Planning is more about the owner, his needs, his objectives and planning for what life will look like after he exits the business. End Game Planning focuses more on the "why" and the "when" of planning, while Exit Planning focuses on the "how" and the "what" elements. I view Exit Planning as a process that focuses both on the individual and the business and results in a comprehensive action plan that is used to accomplish the owner's goals and objectives.

End Game Planning should come first, followed by Exit Planning. End Game Planning is more strategic. Exit Planning focuses on getting things done.

The following table outlines the key components of both plans.

AREA OF FOCUS	END GAME PLANNING	EXIT PLANNING
	Strategic Focus	Implementation
Personal Drivers	Key part of End Game planning	Monitor for changes
Business Valuation	Rough estimate for financial planning	Valuation for selling Value enhancement
Financial Planning	Do I have enough?	Detailed implementation
Exit Options	Narrow the options	Finalize and implement
Exit Timing	Determine timing	Adjust according to need
Personal Readiness	Determine readiness	Monitor for changes
Business Readiness	Determine readiness	Enhance readiness and business value
Tax Planning	Initial tax planning	Detailed tax planning and implementation
My Advisor Team	Initial evaluation	Building out the team
When Should I Start?	Key part of End Game planning	Grow versus exit review
Exit Planning Education	What do I need to know to develop my End Game Plan	What do I need to know to develop my detailed Exit Plan
Detailed Exit Plan	Not yet required	Key part of Exit Planning
Plan Execution	Transitions into Exit Planning	Key part of Exit Planning

EBITDA

The word "EBITDA." EBITDA stands for Earnings Before Interest, Depreciation and Amortization. EBITDA is a calculation created from your financials that approximates the cash flow that your company generates.

SDE

Another similar calculation is SDE or Sellers Discretionary Income. SDE also approximates cash flow. The difference is that SDE is lower than EBITDA by the amount that the owner is paid in salary. There are add-backs that are typically used to calculate the expected cash flow from the business after the sale has occurred. Regardless of how one might calculate the cash flow that your business generates, one principal method for calculating the value of your business is to multiply this cash flow amount by an appropriate multiple for your industry and business.

This is not a book about the details of the various methods on how to calculate business valuations. It is, however, important that an owner understands that one good method for determining the value of their business may be estimated by this method.

ADD-BACKS

When calculating either EBITDA or SDE, it is typical to add back certain expenses to reported profit. There are many expenses that relate to the owner, that will not continue after the owner is gone. Examples of these add-backs would be excessive owner salary, owner automobile expenses, owner contributions to retirement plans, and personal expenses charged to the company. Also, any one-time income or expenses should be removed from the calculation.

GENDERS

The use of the terms “he” and “his” are used generically and applies to all genders.

Section 1 – End Game Planning

In section 1, I cover some of the various factors that drive business owners to exit their business, discuss what is involved in developing your End Game Plan, provide five exercises to help you clarify your End Game Strategy and provide you with an outline of what an End Game Plan would look like. I will also share with you an article on the seven excuses that business owners make to avoid End Game and Exit Planning and provide case studies about why three business owners chose to exit their business.

You Feel You Need to Get Out

There are many factors that can drive you to exit your business. You may be facing health issues, facing stressful situations or are simply feeling burned out. Your time may be consumed by your business, or you may need to deal with issues outside of your business. Let's look at each of these individually.

1. **Facing Health Issues.** Health issues may be major issues, such as a recent heart attack or ulcers or be less immediate issues, such as being overweight or having high blood pressure.

2. **Stress.** Dealing with stress is a normal part of owning and leading a company. Over time, stress can wear you down and cause health issues.

3. **Feeling Burned Out**. Burnout is not simply a result of working long hours or juggling too many tasks, though those both can play a role. Physical and mental exhaustion, a sense of dread about work, and frequent feelings of cynicism, anger, or irritability are key signs of burnout. Burn-out can cause mental and physical health problems,

including headaches, fatigue, heartburn, and other gastrointestinal symptoms, as well as increased potential for alcohol, drug, or food misuse. The following are symptoms of burn-out:

- Feeling fatigued all the time
- Lacking motivation
- Increasing cynicism
- Reduced performance
- Dreading going to work
- Trouble sleeping
- Physical ailments
- Avoidance of other employees
- A short temper
- Neglect of self-care

4. **Not Enough Time.** Unless you have been able to build a highly effective management team, not having enough time to deal with the many issues of running a business is a common challenge for many business owners. This can easily lead to not having enough time to be with your family or enjoy passions that you may have outside of work.

5. **Your Market Has Peaked.** The opportunity to grow your business further is limited by the overall growth in your industry or your market segment.

6. **You Are Bored**. You have been running your business for a long time and are no longer excited about coming to work every day.

7. **External Issues.** There can be many other external drivers. You may need to deal with family issues or an elderly parent. You may have made commitments outside of work that you aren't able to meet.

Stop now and make a list of things that frustrate you about owning and running your business.

You Feel You Want to Get Out

There are many factors that are pulling you to go onto the next phase in your life. You may be looking to cash out of your business and build your individual net worth. You may feel you have too much of your net worth tied up in your business and may want to diversify your wealth. You may want to start another business. You may be driven to do more philanthropic work or to travel more while you can. Or you may have a personal passion that you want to follow and develop. Let's look at each of these individually.

- **Cash Out**. Due to the timing of the industry, your business, or the investment community, it may just be the right time to cash out. Your industry may be facing long-term issues or multiples for business sales may be at an all-time peak due to low interest rates. Whatever the reason, it may be time to cash out, even though you feel that you could continue to work in the business for a longer period of time. The future of any business is unknown. Case in point – how COVID 19 negatively impacted so many businesses.

- **Diversifying Your Net Worth.** For most business owners, more than half of their net worth is tied up in their business. Even if this is not the case, selling your business can build your net worth and allow you to diversify your investment portfolio. If your net worth, including the value of your business, is enough to easily support your planned lifestyle after you leave, then selling your business now may be appropriate.

  In exit planning there is a concept of "The Envelope Test." This approach is to determine what amount you need from the sale of the business to create your targeted total net worth. Write this number down on a piece of paper, put it in an envelope and put it in a drawer. Then periodically check to see if your business can be sold for that amount. When it does – then consider moving forward with selling your company.

- **Starting another Business.** For some business owners starting a new business or taking some of the proceeds from the sale of the current business and purchasing another business may be an attractive exit strategy. Perhaps your current company and/or its industry has limited long-term growth potential. It may be better to sell now and create or purchase another company in a different industry or market.

- **Philanthropy**. For many people the need to give back to others is a powerful motive. On a personal note, I had the opportunity to work with Habitat for Humanity and be a part of a local chapter that built 107 homes in San Diego and Tijuana in a little more than one week. We got to see the faces of 107 families who were now able to own a home that would likely never have been possible without Habitat for Humanity. The need to give back can be a power motivator to exit a business. The sale of the business may provide some of the capital and provide the time for the business owner to fulfil their philanthropic desires.

- **Travel More.** Wanting to see the world can be a powerful motivator. Extensive travel takes time, money and physical ability. The quote "Live life to the fullest, because it only happens once" applies here. If travelling is a motivator, then consider selling your business when you have the energy, time and money to travel.

- **Personal Passion.** You may be driven by a particular passion to climb Mount Everest or to complete items on your bucket list.

  One excellent example is that of Shaun Oshman. Oshman is the founder of iSupportU, a Colorado-based IT support company. If you want someone to manage your computers and ward-off computer viruses, Shaun is your guy. Or was, that is, before he decided he wanted to lead a life slightly less ordinary. He was 39 and his company was generating a couple of million dollars of revenue when he decided that by the age of 40, he wanted to be living on a boat sailing around the world.

Oshman hired a business broker named Front Range and they went about marketing the business. Oshman's company garnered an offer of 2-3 times Sellers Discretionary Earnings (SDE). A fair, but far from fantastic multiple for his business. So why is Oshman so happy? Because he had a vision for the future that he was excited about and 2-3 times SDE allowed him to make that dream a reality.

It has been shown through research that business owners who exit their business to pursue a passion are much more likely to view their life after exit more positively.

Stop now and make a list of things that you are excited to do that would be motivators to transition out of your business.

Exercise 1 – Push and Pull Factors

Now that you have created your two lists, rate each of the push and pull factors on a scale of 1-4.

1 = Not a factor at all
2 = Somewhat a factor
3 = Certainly a factor
4 = Main driver for exiting

If you have factors that are not listed, please add them in the space provided.

Push Factors	**1**	**2**	**3**	**4**
Facing Health Issues				
Too Much Stress				
Feeling Burned Out				
Not Enough Time				
Your Market Has Peaked				
You Are Bored				
External Issues				

Pull Factors	**1**	**2**	**3**	**4**
Cash Out				
Diversifying Your Wealth				
Starting Another Business				
Philanthropy				
Travel More				
Personal Passion				

Use your answers in this exercise as input when you create your written End Game Plan.

Dealing with the Negatives

Having listed the many factors that may be encouraging or driving you to exit your business, let's review the many negatives that may be involved in preventing you from exiting your business. Often these negatives are not clearly identified and are not dealt with openly. Owners may seek to avoid these potential losses without realizing they are doing so. This can result in seemingly irrational behavior that interferes with a successful transition from a business.

□ **You are no longer going into work.**
Just going to work provides a break from your personal life. Perhaps you enjoy driving to work or taking a train, where you have uninterrupted time to listen to music, read audiobooks, or just have quiet time to yourself.

□ **You may lose some of the personal relationships that you have built at your company.**
For many owners, many acquaintances result from being in business.

□ **You may lose some of the perks that came from being an owner.**
Perhaps you currently have a nice automobile paid for by the company. You may have memberships in country clubs or travel to great locations at company expense.

□ **You may lose tax deductions.**
You may charge personal expenses to the company that result in reduced income taxes that will no longer be deductible once you have sold your company.

□ **You may lose some or all of your ability to place pre-taxe~~d~~ income into qualified investment plans.**

You may currently have qualified investment plans, pensions or profit-sharing plans that allow you to reduce income taxes and invest in tax deferred investment plans.

□ **You may no longer be recognized in your industry.**
Perhaps you have been a speaker at conferences, write articles in industry magazines or be a frequent participant in podcasts.

□ **You will likely lose your mentorship with employees.**
You may enjoy passing along your knowledge and wisdom to your employees.

□ **You will no longer have the challenge of running the company.**
You likely enjoy dealing with the never-ending challenges that you have dealt with for years.

□ **You will no longer be the boss.**
Unless you purchase another company, you will no longer be the head of a company.

□ **You will no longer be driven to learn new skills**.
Learning may be highly important to you, and you will miss the requirement to constantly learn new skills.

Exercise 2 – List Your Negative Factors

The following is a table that you can use to list the factors you consider to be negatives should you leave your business. The first step is to list each factor and rate its importance to you. Rate them on a scale of 4 being the most important and 1 not being important.

The second step is to identify how you can provide similar activities that would reduce the negative impact.

I have provided a sample exercise based on the list of negatives that I have included in this book.

Negative Factors	Rating	New Activities
Miss going to work	4	Will be helping in another family business.
Loss of relationships/friends	3	Lots of friends at the golf club.
Loss of business perks	2	Will have more money to spend on personal auto.
Loss of industry recognition	1	Just not important.
No longer a mentor	3	Will seek out other business owners to mentor.
Will miss challenges	2	Other family business has challenges.
No longer the boss	1	That's great. Will not miss the pressure.
No longer driven to learn new things	4	Will read at least 2 non-fiction books per month.

Now it is your turn - create your own list and then determine how much of a negative each factor is and then list an approach that you can use to compensate for the negative.

You can download a blank form at: https://exitendgame.com/links/.7

Fear of the Unknown

There are many reasons for an owner to have anxiety about transitioning out of their business.

- What if I can't sell the company?
- What will happen to my employees?
- What if I sell too soon and miss the upside that might come from the company's continued growth?
- What will I do next?

It is important to recognize any anxieties that you have about exiting your business. If these issues are not recognized and addressed, they may be hidden factors that hold you back from implementing your exit plan.

I worked with the owner of a $15 million per year manufacturer on Long Island just before COVID-19 came to the United States. The owner had a long history with the company and had successfully grown the business to be one of the top 10 suppliers in his industry. One of my mistakes working with the owner was not helping him clarify his push and pull factors and helping him to create a script for what his life would look like after he sold the business.

We got an offer of more than 2X revenue, but the owner just wasn't ready to exit. Unfortunately, COVID-19 impacted his industry negatively. My experience with this owner was one of the driving factors that compelled me to write this book.

Fear of the unknown can inhibit owners from taking advantage of significant opportunities to exit their business.

Stakeholder Obligations

As a business owner, you certainly may feel that you have obligations to take care of long-term, loyal employees who have helped you build the business. You have customers and suppliers that depend upon your company's continued success. You may have a family whose financial support depends upon your business. You may have family members or friends that work in the business. These are serious obligations to consider when determining when and how you exit your business.

1. **Management Team Obligations.** Many of your management team members may have been long-term loyal employees and have helped you to build the company's value.
2. **Other Employee Obligations.** What will become of these employees after the business is sold?
3. **Customer Obligations.** Your product or service may be a critical element in the success of their business. You may be the sole source supplier. How will your customers be impacted by the sale of your company?
4. **Supplier Obligations.** If your business is a significant portion of the revenue of individual suppliers, how will they be impacted by the sale of your company?
5. **Family Obligations.** Are there family members who work in the business? Will any family members remain with the company after the sale?
6. **Obligations to Friends.** Do you have close friends that work in the business? How will they be impacted?
7. **Business Financial Obligations.** Have you borrowed money from friends and relatives? Do you have outstanding loans that will need to be paid off?

These obligations can be overwhelming to a business owner. How will you balance the needs of yourself and your family with the needs of other stakeholders? When selling the business, you may find higher priced offers that don’t meet your goal to protect your stakeholders.

Some buyers are likely to sell the business within a few years, while others may have a longer investment horizon. This is a decision that an owner may have to make regarding the trade-offs of the pros and cons of each offer they receive.

Talk to Personal Business Advisors

You may have a clear picture of why you want or need to exit your business, your specific goals and objectives, and what your life will look like after your exit. If this is true, then congratulations.

But for most business owners, these issues are not well defined and talking with professional advisors about these issues can be useful. Many wealth managers and exit planners are skilled in helping you discover why you want to exit, what you want to accomplish for yourself and your business and what you will do after your exit.

Many personal coaches are also skilled in combining both personal and business advice.

And, of course, you can talk to your accountant, banker or business attorney. They may provide important information on tax consequences and legal ramifications, or just be there to listen.

But ultimately the decision is yours to make. That is why securing qualified advice and considering all the positives and negatives of exiting your business is critical in making the decision on whether and when to exit.

Seven Excuses Business Owners Use to Avoid Exit Planning

According to Richard E. Jackim in "The $10 Trillion Opportunity," fewer than 30 percent of private businesses have an actionable succession plan. By default, most business owners simply do nothing." There are many reasons why a business owner of a private company does not have an exit or transition plan. Richard E. Jackim lists the following seven potential reasons:

I am planning on working until late in my life.

Even though someone plans on working until late in their life, there are many issues that should be addressed and planned for in advance. These issues include:
(1) What happens if the owner dies or becomes disabled?
(2) Can the company build a management team that will take on more and more responsibility for running the company, so that the owner can slowly ramp down the time they work in the business?
(3) What will be the final disposition of the company?

I have family members that will be taking over the business when I leave.

Transitioning ownership to the next generation has been a common way for an owner to exit. However today, more often the next generation is choosing not to work in the business or does not want to take over ownership of the business. Even if there is interest from the next generation, a transition plan needs to be developed that properly prepares them to be an effective owner and manager.

My business is a service business, and I can't get much for it.

It is true that certain service businesses do not get as high a multiple as other industries. Therefore, it is even more important to develop a plan to maximize the value you can get from your business. The Value Builder

System has written an excellent eBook on how to productize your service business and increase the value of your service business. You can download this eBook on the website: www.exitendgame.com.

I can't imagine what life will be like after I leave the business.

One of the biggest exit planning obstacles is accepting that it is time to exit the business and begin a new phase in one's life. Often the owner does not have a clear plan of what he will do after he leaves the business and therefore avoids planning altogether.

I don't have time to develop an exit or transition strategy.

It is certainly easy for an owner to stay focused on the short-term problems of running the business. But without proper exit planning it is likely that the owner will not maximize the value of their business and may not be able to best control when and how they exit. Many owners wait too long to exit and fail to maximize the value of their business to potential buyers when it is at its peak.

I don't know how to start the process or whom to call.

There are many different professionals who can provide guidance on how to create an exit or transition plan. Talk to your accountant, a business broker, or a certified exit planner about getting help. You can also check out www.exitarchitect.com, which has valuable information about exit planning.

I know I need a plan, but I can do it later.

Delaying to plan is often the same as not ever planning, because the owner continues to delay year after year. If your strategy is to transfer ownership to another family member, this requires careful planning, training, and communication. If your strategy is selling your company, the typical time frame is at least 4 years ahead of your planned exit date. This is comprised of two years of planning in advance of the sale, one year to find a buyer and execute the deal, and at least one year that the new owner will likely want you to remain with the business.

Exercise 3 – What Keeps Me Up At Night

There are many issues that a business owner faces daily in running their business that might keep them up at night. Some of these issues relate to exiting your business. I have listed some of them below in the form of an exercise to help you clarify which of these issues are most relevant in terms of being key exit drivers. The following is a list of potential exit factors that might apply.

A = This factor does not apply to me.
B = This factor does apply, but is not a top driver.
C = This is one of my top exit concerns.
D = I need to think more about this factor, before I decide.

What Keeps Me Up At Night	**A**	**B**	**C**	**D**
I am fearful about the future growth of the business.				
I am concerned that I might not be capable of growing the company in the future.				
I am concerned about my ability to run the company as it grows and gets larger.				
I am concerned that I don't have the knowledge or experience in how to sell my company to either internal or external buyers.				
I can't image what my life would be like after I exit my business.				
I am concerned about the future of my management team and my employees if I sell and leave the company.				
I have family members who might be interested in owning and running the business, but I don't know if they are ready or how I could finance an ownership transition.				
I don't have time to run my business and plan for my exit.				
I know there are many things that I need to do to get my company ready for sale. How do I do that?				
I don't know if the value of my business will be enough to support my planned lifestyle.				

What Is My Business Worth?

Determining what your business is worth is an art form. If you had 5 people develop an Estimate of Value for your business, you would likely get 5 different valuations. Ultimately the value of a business can only be determined in the real world by negotiations with real buyers. Moreover, each buyer will likely have their own unique valuation based on their analysis of your company and the potential synergistic financial impacts between their company and your company.

So how should you determine the value of your business? It is not from overhearing someone's story for what kind of multiple their company sold. It is from engaging a professional advisor who provides their Estimate of Value based on their experience, expertise and market analysis. Even then it will likely include a range of values for which your company would likely sell.

You most likely don't need a Certified Valuation provided by accounting firms and valuation companies. These Valuations have their place in certain legal, tax, and accounting matters. But what you need for your End Game Plan is just a good Estimate of Value. These estimates are typically based heavily on market research on recent sale transactions in your industry.

Can You Afford to Exit Your Business?

Now that you have your Estimate of Value, you can proceed to determine if the Net Proceeds from your business, when combined with your other net worth assets, can provide you with cash flow that will support your planned lifestyle.

Regarding Net Proceeds there are many expenses that will reduce your net cash proceeds, including the following:

1. Any transaction related advisor fees.
2. Any legal transaction fees.
3. Closing costs.
4. Any contingency reserve holdbacks.
5. Any other adjustments that reduce your net proceeds at the time of sale. One example would be if there are agreed balances for cash or inventories or other components of Net Working Capital that are not met at the time of sale.

But there may be other future sources of cash that would be used to increase your net worth. These would be reserve holdbacks that are released in the future, consulting fees paid to the owner, or earn-out payments made in the future based on future company or personal performance.

Once you have completed this Net Proceeds Calculation, you can determine if there is a gap between what you need and what you will generate with the sale of your business. If there is a gap, then you will be faced with the choice of growing the business and selling in the future or selling now, adjusting your post exit cash flow needs or just expecting that you may run out of money at some point of time in the future.

Exercise 4 – Financial Planning

There are three approaches to determine how much you need to fund your planned lifestyle and whether your after-sale net worth will support it.

1. Simple Multiple Calculation

One approach that is used by financial advisors to determine how much your net worth should be is to multiply the income you need to fund your lifestyle by 25 and then subtract your current investments. The multiplier of 25 is the inverse of 4% - a percentage that you would take out of your assets to fund your retirement. This is a simplistic approach that ignores the annual return on your investments and inflationary factors.

Income You Need to Fund Your Lifestyle	$
Multiplier	X 25
Your Requirement for Investible Assets	$
Less Your Current Investments Outside of Your Business	$
Net Proceeds Needed from the Sale of Your Business	$

Here is an example:

Income You Need to Fund Your Lifestyle	$150,000
Multiplier	X 25
Your Requirement for Investible Assets	$3,750,000
Less Your Current Investments Outside of Your Business	-$1,000,000
Net Proceeds Needed from the Sale of Your Business	$2,750,000

This approach does not consider your income tax rate, your expected return on your investments or inflation. But research has shown that it is an overall good estimate of how much you need to retire.

2. More Complex Approach

This approach goes into much more detail about your assets and sources of income.

First, list all your assets including the estimated value of your business.

Description of the Asset	**Current Value, Net of Any Outstanding Debt**
Cash on Hand	
Qualified Retirement Plans	
Other Investment Accounts	
Cash Value of Life Insurance Policies	
Other Personal Assets that are expected to be sold to support your post-exit financial plan	
Estimated Net Proceeds from the sale of your business	
Any Real Estate Property that is expected to be sold to support your post-exit financial plan, net of any debt obligations	
Subtract any other debt obligations, excluding the mortgage on your primary residence	

Total Net Available Investable Assets	

I have excluded the death benefits on life insurance policies, because the objective of this plan is to determine your ability to fund your lifestyle while you are still alive. These values, however, are important in your overall estate planning calculations. Similarly, I have omitted your primary residence from this calculation.

Next, list all sources of recurring income.

Description of the Asset	**Current Annual Income Stream**
Rental Property	
Expected social security income	
Any other source of recurring income	
	________________________
Total Annual Recurring Revenue	

Every individual will likely have assets, liabilities, or income streams not listed above. Please adjust this exercise to meet your specific circumstances.

Next take the Total Net Available Investible Assets and multiply by your expected investment rate. This has historically been between 5% and 7%. Next subtract estimated tax payments on your income from this number. This will give you an estimated annual after-tax cash flow before considering the impact of inflation over time.

Description of the Asset	**Current Annual Income Stream**
Total Net Available Investible Assets	$
Expected Investment Rate	%
Expected Pre-tax Income	$
Expected Federal and State Combined Income Tax Rate	%
Expected Tax Payments	$
Net Annual Cash Flow from Investments	$
Total Annual Recurring Revenue	$
Combined Annual Cash Flow	$

Your expected cash flow requirements should be indexed upward to reflect expected inflationary factors.

3. Work with an Outside Financial Planner or Wealth Manager

I highly recommend that you work with an outside financial planner or wealth manager to create a comprehensive financial plan. They will likely create complex planning models that consider income taxes, projected return rates on your investments, and inflationary factors. Many of the advisors use Monte Carlo Simulations to run thousands of possible scenarios and provide you with a likely range of results.

Timing Is Everything

When should an owner exit?

There are three different timing cycles that need to be considered:

1. The cycles in the investment market.
2. The lifecycle of the business, and
3. The owner's lifecycle

The challenge is to find the right time to exit and balancing what is happening in each of these three timing cycles.

<u>The first cycle is the investment market.</u> This is impacted by the following factors:

1. The amount of cash available to be invested in buying companies. This is determined by the amount of cash in insurance companies, family offices, and private individuals who purchase companies directly or indirectly through pools.
2. The interest rate. Typically, higher interest rates translate to lower multiples or even avoidance of investment.
3. The amount of money in private equity groups that is waiting to be invested.
4. The United States and World economies.
5. What is happening in the stock and bond markets.
6. Events (such as COVID-19 or wars) can have profound impacts on economies and business fortunes.

<u>The second lifecycle is the lifecycle of the business.</u>

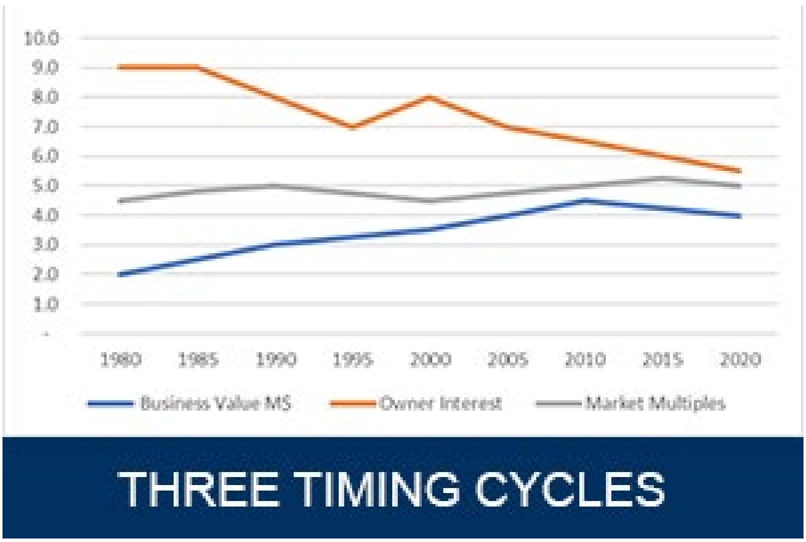
Each business goes through its own revenue and profitability lifecycle.

Businesses grow, shrink, grow again over time. Deciding when to sell your business can be influenced by recent years' results and expected future years' profitability.

Buyers look for stability and growth, so selling during a period of growth is the right time relating to this lifecycle factor. Don't wait too late in your company's growth cycle. As long as you are offered the amount of money that will support your planned lifestyle, consider selling while the company is still growing. Negative events, like COVID-19, are rare, but they do happen. Or, you could have an accident that makes it difficult to work in the business.

<u>The third life cycle that impacts when you should sell is the owner's life cycle.</u>

As we get older our interests can change, our family needs can grow, and our health condition may deteriorate. When an owner first starts a business, their energy and focus on creating and growing a company is usually high. That may remain high or go through peaks and valleys.



In summary, consider each of the three timing cycles when making your decision to transition from your business. Don't wait until these have turned downward.

Exercise 5 - Timing Factors

The following is a list of potential factors that can influence the timing of an owner to exit their business. These factors are segmented into three timing cycles: Business, Investment and Personal. For each factor, please identify how this factor may apply to you.

A = This factor does not apply or is not an important factor.
B = This factor does apply but is not a top driver.
C = This is one of the drivers that is influencing my decision on when to exit my business.
D = I don't know.

Business Timing Factors	**A**	**B**	**C**	**D**
What has been your business growth factor over the past 3 years? Consistent, growing or declining?				
What is your projected business growth over the next 5 years? The same, higher or lower?				
Are there government related actions that are pending or likely that would influence the future of the business?				
Are there environment factors that would influence the future of the business?				
Are there potential changes in income taxes that would have a negative or positive impact on the amount of taxes that would be due on the sale of your business?				

Investment Market Timing Factors	A	B	C	D
Are the level of interest rates a factor, either positively or negatively?				
Are Private Equity Groups targeting your industry and the size of your company?				
Would your business be attractive as an acquisition by a Family Office?				
Is the state of the economy a factor?				
Are sale multiples higher than historical averages?				

Personal Timing Factors	A	B	C	D
Is your age a factor?				
Is your health a factor?				
Is stress a factor?				
Are family matters a factor?				
Do you want to purchase another business?				
Do you want to travel more?				
Do you have philanthropic goals?				

Initial Tax Planning

When developing your End Game Plan, the critical aspect of tax planning is to make an estimate of how much income tax you will likely have to pay when you sell your business. This can involve complex calculations. Some of these issues are covered later in the book under the chapter on Tax Planning. For the purposes of completing your initial End Game Plan, you need to identify your likely capital gains tax percentage for both federal and state. Your federal long-term capital rate will likely be between 15% and 20%. State capital gain tax rates vary widely. Please consult with a qualified tax advisor to determine how the sale of your business will be treated.

You’ll Want a Guide

One of the key elements in a successful exit is balancing the need to keep the business going and growing and at the same time develop both an end game plan and an exit plan. You may have someone in the business that can successfully run your business. That is also a plus when it comes to the buyer evaluating your business. If that is the case, then the owner can lead the end game and exit planning process.

But it is more likely that you will need a guide and a project manager to help create and implement your exiting plans. Having an experienced outside guide with expertise in M&A transactions will be a plus. Depending on how you structure your exit planning advisory team, you may be able to use one of the advisors on your exit planning advisory team. You may be able to use your M&A advisor. Or you may want to bring in an exit planning specialist, who is trained and experienced in these matters.

Get an Exit Planning Diploma

This may sound a little strange, but your end game plan may include securing a much broader and in-depth understanding of the many aspects of exit planning, before you finalize your end game and exit plan. That is one of the reasons that I developed the Exit Architect® Academy to help both advisors and owners fill in important missing knowledge. With our approach, we assign you a Guide who works with you to identify areas that may be lacking and who builds a customized educational program where they meet with you monthly to review and discuss class materials from the Academy. To learn more about the Exit Architect® Academy and how it might benefit you, go to: www.exitarchitectacademy.com.

Three Case Studies

Over the past 2 decades, I have consulted with hundreds of business owners on a variety of topics. When talking about planning for exiting a business, I found the drivers to exit are unique to each seller. I selected three companies' experiences to share with you and what motivated them to exit.

Case 1: The owner of a leading energy management software and services company.

This company started early in providing critical data management services to utilities and energy marketers. As deregulation expanded in the United States, so did the company's business. They focused on providing high-quality information services, but also delivered their services at a competitive price. The result was the company grew to be a leader in their field, with corresponding revenues and profits.

But the owner understood that there were only a few states that were likely to deregulate energy delivery in the future, thus limiting the long-term growth potential of his company. He also knew that valuation multiples were at a recent high level.

The owner had become involved in supporting several not-for-profits that provided education, healthcare and elder~~ly~~ care services. He found that he just didn't have enough time to support them in the way that he wanted.

It had been 25 years since the owner had started the company. He began thinking about selling the company in 2019, spent several months getting more educated on M&A advisory firms, the market and how to best value his company. He made the decision to sell in 2020 and begin the process of seeking out potential buyers.

The owner had several conversations with other companies in the industry and one competitor's offer matched what he felt the company was worth and at a price point that would enable him to move on to spend more time with his philanthropic activities and his family.

He sold it a year later. He was able to share some of the sale proceeds with key members of his company. He also saw that the buyer had significantly more financial resources to grow the company and that his employees would have more opportunities to work for a large company.

In summary, the factors that helped him make the decision to sell were:

- He had a strong motivation to expand his philanthropic activities.
- He wanted to have more time to spend with his family.
- He had built the value of his business to a point that it would easily fund his post-exit lifestyle requirements and enable him to share some of the proceeds with key employees.
- The opportunity for company growth was somewhat limited.
- Sale multiples were at a recent high.
- He had the opportunity to sell the company to a competitor in the industry, where they would understand the industry's challenges and opportunities.

Case 2: The owner of an established investment company.

This company had been a long-term provider of investment advice to financial institutions and managers. They had become known for some of their proprietary investment models. The business was originally created by the father of the recent owner. The son had worked with the father for over 15 years. By 2012 the son had fully transitioned to own and run the business.

Under the son's management the company found it challenging to maintain revenues. By working with outside advisors, he focused on operational efficiencies and was able to maintain profitability.

However, the son had several personal drivers that were influencing him to consider selling. He had recently gotten married again and wanted to spend more time with his children.

He knew his children were not interested in coming into the business and becoming owners and management. So, he was faced with the question “Do I continue running the company after working in the company for over 20 years or move on the next phase in my life?” He decided that selling was the right answer and was excited about moving on to his next phase.

He was approached by a national investment management firm and after considerable negotiation was able to secure a price and corresponding terms of the sale that met his requirements. Some of the employees were provided ongoing employment with the new firm.

The company was sold, and the transition accomplished in a timely manner.

In summary, the factors that helped him make the decision to sell were:

- The value of the company was an amount which would fund his planned lifestyle.
- His children were not interested in taking over the business.
- Selling to a nationally recognized investment management firm would likely mean the continuation of his business and the employment of some of his dedicated staff.
- He would now have much more time to spend with his spouse and family.
- He would also have time to travel more and study foreign languages, something that he always enjoyed.
- His End Game Plan also included the goal of going back to school or becoming an adjunct professor.

Case 3: The owners of a leading social media company.

The company began in 2007 as a social media marketing firm, which was relatively unheard of at the time. As Facebook began to capture mass market share, so did the firm, as brands needed assistance with their social media marketing. The company, founded by a husband-and-wife duo, worked with over 100 Fortune 1000 firms, growing and scaling rapidly without raising outside capital.

In 2013, the company was at a critical point in time. Social media was no longer new, and competition was fierce. New social networks were entering the market, and the company had to constantly evolve to adapt to the networks and price accordingly. Furthermore, the husband of the husband/wife duo stepped down as CEO to launch a new venture, and his wife assumed the key leadership position. She set a long-term plan to continue company growth, while optimizing for exit.

The company focused on productization of offerings, looking at how they could price by deliverable versus pricing by the hour, as most firms do. They added systems for expansion of revenue, and delivery of content within brands. As a result, they optimized for profitability, growing their margin significantly over the next 7 years.

In 2020, digital marketing experienced rapid growth, as all eyeballs turned to the internet during the COVID lockdowns. The company shifted to a virtual team, which lowered their costs, diversified their team, and expanded their talent pool. However, the founders also saw some future risk. Technology and artificial intelligence were becoming a very important component of social media offerings, and looming regulations posed a threat to remaining focused on social media. About 6 months in to 2020, the founders realized that they were close to the number they had envisioned for exit, and that they should begin talking to M&A advisory firms.

At the end of 2020, the founders worked with an M&A Advisory firm that specialized in marketing agency exits. The buyer they ultimately chose was a buyer in the technology space, one that wanted to add a marketing arm to their offerings. This appealed to the founders because they knew that technology was the future of supercharged marketing. Also, if the active co-founder was going to be integral to the after-sale period, they wanted her to have an impact, and they felt she would have a strong seat at the table as the head of the digital marketing unit. Since this was a self-contained business unit, all their team would be needed, and taken care of.

The deal closed in April 2021, when the market demanded at a top multiple, enabling the founders to achieve their financial goals, and help grow the acquiring company through what would become a new business unit.

In summary, the factors that helped them make the decision to sell were:

- They wanted to diversify their portfolio/net worth by selling the business.
- They created an exit plan early and were able to pull the trigger when market conditions were right.
- The risk of social media marketing as an isolated service was growing.
- Sale multiples were at a recent high.
- They chose an acquirer that would be ideal during an earnout period, allowing them to operate independently as a business unit, and allowing the founder to contribute in a meaningful way.

It is Okay to Get Out

We have presented push and pull factors that impact whether a business owner decides to exit their business, along with the negatives to exiting and fears about exiting. Potential obligations to shareholders have been reviewed and seven excuses that owners make not to plan for exiting their business have been provided.

Making the decision to transition out of your business is a complex and difficult one. The decision process involves both analytical and emotional factors.

But thousands of business owners make this decision every year. Every one of these business owners has weighed the pros and cons of exiting their business. For these business owners, the pros outweighed the cons.

If you follow the processes outlined in this book to honestly evaluate your individual factors and determine that exiting your business is your best choice, you will be comfortable in your decision and move forward with committed purpose.

Creating Your End Game and Exit Plan

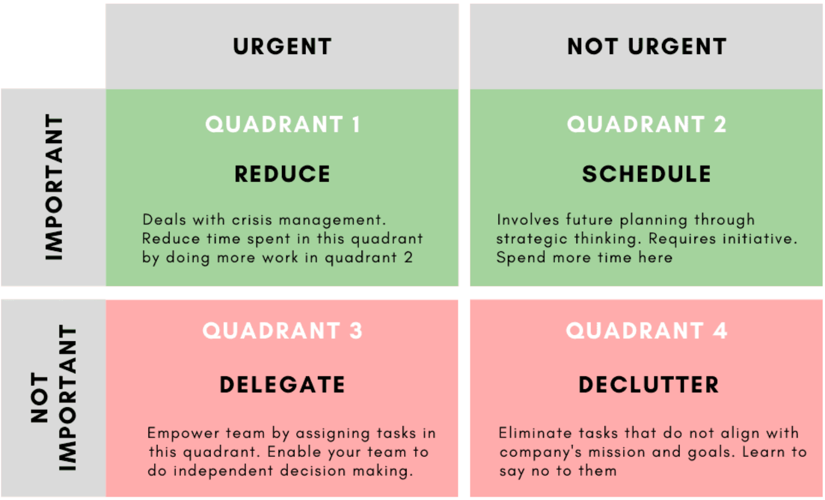
As a business owner you probably have created many short-term and long-term plans, such as an Annual Plan, a Quarterly Plan, a 3 Year Plan, and perhaps a Strategic 5 Year Plan. How about a Risk Management Plan or Business Continuity Plan? You get the idea. When it comes to operating our companies, we are great at creating plans. And some companies are even good at accomplishing planned goals.

So why not an Owner's End Game Plan! An End Game Plan for an owner does these things:

1. Identifies the factors that are influencing an owner to transition out of the business.
2. Determines the objectives that an owner will want to accomplish if they exit their business.
3. Identifies how much their business is currently worth and whether that value is adequate to meet their cash flow requirements.
4. Identifies the best time to exit their business.
5. Evaluates the exit options that are available to the owner.
6. Helps them identify and address the fears and anxieties relating to potentially exiting the business.
7. Documents what life would look like after they exit their business.
8. Defines specific goals and objectives and a high-level timeline of events.

An End Game plan is developed by honest discovery, education, and analysis. It is a written plan and becomes one of the most important strategic plans that a company's owner can develop. It becomes the baseline for growth versus exit decisions. It becomes the input to a more comprehensive exit or transition plan. It focuses on the why and when part of the exit planning process. Then the exit planning process can deal with how to achieve the goals of the owner's End Game Plan.

Everyday business owners face a variety of challenges and issues they must address. Some are important, some are urgent. Others are not. This has been summarized in a matrix called the Eisenhower Matrix that shows four quadrants and how one should address each of these issues and challenges.



End Game Planning and Exit planning falls in Quadrant 2 – Important, but Not Urgent. These tasks involve future planning through strategic thinking. Dealing with these tasks requires initiative and focus. These tasks typically require a considerable amount of time and often get pushed down on the owner's priority list with tasks that are viewed as more urgent, even those tasks that are Urgent, but Not Important.

End Game Planning and Exit planning are often viewed as projects that are started once the business owner has planned their exit date, or after a business owner is approached by a third party to sell their business. Instead exit planning should be viewed as a critical business strategy. With this approach, end game and exit planning become part of the company's mainstream strategic planning.

According to a State Owner Readiness Survey conducted by The Exit Planning Institute, 61% of owners strongly agree with the statement "Having a transition strategy is important both for my future and for the future of my business." But only 49% of private business owners have done any exit planning. Furthermore 79% of owners have no written exit plan. And a surprising 94% have no written personal "what's next" plan.

Why the lack of action? What I hear in talking to business owners is: (1) "I don't have enough time." (2) "I don't know where to start." (3) "It sounds way too complex." (4) "I'll think about it when I need to sell or transfer my business."

With baby boomers now entering retirement age, there is a real concern in the exit planning community that more and more businesses will be offered for sale, thereby increasing competition and negatively impacting sale prices and the salability of companies.

According to research conducted by the Exit Planning Institute in 2019, between the years 2020 and 2030, owners of 250,000 US companies are projected to exit their business. Of that total 50,000 will be "market ready," 30,000 will successfully transact a sale. That represents 12% of the total! Of those 30,000 companies, 53% will have to sell with concessions. That leaves only 14,000 or 5.6% of the companies that try to exit their business will sell for their desired price.

For many business owners, the value of their company represents over 80% of their total net worth.

The impact of a properly constructed end game and exit plan can be substantial. It can positively impact the success of your company. It can dramatically increase your profits and your business income. It can dramatically increase the sale multiple of your business. It can improve your relationship with your family members.

Sample Written End Game Plan

Appendix 1 provides you with a sample written End Game Plan.

After you have read this entire book and completed each of the exercises included in this book, return to this section, re-read the sample plan and create your own written End Game Plan. You may have many unanswered questions about your motivation, timing, or exit strategy. Consider this your first draft that will be modified as you move through your exit journey.

Your End Game Plan should contain the following sections:

- A summary of drivers that are pushing you out of your business.
- A summary of drivers that are pulling on you to exit your business.
- A summary of your perceived obligation to various stakeholders.
- A summary of the key factors relating to when you should exit as determined by the three timing cycles identified in this book.
- An initial estimate of the value of your business.
- An initial financial plan that determines if your post-sale net worth will be adequate to support your planned lifestyle.
- A summary of the top few exit options that you are considering.
- A summary of how well the company is prepared for transition to new ownership.
- A summary of why a potential buyer would want to purchase your business.
- A summary of your personal financial situation as it relates to your ability to fund your expected lifestyle after you sell and exit your business.
- A vision of what your life should look like after you exit the business.

If you would like to view an additional sample of an End Game Plan, please go to: https://exitendgame.com/links/.

Section 2 – Exit Planning

In this section the focus is on defining the role of Exit Planning, discussing financial planning and business valuation, how to evaluate the readiness of your business to exit, and introducing some of the types of outside professional service providers that are available to help you with the details of your exit planning.

I will also expand on the pros and cons of each of your exit options. This section also presents some of the investments that you want to make in preparing for and executing your exit plan and how you might go about planning for your exit. I also provide some educational information on tax planning, information relating to exiting family-owned businesses, and reinforce the importance of becoming educated about the Exit Planning process.

What Is Exit Planning?

An exit plan is a comprehensive road map to successfully exit a business. An exit plan asks and answers all the business, personal, financial, legal, and tax questions involved in selling a privately owned business.

An exit plan includes contingencies for illness, burnout, divorce, and even the owner's death. Its purpose is to maximize the value of the business at the time of exit, minimize the amount of taxes paid, and ensure that the business owner can accomplish all his or her personal and financial goals during the process.

The impact of good exit planning versus poor exit planning can be seen in the result of the many companies that have gone through the exit process. The following two lists identify the impact of both good and poor exit planning. These lists were complied from the book “The $10 Trillion Opportunity” by Richard E. Jackim and Peter G. Christman.

A well designed and implemented exit plan enables business owners to:

- control how and when they exit.
- maximize company value in good times and bad.
- minimize, defer, or eliminate capital gains taxes.
- retain control by generating several strategic exit options.
- ensure they achieve all their business and personal goals.
- reduce their stress and that of their employees and families.
- ensure continuity of the business.
- preserve family harmony.
- reduce employee and family uncertainty.
- plan for a fulfilling and exciting retirement.

Failure to create a well-defined exit plan virtually guarantees that the business owners will:

- exit their companies because of pressure from outside circumstances, not because of their own desires.
- exit their companies on a timetable that's forced on them instead of one that meets their needs.
- undervalue their companies and leave hard earned wealth on the table.
- pay too much in taxes.
- lose control over the process by being reactive and limiting their exit options.
- fail to realize all their business and personal goals.
- suffer unnecessary psychological stress.
- watch a lifetime of work disintegrate because of poor business continuity planning.
- lose confidentiality during the sale or exit process.

Exit planning is critical to the owner of a business, but also to their families and all stakeholders in the business. Whether or not you plan to sell your business, pass along to family members to run, sell to your employees, or just liquidating the company at the end, committing to a structured exit planning process can have a significant return on the investment of your time and expenses.

Three Key Elements to Exit Planning

In exit planning there are three key elements that will help you increase the value of your business:

□ **Business Acceleration** – increasing revenue and profits.

□ **Increasing the Multiple of Your Business** – improving the transferability and value of a company to a third party. Much of this process is focused on reducing risks in your company to the prospective buyer. Many of these factors are intangible in nature.

□ **Implementation** – preparing for and executing your exit strategy.

1. Business Acceleration

Business Acceleration focuses on increasing both revenue and profits resulting in what professional advisors call Adjusted EBITDA – Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization. In simple terms, this calculation approximates the cash flow generated by your business.

There are two primary drivers in accomplishing this: (1) increasing top line revenue and (2) managing your expenses.

Growing the business is likely a current key focus of the company and you and your management teams have likely tried many of the available strategies to grow your business. Depending on your planned exit timing identified in your End Game Plan, you may have time to continue, even expand your growth focused activities.

Purchasing a company, if your timeline permits, may be an important strategy to consider. Plan on spending at least 2 years to find, secure and integrate any acquisition.

How much you focus on growing top line revenues will be determined by two factors:

1. How much time do you have between now and your planned exit date?
2. If your company sells for its current business value, will that amount, after taxes and expense, support your planned lifestyle?

The second driver is Managing Your Expenses. As business owners you do this every day. You make the hard decisions on what to spend and what not to spend. Do I minimize my expenses to maximize cash flow, or do I invest in activities that will have longer term benefits and increase the value of my business? One of those expenses that has long term benefit is investing in implementing an exit planning process.

What changes when you invest in exit planning, is now you start to view these expenses with expanded criteria. Now your decision focuses on "Does this expense grow revenue, improve profitability or increase my business multiple?"

As you consider exiting your business, there is now a new factor to consider. Generally speaking, the value of your business is a multiple times your estimated annual cash flow. Let's say, for example, that you determine that your multiple is 5X. Anything you can do to reduce expenses and increase your estimated cash flow has an immediate 5X return. Any investment that you make that increases your multiple also should be considered. These decisions should be part of your written exit plan. Discussing the trade-offs of reduced spending versus investments with professionals trained in M&A activities would likely be useful.

2. Increasing the Multiple of Your Business

In running your business every day, you make important decisions about what to spend on things like equipment, staffing, or marketing. These expenses are for tangible items: production equipment, people, or a website.

But to increase the multiple of your business the focus now becomes "What do I need to spend to enhance the salability of my company in the eyes of potential buyers." What do they care about?

Prospective buyers are looking for intangible factors that they evaluate to predict how successful your business will be once the transfer is made to their company. Questions they might ask are:

- Who will run the company?
- Are your procedures well documented?
- Are there any outstanding legal issues?
- How will customers and suppliers react to the sale?
- Do you have any customers that represent more than 15% of your revenues?
- Do you have any critical single-sourced suppliers?
- Do you have any employees whose departure could have negative impacts on the company?
- Will the company be able to achieve forecasted revenues?
- Can the company expand into new products and markets?
- Can the company create more recurring revenue streams?

These are intangible factors dealing with opportunities and risks. The prospective buyer evaluates how real the opportunities are to continue to grow the business, offset by how much downside risk exists. Ultimately the prospective buyer is evaluating these factors to determine how much cash flow they can generate and the likelihood of achieving this cash flow. These factors can be different for the Individual Buyer, the Financial Buyer, and the Strategic Buyer.

An Individual Buyer is a single person looking to buy a company, typically to provide employment and income for themselves.

A Financial Buyer is most likely an individual investor, private equity group or a family office that invests in companies to generate a higher return on investment than they could get from the general market. The length of time they hold the investment before selling it varies. They determine the value of a company based on their expected annual rate of return on their investment.

A Strategic Buyer likely already operates in the industry or envisions an additive value to their current business by buying a company.

The impact on the value of the company can be significant by addressing these intangible factors. But both business acceleration and increasing your business multiple impacts your company's market valuation.

3. Exit Planning Implementation

Having created your End Game Plan and then expanding this plan into a detailed Exit Plan provides a detailed roadmap on what needs to be done and when it needs to be done. Details on how to accomplish this is covered later in the book in the chapter entitled "Ready, Set, Go."

Some Financial Considerations

When advisors and prospective buyers determine the value of your business they will base, in part, your company's value based on your reported profit, adjusted to estimate the cash flow that the company will generate after the buyer owns your business. Therefore, it is important to show the highest profitability possible in your financials. That may at first be counter intuitive to the historical need to report the lowest possible profit to minimize income taxes.

However, it is important that in the last couple of years a company prioritizes maximized reported profits over minimized income taxes. The math is fairly simple. Let's say, for example, that your company has an estimated sale multiple of 5 times cash flow. In this example you also have $300,000 in expenses that have been expensed through the company in the past, but could be avoided. If your incremental tax rate is 33.3%, you would save $100,000 in taxes paid, but the value of your business would be reduced by $300,000 times 5 for a $1.5M reduction in your sales price. This represents a 15 times difference in the financial impact of this decision.

Any company with project-based revenues will likely face this issue. Construction, consulting, and security installation companies are possible examples. If they use percent completion accounting, then these completion estimates can directly impact reported profits, based on analysis of job costs and percent of completion.

This issue is a fairly complex one, since many expenses that flow through the corporation are added back to your reported cash flow in order to calculate your adjusted cash flow. These adjustments include owner and other expenses that would not continue after the business is sold. Examples would be your contributions to retirement plans, your automobiles, and other personal expenses that you charge to the company.

This is an important issue to manage, so talk with your M&A advisor on how to best balance the need to report the highest possible earnings and yet minimize income taxes.

The second critical factor regarding your financials is whether your financials are presented in a way that your prospective buyer will understand and accept. For many buyers this means the following:

1. Are your financials presented on an accrual basis? If you currently use cash basis accounting for your financial statements, then you should probably have them restated using the accrual method of accounting.

2. Are your financials compliant with Generally Accepted Accounting Principles (GAAP)? By having GAAP compliant financials, it will be much easier for you to communicate with prospective buyers about the financial condition of your company.

3. Who do you have prepare your financial statements? Do you use a single accountant or a recognized regional or national accounting firm? Having a reputable accounting firm review your financials gives the buyer a higher level of confidence in the accuracy of your financial information.

4. Do you have Compiled or Audited Financial Statements? Accounting firms provide different levels of review regarding your financials. The choices are typically Reviewed, Compiled and Audited Financials. Buyers would prefer to review Audited Financials, the highest level of review.

Knowing Where You Stand

Often, I see businesses that have not planned properly to exit their business and are forced to sell under unfavorable circumstances. Many can't sell at all, because they did not prepare the company for sale.

An example is one of my clients who ran a distribution company. For years his company had created a nice stream of income for himself and his family. One day, the owner realized that he just didn't have the energy or interest in running the company any longer.

We sat down and evaluated whether he could sell the business – he was ready to sell, but was the business ready? Upon investigation, we identified that his business sale prospects were not good. Several competitors had entered the market and were taking away business. His sales force had gotten lazy and no longer worked to bring in new customers. He never implemented any serious marketing or advertising programs. His facilities had gotten old and needed major repairs.

Would you buy this business? Of course not. And of course, he was not able to sell.

How do you know if both you and your company are ready to sell? I take most clients through two different evaluation processes.

Scoring Methods from The Exit Planning Institute

The Exit Planning Institute is a premier organization that educates business owners and advisors about transitioning from their business. I have been a member and a Certified Exit Planning Advisor since 2012. I also helped start the New York City chapter for the Exit Planning Institute. I have watched as thousands of advisors have become certified in their methodology and watch the Exit Planning Institute continue to refine their recommended methodology for exit planning.

I use three scoring methods that the Exit Planning Institute developed and recommends for exit planning advisors and business owners to use in determining readiness:

• <u>The Personal Readiness Score</u>
This questionnaire helps define how ready the owner is to exit their business.
• <u>The Business Exit Readiness Score</u>
This questionnaire helps define how ready the business is to be sold or transitioned to new owners.
• <u>The Business Attractiveness Score</u>
This questionnaire helps identify how attractive a business is to a potential buyer.

All three readiness surveys score on a scale from 1 to 6 on each of the evaluated factors.

Scoring Methods from The ValueBuilder System™

John Warrillow is the author of "*Built To Sell*" in 2010 and has become a leading thought leader on exit planning. The sub-title of the book is "Creating a Business That Can Thrive Without You." Equally important is the research that was done in support of the book and the continuing research that is done by his business, The ValueBuilder System™.

I recognized the importance of John Warrillow's work and became a Certified ValueBuilder Advisor in 2013. I continue to believe that his approach to value building is a very useful methodology for business owners to improve the value of their business. His scoring tools help determine when a business owner is ready to exit and in estimating the value of their business.

I use three scoring methods developed by John Warrillow for exit planning advisors and business owners to use in determining personal and business readiness:

• The Freedom Score
This score measures how much money a business owner needs to fund their planned lifestyle.
• The PREScore™ Score
This score measures how ready the business owner is to exit their business.
• The ValueBuilder™ Score
This score measures how the business owner rates their business on specific valuation factors and provides comparative information to other businesses in their industry.
In summary, there are several tools that one can use to judge the readiness of an owner and their company to exit and secure the maximum value for their company.

You can tell if you are ready if you can say "yes" to the following:

- You have completed a strategic analysis, business valuation and personal, financial, and business assessments within the last year.
- You have considered all your exit options and optimal deal structures and weighed the pros and cons of each in relationship to your stated goals and objectives.
- You have a written End Game plan and an Exit Plan.
- You have designed a post business life-after plan, and it is linked to your wealth management plan.
- You have a pre-transition value enhancement project underway to de-risk the business, maximize its value, minimize taxes upon transition, and improve the probability of a smooth transition to the next owner.
- You have a management program underway to ensure the post transition leadership can operate the business without you at the helm.

Choosing From the Exit Menu

There are both internal and external options for an owner to consider when planning to exit their business.

INSIDE	OUTSIDE
Intergenerational Transfer	Sale to a Third Party
Management Buyout (MBO)	Recapitalization
Sale to Existing Partners	Orderly Liquidation
Sale to Employees	Public Offering

Following are pros and cons of each option.

1. **Intergenerational Transfer**
Transfer of business stock to direct heirs, usually children. Fifty percent of business owners want to exercise this option – in reality, only about 30% actually do so.

PROS	CONS
Business Legacy Preservation	Family Dynamics
Planned	Lack of Funds / Illiquid Buyers
Lower Cost	Lower Sale Price
More Control	Key Employee Flight Risk
Less Disruption	Tradition May Outstrip Good Strategy
Higher Buyer/Seller Motivation	Path of Least Resistance – But Not Always a Path to Growth or Success

2. **Management Buyout**

An owner sells all or part of the business to the company's management team. Management uses the assets of the business to finance a significant portion of the purchase price.

PROS	CONS
Continuity	Management "sandbagging" on estimated value
Highly Motivated Buyers	Distraction
Preserves Key Human Capital	Threat of Flight By Owner
Planned	Illiquid Buyers
Can Be Combined With Private Equity for Additional Growth Services	Lower Price and Unattractive Deal Terms
	Heavy Seller Financing
	Managers Are Not Always Good Entrepreneurs

3. **Sale to Existing Partner(s)**

Success is closely linked to the existence and quality of a buy-sell agreement. This option is not available to single-owner businesses.

PROS	CONS
Less Disruptive	Lower Sale Price
Can Be Planned in Advance	Potential Discord
Well-Informed Buyers	Competency Gaps?
Controlled Process, if Buy-Sell Agreement in Place and Funded	Buy/Sell May Restrict Selling Options
Lower Cost	Realization of Proceeds is Often Slower

4. **Sale to Employees**

The company uses borrowed funds to acquire shares from the owner and contributes the shares to a trust on behalf of the employees through an Employee Stock Ownership Plan (ESOP).

PROS	CONS
Business Stays in the “Family”	May be More Complicated and Expensive Than Other Options
Shares Purchased with Pre-Tax Dollars	Requires Securities Registration Exemption
Taxable Gain on ESOP Shares May Be Deferred	Company Compelled to Buy-Back Shares From Departing Employees
An ESOP is an Employee Benefit	Generally Suited For a Gradual Exit
Often Causes Employees to Think More Like Owners	

5. **Sale to a Third Party**
   Owner sells the business to a strategic buyer, financial buyer, or private equity group through a negotiated sale, controlled auction, or unsolicited offer.

PROS	CONS
Higher Price (Highest of the Options)	Long Process (9-12 Months)
More Cash Up Front	Distraction and Loss of Focus
Walk Away Faster	Privacy Concerns
Stability of Deal Terms	Emotional for Owner
Business Refresh (Growth, New Energy)	Post-Sale Tie-Downs
Breaks Deadlock at Management Level with Family	Highest Cost Option (with Highest Benefit)
	Very Complex – Needs Professional Support
	Can Be Difficult to Close

6. **Recapitalization**
   A company takes money out of the business by bringing in a lender or equity investor who becomes an investor in the business. They may be able to sell a minority or majority position.

PROS	CONS
Allows Partial Exit / Early Take Out of Funds	Continuing Accountability to investment partners
Reduces Owner Risk – Diversifies Assets	Loss of Control
Provides Growth Capital	Culture Shift
Second Bite at the Apple	Expensive Relative to Benefit
Work Well with Other Exit Options	

7. **Orderly Liquidation**
The business is shut down through a simple, quick process. This makes sense if asset values exceed the ability of the business to produce the income required to justify investment by an outside investor.

PROS	CONS
Good Option When Asset Value Exceeds Value of Going Concern	Uncertain Proceeds – No Guarantee
Sum of the Parts Are Greater Than the Whole	No $ for Goodwill
Efficient Way to Exit	Emotional
May Be Less Expensive Than Other Exits	Stigma?
	Damage to Employees and Jobs
	May Be Higher Tax for C-Corporations

8. **Public Offering**
Most small businesses do not have access to public offerings. One way to compensate for this is for small businesses to join with other similar or synergistic companies and initiate a public offering together. Another approach would be to complete a Reverse Merger. In a Reverse Merger, a privately held company purchases a publicly held company (often a shell corporation) and merges the two companies.

9. **Chairman of the Board**
Finally, one option is not to transfer ownership at all, but build a company that can run with minimal input from the owner. This option often takes time and investment in building the company structure and management team. After some period of time implementing this option, one can then implement one of the other internal or external exit options.

Exercise 6 – My Exit Options

This exercise is designed to help identify those exit options that are right for you. Please indicate how each of these options apply.

The following is a list of potential exit options that might apply.

A = This exit option does not apply to me.
B = This factor does apply but is not a top driver.
C = This is one of my top exit options.
D = I need to do more research.

External Exit Options	**A**	**B**	**C**	**D**
Sale to a Third Party				
Recapitalization				
Orderly Liquidation				
Public Offering				

Internal Exit Options	**A**	**B**	**C**	**D**
Intergenerational Transfer				
Management Buyout				
Sale to Existing Partner(s)				
Sale to Employees				
Chairman of the Board				

Ready Set Go

Okay, all this information is great, but how can one get organized to start implementing exit planning?

Yogi Berra had it right “If you don’t know where you are going, you’ll end up someplace else.”

Having and following a proven methodology is critical. Of course, I am biased because of my successes in using both the value building and exit planning methodologies from the The ValueBuilder System™ and The Exit Planning Institute, respectively.

No matter what methodology you use, you will likely need help from outside advisors. Talk to business advisors that you know and respect. Some of their advice will be free. Some require compensation for their advice. Talk to other business owners. Join peer-to-peer advisory boards, such as Vistage or The Alternative Board. Read as much as you can about business acceleration and exit planning. Attend local conferences and webinars on these topics.

Once you have educated yourself more about what is involved, you will be more successful if you have a strategic and tactical implementation methodology.

Consulting a professional exit planner early in your process could reap major benefits, save you considerable time, reduce your advisory and education expenses, and improve your outcome.

Focus on what Larry Bossidy describes in his book “Execution: The Discipline of Getting Things Done”, called Relentless Execution.

Bossidy defines Relentless Execution as:

- A specific set of behaviors and techniques that companies need to master to create a competitive advantage.
- A systematic process of rigorously discussing the how's and what's, questioning, tenaciously following through, and ensuring accountability.
- A core element of an organization's culture.
- A relentless pursuit of reality, coupled with processes for constant improvement.

I recommend following the exit planning methodology developed by the Exit Planning Institute which includes the following steps:

Initial Assessment

Understand and acknowledge that you are ready to exit and determine how attractive your business is to potential buyers. Focus on getting educated. Include your management team, if appropriate.

Professional exit planners have the tools to help you jumpstart this activity. They are trained and experienced in the Exit Planning Institute's methodology and belong to a network of exit planning professionals who work together sharing a common methodology and language.

Document your personal and business vision. Calculate an initial business valuation and determine how much money you need to retire and how much more your business could be worth if you just performed at industry averages.

If you have followed the advice provided earlier in this book and developed your written End Game Plan, then you have already completed this step.

Prioritized 90-Day Action Plan

Create a personal and business plan to focus on the areas of improvement that you discovered in your initial assessment.

90-Day Sprints

Limit your focus to a few priority areas and create an action plan to address each area. Assign a Champion in your organization to be responsible for each area, if possible. Even if your management team and Champions are not aware of your exit strategy, they can still be assigned the responsibility to deliver required actions defined in your exit plan.

Business Acceleration

Focus on increasing your revenue, becoming more efficient and making more profit. This is one of the two factors that determine your business valuation.

Value Enhancement

Identify those intangible factors that improve the attractiveness of your company to potential buyers. Put together an action plan that addresses these. Some of these actions take time, so start as soon as possible.

Decide When and How to Exit

At some point you will be ready to make an informed decision about exiting your business. Periodically you should plan to conduct a "Grow or Exit"

Review. In this review you will determine your progress on achieving the goals and objectives as defined in your End Game Plan and subsequently refined in your Exit Plan. You will determine if the current business valuation meets your minimum requirements. You will review the three timing cycles to determine if this is the best time to move forward with executing your plans.

Implementation

Create an implementation process and rhythm that regularly creates exit planning focused actions and follows up to assure that these priority actions are accomplished. Get all appropriate stakeholders involved. Implement an Advisory Board, a Family Council, or a Family Office, as appropriate. Don't hesitate to bring in new advisors or replace your current ones, if they don't understand or share your vision.

How much you can accomplish will be determined by your exit timeline. The longer your exit horizon, the more you can accomplish.

At this point you are likely asking "What do I focus on first?" Where can I spend the least money and get the greatest value improvement? This will vary, of course, according to the risks and opportunities of your specific company. I recommend that you implement value improvement strategies in the following priority:

1. <u>Protect</u>
   Start out with protecting what you have spent years building. These strategies focus on identifying the human, customer or supplier concentration, legal, regulatory, and other factors that could impact your company negatively.
2. <u>Strategy</u>
   Next focus on clearly defining your strategic direction and make sure that sales & marketing, facilities & equipment, and management are all in synch to deliver your vision.
3. <u>Efficiency</u>
   Third, focus on becoming more efficient by documenting and improving procedures, training your employees, and investigate investing in new equipment, facilities, and technology.
4. <u>Growth</u>
   Having accomplished the first three, now you can focus on growth strategies that increase top line revenues.
5. <u>Culture</u>
   Finally, keep fine tuning your vision and core values. Follow up to make sure everyone in your organization and other stakeholders understand, communicate and deliver your culture.

Understand that it takes more than creating an action plan. An old business adage states, “You get what you inspect, not what you expect.” You need to clearly define objectives and measure the results regularly.

One tool that I like is using written Opportunity Assessments. These are a combination of a proposed strategy and an action plan. For each strategy that you are considering, write down the following:

- Description of the proposed project
- Description of the problem or opportunity
- Description of the proposed solution
- Background of the need
- Alternatives that could be considered
- Suggested actions
- Timeline
- Required resources
- Five key project milestones with due dates

Consider implementing a Business Operating System like Scaling Up, a planning tool developed by Verne Harnish which delivers Relentless Execution. Get a copy of Scaling Up and read it. This methodology is an expansion of the Rockefeller Habits – one of the earlier entrants into business planning. I have had considerable experience and training in implementing Scaling Up and I have seen it change how companies operate. Other alternatives would be to implement the Entrepreneurial Operating System (EOS) or Pinnacle Business Guides.

The key to implementation is Discipline – discipline in planning and discipline in execution.

It’s a Team Sport

As you begin to craft your end game plan, it is important to seek out advice from a variety of potential professional advisors. You probably already have an accountant, a banker, an attorney, and perhaps a business coach. You may belong to one or more groups of other business owners where you can get advice. You may know other business owners who have transitioned out of their business.

It is important to understand that planning to exit your business is an often-complex process that involves a variety of issues. Talking to professionals who are experienced in the various exit strategies will provide you with important information that will expand your knowledge and help you make the best possible decisions. You need to evaluate whether you need to supplement the knowledge provided by your current advisors.

One example is your accountant. Are they experienced and knowledgeable about the complex tax issues relating to selling your business. Another example might be your business attorney. They may be great at contracts or real estate transactions, but are they experienced in mergers and acquisitions transactions?

This is particularly true if your exit strategy is to sell to sophisticated private equity groups or much larger businesses. They have specialists in evaluating every aspect of your business and determining how to financially evaluate your business. You need to level the playing field by having your own team of experts who can prepare you for the many questions that will be asked during the due diligence aspect of selling your business. They can help you determine in advance the likely market value of your business.

The following is a list of potential professional advisors that you may want to add to your exit planning team and how they can help:

Accounting Firms

Accounting firms come in all shapes and sizes – from single member to large multi-national firms. Depending on the specific organization, accounting firms may provide the following services critical to the exit planning process.

It is critical for a business owner planning for their exit to have properly prepared financial statements, including Income Statements, Balance Sheets, and Cash Flow Statements. Most accounting firms provide three different levels of assurance services that are designed to provide an outside opinion on the validity of a company's financials. All three of these services will review the company's financials to confirm that the information is presented in accordance with Generally Accepted Accounting Principles.

Some accounting firms provide advisory services, some do not. The larger the firm, the more likely advisory services offered may be diverse in nature. Advisory services can include Bankruptcy, Cyber Security, Exit Planning, Forensic Accounting, Family Advisory, Management Consulting, Risk Advisory, Sale Transactional, Information Technology and Wealth Management Services.

In exit planning, it may be important to provide third-party certified opinions beyond financial statements on such topics as Business Valuation and Quality of Earnings Analysis. Some accounting firms provide these documents.

Business Law Firms

Legal firms provide diverse expertise, including real estate, corporate, business transaction, criminal, divorce, estate, litigation, and human resources law. Regarding Exit Planning, there are several specific services that may be required. Estate planning and estate legal services are covered later in this chapter.

One important aspect of exit planning is conducting both pre-sale due diligence and due diligence as part of the business sale process. Pre-sale due diligence involves reviewing all business contracts, sales agreements, compensation agreements, partnership agreements, and any other legal documents to make sure the company is properly prepared to represent the legal risks of the company to prospective buyers. It is also important to have all corporate documents gathered, updated, if necessary, and ready for inspection by the prospective buyer. These activities may be accomplished by company management or may require assistance from an outside legal or consulting firm.

Creating a properly constructed Buy-Sell Agreement is critical to companies with multiple owners. If no agreement exists, then one should be created, if appropriate. Any current Buy-Sell Agreement should be reviewed and updated, as required.

In preparation for selling the company, there are several documents that need to be created, including a Confidentiality Agreement, a No-Hire Agreement, and a Confidential Information Memorandum. Once Letters of Intent and Proposed Sale Agreements have been received from prospective buyers, they need to be reviewed and negotiated. It is important that early in the process all deal structure elements are clearly defined, including timing, method of payments, holdbacks, guarantees, representations, and obligations. Notices to key stakeholders, including lending institutions and governmental agencies, need to be made. Covenants with banks may allow for calling of loans. This needs to be addressed before the sale is finalized. These activities should be performed with the help of an experienced business sale transaction attorney.

Once the sale price and deal structure have been negotiated and finalized, various documents may need to be created to perfect the transfer. Some of these documents may need to be filed with the appropriate governmental agencies. These documents might include Employment Agreements, Consulting Agreements, updated Corporate Documents and filing for change in ownership of the corporation.

With some sale transactions, the buyer may also be purchasing company related real estate. This will likely be handled as a separate real estate transaction.

Employment contracts for the owner and/or employees may be needed as part of the deal structure to assure that key employees stay on after the sale and to document the ongoing role of the seller.

Because there are diverse skills provided by a variety of legal firms, it is possible that you may need legal support from multiple firms. Regardless of the number of legal firms you may need to support you during your exit planning process, it is important to select firms that are experienced in exit planning and its related needs.

Financial Planning and Wealth Management Companies

The term Financial Advisor and Wealth Management Advisor are often used inter-changeably, although they are often different in their focus. Most Financial Advisors work with clients to help them manage their money and reach their long-term financial goals. Wealth Management Advisors typically offer a variety of financial planning, investment, private banking, estate planning and tax services.

One of the key aspects of these advisors is retirement planning. They can help you define your post-exit personal vision, define how much cash flow you need from your investments to support your planned lifestyle, and model the probability of your investments to potentially support your retirement plan.

For many individuals, tax planning may not be a critical aspect of exit planning, due to the currently large Unified Tax Credit provided by the IRS for Gift and Estate Tax calculations. Local estate, gift and inheritance taxes vary widely by state. As a part of retirement planning, these advisors can alert you to potential tax liabilities and suggest ways to minimize these transfer taxes. They can also alert you to predicted changes in tax laws.

Financial Planners and Wealth Managers typically provide investment risk analysis regarding investing in a variety of potential investment alternatives. They may also act as active money managers on your behalf.

As a part of retirement and tax planning, these advisors may also provide suggestions regarding the establishment of trusts, Family Limited Partnerships and other asset management and tax minimization strategies. These advisors may also help you clarify your plans for the distribution of your estate to planned beneficiaries.

From retirement planning to tax planning and investment management, Financial and Wealth Management Firms provide valuable services to help a business owner plan for their retirement and business exit. It is important to engage these resources early in the exit planning process. Recommendations received from these advisors may take time to implement.

Insurance Brokers

Insurance brokers can provide valuable advice, services and product solutions that may be useful in exit planning. Often Buy-Sell Agreements are funded by insurance policies to assure that adequate funds are available to fund the buy-out of one of the owners who passes away.

Once exit planning objectives have been defined, it may be useful to have an insurance broker review your current policies. Insurance offerings change periodically and there may be better insurance offerings to support your current exit planning and estate management goals.

As part of estate planning, it may be determined that creating a stream of income through insurance is needed to fund family expenses, should the owner become disabled and pass away. This strategy may also be useful in funding a stream of income for beneficiaries of your estate or for yourself after exiting the business.

As a part of selling a business, it may be appropriate to fund Key Man Insurance to help keep key employees within the company both before and after the sale of the business. This insurance would likely increase the attractiveness, and possibly the value, of the company to prospective buyers.

There are some highly sophisticated insurance strategies that may be appropriate to fund the sale of the company or to create an asset in lieu of selling the company. These strategies should be considered only with the advice of insurance professionals experienced in these advanced strategies.

Business Valuation Companies

There are many different types of businesses that can provide business valuations for use in exit planning. Your exit planner or M&A specialist may be able to provide you with an Estimate of Value at a nominal cost. But for more formal valuations, it may be appropriate to pay for business valuations. A variety of professional service providers may offer business valuations, including Business Brokerage Companies, Valuation Companies, Law Firms, and Accounting Firms. These services can be different and are often described somewhat differently, depending on which type of firm is providing the valuation and depending on the purpose of the valuation.

It should be noted that each of the approaches to business valuations provides the opinion of the third party that is conducting the valuation. The actual price at which a company actually sells can vary considerably from these estimates.

An Opinion of Value is derived from an economic analysis of the business. It considers “best practices” by “normalizing” profit and loss statements to reflect the potential income generated as if the business were operated independent of current ownership.

A “Calculation of Value” Report is intended to provide an approximate “fair market value” of a business using data from actual sales of comparable business. This is not an “appraisal”, but rather a calculation designed to give the user an efficient and cost-effective approach to determine the fair market value of a business. This calculation of value is a guideline and should not be construed as a replacement for a complete, comprehensive valuation conducted by a professional independent appraiser.

A Comprehensive Valuation Report contains a conclusion as to the value of a business that depends on an extensive or comprehensive review and analysis of the business, its industry and all other relevant factors, adequately corroborated. It is generally provided in a detailed report that documents how the valuation was determined. The amount of work to complete a Comprehensive Valuation Report would be the equivalent of an accounting audit.

There are other uses of Business Valuations in business that might include application in a divorce proceeding or a business lawsuit. These valuations may also be needed in creating a Buy-Sell Agreement, estate and gift tax filings, documenting the value of an asset being placed in a trust, or documenting business value for lending institutions.

Mergers & Acquisitions Firms

There are a variety of professional advisory firms that offer merger & acquisition strategy, planning and execution services. Some M&A firms provide advice on exit planning. Other M&A firms focus on companies that are nearly ready to list their company for sale. Most M&A firms are compensated based on success fees that are only realized when the business is sold.

Depending on the type of M&A firm, these companies can play active roles in helping you get ready to sell your company, list your company for sale, actively find buyers for your company, run an auction for multiple prospective buyers, or help to negotiate and complete the sale.

Typically, these firms fall into three categories, although this distinction is often blurred:

<u>Business Brokerage Firms</u> - A business broker is an individual or company that assists in the purchase and sale of small, main street businesses. These agents can take on a variety of tasks to help their clients achieve

their business sale or purchase objectives. Often, they specialize in companies belonging to certain industries or possessing specific, unique characteristics. Often the approach of sell-side business brokers is to list a company for sale on private or public platforms for prospective buyers to view. Business brokers typically handle businesses with $5M or less in annual revenues, although some business brokers will represent larger businesses.

M&A Intermediary Firms – These firms specialize in providing intermediary services for lower middle market companies and small businesses. These firms help find buyers for companies being offered for sale or help companies looking to purchase other businesses. Company sizes are typically above $5M in annual revenue and may go up to $100M or higher.

Investment Banking Firms - Investment banks play a crucial role in the financial markets by providing a variety of services to corporations, governments, and other institutions. Unlike commercial banks, which focus on taking deposits and making loans to individuals and businesses, investment banks specialize in helping clients raise capital, advising on mergers and acquisitions, and providing other financial advisory services. There services might include raising capital, M&A advisory services, buying and selling securities, wealth management, securitization of assets, derivatives and hedging strategies, debt restructuring and corporate strategy.

Estate Planning Law Firms

Estate Planning Law Firms provide estate planning, long-term care planning, asset protection and tax minimization advice. They can help create important legal documents and create a variety of revocable and irrevocable trusts. Estate and Estate Tax planning can be quite complex, particularly for high net-worth individuals. Because there are many strategies that might be chosen, getting advice from an estate planning professional is highly recommended.

Estate Planning Law Firms can help you create a variety of legal documents that are important to define and implement your life and estate plans. These documents include powers of attorney, springing powers of attorney, wills, pour-over wills, testamentary trusts, living trusts, and health care proxies. Creating trusts to hold and manage your assets has specific advantages, including asset protection, privacy, avoiding probate, control of asset distribution, tax minimization, and providing financial support for individuals with Special Needs. Trusts created outside of your state of residency can reduce state estate taxes.

Unfortunately, not every potential beneficiary has the same view about how your assets should be distributed. Should any of your beneficiaries decide to protest during the Probate process or file a lawsuit, estate planning law firms are able to defend your decisions.

Exit Planning Firms

Exit Planning Firms often provide a wide range of management consulting services but have expertise and experience in exit planning. They may have exit planning certifications, such as a Certified Exit Planning Advisor from The Exit Planning Institute, a Certified Value Builder Advisor from The Value Builder System or other similar certifications.

Typically, what they focus on is:

1. Helping owners discover the motivations and drivers that are involved in exiting their business.
2. Helping educate the owner on the many, often complex issues relating to exit planning.
3. Helping the owner determine their best timing and strategy for exiting.
4. Providing the owner with an estimate of value for their business.
5. Helping the owner create a team of advisors, who will advise the owner on each of their specialties.
6. Helping the owner create an exit action plan and stay on track to complete these tasks in a timely manner.

It is important to get the best advice available. The consequence of good advice is a well-constructed exit plan, well executed.

The consequence of poor advice is a bad plan, poorly executed and even the possible consequence of not being able to sell your company at all.

How Much Should I Spend Getting Ready

That leads us to the question of how much you should invest in end game and exit planning. I have gone through the exercise in helping clients determine their likely return on investment many times. In almost every case the ROI is well over 500%. In many cases the return was much higher. How many areas can you think of that can give you a 10X or better return on your investment?

The following are typical investments that you might make is getting ready to exit your business:

1. **Accounting Related Fees.** You may need to secure Compiled or Audited Financials, if you don't currently have this available. You may need to secure your financials on an accrual basis, if you currently have Cash-Based financials. For some companies paying for your own independent Quality of Earnings Report may be advisable. A Quality of Earnings report is a routine step in the due diligence process for private acquisitions. The report assesses how a company accumulates its revenues – such as cash or non-cash, recurring or nonrecurring. It is often used by potential buyers to determine how reliable and how predictable your company's sales and earnings might be in the future.
2. **Business Valuation Fees**. There are many reasons you might need to have a business evaluation. You might be getting divorced, filing

estate planning documents, or determining the value of your business to pay certain incentive compensation plans. These will likely require formal, certified valuation. However, when looking to sell your company, you want to have a business valuation that focuses on market-based valuations and is created based on recent sales in your industry. These typically cost one-third of the cost of a certified valuation. And to start out on your end game journey you may only need a simple estimate of value from an experienced M&A professional.

3. **Legal Fees**. There are two times during your exit journey that you may need to have outside legal assistance. In getting ready to exit, it may be appropriate to conduct your own internal legal due diligence. You may be able to do this on your own, or it may be appropriate to have outside legal counsel help. And, of course, when it is time to market, sell, or transfer your business there are a variety of documents that may be needed. These include Non-Disclosure Agreements, Letters of Interest, Letters of Intent, Term Sheets, Definitive Purchase Agreements, Post Sale Consulting Agreements, Non-Compete Agreements, and Intellectual Property Agreements.

4. **Estate and Financial Planning Fees.** For many owners, the value of their business represents a substantial portion of their net worth. Regardless of what percentage your business represents of your net worth, it is important to determine the Net Proceeds from the sale of your business and add that to your other assets to determine your Projected Net Worth. Financial planners or wealth managers can help you determine if this amount will likely support your planned lifestyle after you exit your business. Some of these advisors charge a fee. Others do not. If it is determined that your total estate value exceeds the IRS Unified Tax Credit or individual state estate tax limits, you should evaluate whether establishing trusts can help reduce your tax obligations. Even if this is not the case, you may still want to talk to professional estate planners to determine how you can best protect your assets and control how they are eventually

distributed. Estate planning advisors and attorneys do typically charge for their advice and there are expenses to set up and administer trusts.

5. **Exit Planning Advisor Fees.** Because of the complexity of end game and exit planning, there are many issues that should be addressed and resolved in a timely manner. Also, the more internal and external people that are needed to implement your exit plan, the more important it is to have one person act as your exit planning project manager. You may have someone internal, or one of your current advisors may be appropriate to fill this role. Or you may want to hire a professional exit planer or M&A advisor to educate you and help you create and administer your end game and exit plan.

6. **Growth Expenses**. If you are going to focus on growing the business before you exit, then there will likely be new marketing and sales-related expenses. You may consider this part of your ongoing business expenses or an investment that you commit to making as part of your exit plan. This might even include product development expenses or other expansion expenses. You can choose to count these expenses or not when calculating your expected return on investment from end game and exit planning.

7. **Value Enhancement Expenses**. There are many activities that focus on reducing risks and increasing the attractiveness of the business and that directly increase the value of your business. This will likely involve some outside professional advice. One company that does this is The Value Builder System, developed by John Warrilow. I have been a Certified Advisor with them for many years and have seen the positive results that result from focusing on the eight proven drivers of value on which their process is focused.

8. **M&A Advisor and Transaction Fees**. Many M&A Advisory firms are compensated with a combination of upfront fees, ongoing fees and

a success fee that is only paid upon the successful completion of a transaction.

In order to help business owners determine how much they should invest in end game and exit planning; I developed a spreadsheet model that helps answer this question. Below is a screenshot of one hypothetical client and their ROI analysis.

Summary of Total Cost	Sell Business With M&A Advisor	Sell Business W/O M&A Advisor	Grow Business W/O M&A Advisor	Increase Value W/O M&A Advisor
Exit Planning Fees	$ 40,000	$ 40,000	$ 60,000	$ 40,000
Accounting Fees for Financials	$ 15,000	$ 15,000		
Marketing Expenses			$ 100,000	
Business Valuation	$ 15,000	$ 15,000		$ 5,000
Legal Transaction Fees	$ 20,000	$ 20,000		
M&A Advisor Success Fees*	$ 395,039			
Estate Planning Law Firm	$ 20,000	$ 20,000		
Total Cost of Exit Planning	**$ 505,039**	**$ 110,000**	**$ 160,000**	**$ 45,000**
Increase in Company Value				
% Increase in EBITDA from business growth activities	21%	21%	10%	0%
% increase in multiple from exit planning activities	50%	25%	25%	25%
Starting EBITDA	$ 2,250,125		**Starting Sale Multiple:**	4.00
Ending EBITDA	**$ 2,722,651**	**$ 2,722,651**	**$ 2,475,138**	**$ 2,250,125**
Ending Business Valuation	**$ 16,335,908**	**$ 13,613,256**	**$ 12,375,688**	**$ 11,250,625**
Increase in Business Valuation	**$ 7,335,408**	**$ 4,612,756**	**$ 3,375,188**	**$ 2,250,125**
Exit Planning Return Multiple	**15**	**42**	**21**	**50**

In this example, I distinguished between four different scenarios:

1. Selling with the help of an M&A Advisor.
2. Selling on your own without an M&A Advisor.
3. Growing your business first, then selling on your own.
4. Focusing on the intangible factors that impact your sale multiple, then selling on your own.

There are, of course, other scenarios, including increasing the value of your business and then selling with the help of an M&A Advisor.

Note that the spreadsheet separates increasing company value into two different components:

1. Increasing EBITDA and cash flow from business growth activities.
2. Increasing your multiple from exit planning and value enhancement activities.

You can download an active calculator from my website at https://exitendgame.com/links/.

As you can see from the hypothetical client, the return on investment is substantial in all cases with a minimum of return of 15X. I have run this calculation for many of my clients and have typically seen a range of ROI's of 15 to 30 times the investment in exit planning.

As long as you invest wisely in increasing the value of business, your return will well justify the expense.

Tax Planning

Exit planning involves the sale of businesses and wealth management of family assets. One important aspect of exit planning is minimizing income and estate taxes when selling your business.

Often when a business owner thinks about the value of their business, they think about the potential sale price of their company. But what they should be using in their wealth planning is the Net Proceeds from the sale after sale related costs are deducted.

These expenses include preparation costs, transaction closing costs, legal fees, M&A and advisor fees, and federal and state income taxes. A few words about each of these expenses:

Preparation Costs
Exit planning preparation costs would include any expense incurred in exit planning that prepares you for your exit. This could include advisor fees, board member fees, business valuation fees, and audit or certified opinion fees.

Transaction Closing Costs
Transaction closing costs would include transaction attorney fees, bank closing costs, investment banking or business broker fees, and loan prepayment penalties.

Federal Income Taxes
Federal Income Taxes would typically be calculated at long term capital gains rates, currently at a maximum rate of 20%.

State Income Taxes
Some states also levy taxes on the sale of a company or its assets. Please consult your tax advisor to determine how much this tax would be in your specific case.

Estate Taxes

When a person dies, their assets could be subject to estate taxes, depending on where they lived and the amount of their net worth. While the threat of estate taxes does exist, many estates are too small to be charged a federal estate tax, which, as of 2024, applies only if the assets of the deceased person are worth $13.61 million or more. Both husband and wife individually have this exemption. Please note that this exemption will revert to the 2017 level of $5 million, adjusted for inflation, unless new legislation is passed.

Regarding state level estate taxes, a dozen states, plus the District of Columbia, currently levy estate taxes.

But the sale of a business will increase the taxable assets of an individual and their family, so estate tax planning becomes very important. Methods to minimize these taxes are discussed later in this chapter.

Inheritance Taxes

Inheritance tax is a levy on assets inherited from a deceased person. There is no federal inheritance tax. But as of the date of the publication of this eBook, inherited assets are taxed on residents of six states: Iowa, Kentucky, Maryland, Nebraska, New Jersey, and Pennsylvania. Inheritance taxes can be minimized or avoided by leaving heirs assets via trusts or insurance policies, or by gifting sums during one's lifetime.

The important thing to remember is to seek professional advice from a tax and estate planning professional. This may be an accounting firm with tax planning professionals, a tax attorney, a wealth management firm or an estate planning firm.

This chapter is not intended to be a comprehensive tax guide. But I felt it appropriate to alert you to some of the factors that can impact your Net Proceeds on a sale transaction and impact the overall net wealth that you pass along from generation to generation.

There are a variety of tax minimization strategies that one can implement to minimize taxes that might be levied upon the sale of a business.

Creation of Trusts

There are a variety of trusts that can be set up to minimize or entirely avoid tax payments.

Purpose of Trust	**Types of Trusts**
Estate Tax and/or Capital Gains Tax Minimization	Revocable Living Trust (RLT), LTPT, A/B Trust, GRAT, NING/DING, IDGT, IIST (Deferred Sales Trust), QTIP
Life Insurance	ILIT, LIRP
Real Estate Trusts	QTIP, QPRT
Multi-Generational Tax Avoidance	Dynasty Trust, IDGT
Beneficiary Protection	SNTs, LTPT
Charitable Contributions	CRT, CLAT, CLUT, CRAT, CRUT

I have chosen to categorize these trusts, although the use of some of these trusts can be creatively implemented with a variety of assets and circumstances. The use of trusts is continuously evolving. Talk to a professional advisor to learn how you can best benefit from implementing trusts in your exit planning.

Some of the above trusts allow the donor to discount the value of company stock, applying traditional marketability discounts and/or minority discounts. The use of discounts can significantly reduce the amount of estate taxes due.

Depending on the circumstances, trust assets from one trust can be sold or donated to other trusts.

Selling the Company through an ESOP

S-Corporations do not pay federal income taxes for the portion of their stock owned by the ESOP. They are only taxed when participants take distribution upon death, disability, and retirement. Different tax advantages apply if the business is a C-Corporation.

Business Entity Choices and Conversions

The choice of which type of business entity, whether a C-Corporation, S-Corporation or a Limited Liability Corporation, impacts both the tax structure of the entity as well as the tax treatment of certain transactions.

A C-Corporation is a taxable entity; Double tax may be an issue. A C-Corporation pays tax on its profits. When shareholders take profits from the corporation, the distributions are usually taxable dividends (double taxation).

With an S-Corporation income/loss is passed through to the shareholders based on ownership interest. Similarly, LLC's, if properly structured, incur no tax at the entity level. Income/loss is passed through to members of the LLC.

It is possible to convert from one entity to another, but there are both accounting and potential tax impacts. One such example is the Built-In Gains tax, which is imposed on the first 35% of appreciated property of the converted corporation, if the appreciated asset is sold within 5 years of the conversion.

Please check with your accounting firm if a conversion is being considered, regarding the different tax treatments of each type of entity.

Minimizing Taxes on Property Sales

In addition to creating trusts to minimize or avoid taxes, there are other tax minimization strategies, including use of Tenants in Common, converting rental to residence prior to sale, a Monetized Installment Sale and the use of Opportunity Zones.

Donor-Advised Funds

Though a donor-advised fund is not a foundation or a trust, many donors choose to grant from their donor-advised fund as they would from a family or private foundation. This allows them to make charitable contributions, without the expense of setting up and managing a trust. Contributions are tax-deductible in the year of the contribution but are limited based on the type of asset donated. The donor can control when and how distributions are made to specific charities. Any subsequent growth in the assets donated is not taxed.

Real Estate and Other Asset Investment Strategies

Businesses have been taking advantage of IRS Section 1031 for years, which allows for the selling of one asset and the purchase of another asset, avoiding capital gains tax on the sale of the first asset. The cost basis of the first asset is now incorporated into the cost basis of the second property. The Tax Cuts and Jobs Act of 2017 limits the use of 1031 exchanges to real estate transactions only.

A growing number of investors consider Qualified Opportunity Funds (QOFs) along with Delaware Statutory Trusts (DSTs) when researching a real estate investment with tax benefits. A Qualified Opportunity Fund involves investing in an IRS-identified Opportunity Zone, an economically disadvantaged or distressed area. DSTs for 1031 exchanges do not have location-specific requirements but do have criteria for the replacement properties to qualify as eligible. There are differences between the two strategies regarding capital gains taxes, depreciation recapture, and step-up basis.

IRA’s, ROTH IRA’s and Qualified Plans

The use of these qualified investment plans has several advantages. Proceeds from these plans are passed directly to the beneficiaries without the need for probate. The beneficiary receives the assets at the cost basis of the decedent and pay income tax when the assets are withdrawn, except for ROTH IRA’s, where no income tax is paid.

The IRA distribution rules for a spouse allow moving the funds into another IRA and defer withdrawals until he or she turns age 70 ½. Other beneficiaries must either begin to take distributions based on their expected life spans or disclaim the IRA benefit and pass it on to a named contingent beneficiary.

With a Roth IRA, there are no Required Minimum Distributions. All distributions are tax-free. That means the beneficiary can either have full use of all of it, with no tax due—or they can leave the money in a Roth IRA to grow. Non-spouse beneficiaries must withdraw the full amount in the Roth within 10 years.

Another option is to create an employer-sponsored pension plan. These plans are either defined-benefit plans or defined-contribution plans. In these plans the employer sets aside money for the employees and invests it on their behalf. With most pension plans, the payout is made in monthly installments.

Life Insurance Strategies

Life insurance can play a key role in protecting the owner, the family and the business. Use of life insurance should be considered to minimize downside risks in advance of a planned business exit.

Proceeds from life insurance are not subject to income tax, but are subject to estate taxes, if the owner of the policy is the insured/decedent.

Family Matters

Family-owned firms over the long term have been shown to grow more rapidly than non-family-owned firms. They have patient capital. They have command of their enterprise, think about continuity, their community and connection to stakeholders. They think about their employees. Employees are typically more loyal.

Most private companies are family businesses. Even if other family members are not currently involved, your business was likely created to support the lifestyle of your family and to generate wealth for your family. You may be thinking about passing along ownership to one of your family members. But unfortunately, today many of the next generation do not have any interest in taking over and running the business.

One of the concepts that I promote when I work with family business owners is to view their business as an investment, just like your house or your 401k. When you start to view your business as an investment two things happen (1) you start to prioritize strategies that increase business value, and (2) you begin to evaluate spending and investment decisions on how they impact both profit and business value.

Many business owners continue to focus all their efforts on improving profit performance. But what if your business is in an industry plagued by factors that make it very difficult to grow. Or perhaps your ability to grow your business has plateaued. With an investor mentality, you can start to view your business as an investment. Just like stocks and bonds, if your asset stops performing, what do you do? You sell and invest in another stock or bond. Similarly, when owning a business, the better approach may be to sell the business at the best possible price and invest in other classes of investment or in another company that has more potential.

If you are faced with this decision, you should make the decision as an investor with a focus on building family wealth. You still may decide to invest in your current business, but this decision is based on different criteria than you would use solely as the business owner/manager.

Let me continue to build on this concept of viewing a business as an investment.

According to Amy Wirtz of The Family Business Consulting Group, over 89% of business families control more than a single firm and the mean number of firms controlled by them is 3.4 firms. Perhaps you already have a separate company that owns your real estate. Perhaps one of your family members owns another company.

As families begin to own multiple businesses, they begin to transform into what has been described as a Family Enterprise. Now the dynamics become more about managing the wealth of the family, than running a single business.

There are four structures that can be used to help manage business families and Family Enterprises:

The Advisory Board

I often recommend the creation of an Advisory Board for family-run businesses.

The concept of an Advisory Board for a family run business is to assemble both internal and external resources that advise the business owner on a variety of matters. Members of an Advisory Board can include other owners of family run businesses, wealth advisors, accountants, lawyers, or a variety of individuals who agree to become Board members. For smaller companies, the fees paid to these Board members are small or nothing at all.

Advisory Boards typically do not have any voting authority but advise the business owner(s) on how to run the business. Advisory Boards can help with succession planning, training of family members, reviewing financial results and key performance metrics, and advising the family regarding buying and selling businesses.

It is important that the Advisory board has a written purpose and targeted characteristics for prospective board members.

Peer-To-Peer Advisory Board

Another option is to have the owner join a Peer-To-Peer Advisory board. One of the things that I have had the pleasure of doing over the past 20 years is working with over 50 business owners in several peer-to-peer advisory boards. These advisory boards enable like-minded members to discuss their issues, strategies, challenges, and opportunities. I have seen the power of open and honest discussion when peers provide critical insights and help each other manage and improve their companies.

The Family Council

The Family Council serves as a board of directors for the family. Just as an outside board acts to protect the financial and business health of the company, the Family Council protects the growth, development, and welfare of the family itself. A family council provides family members with a regular, structured forum to communicate concerns, have input, and participate in determining how to deal with business issues.

Just as the protocol followed in a corporate board meeting is determined by the corporation's articles of incorporation, bylaws, and shareholder agreements, the purpose and procedures of the Family Council are determined by the family charter, its bylaws, and its vision/mission statement.

If a family business has both an Advisory Board and a Family Council, then I recommend that a member from the family council serve on the Advisory Board. The purpose of an Advisory Board and a Family council are different. The Advisory Board advises the business. The Family Council advises the family on their businesses and investments.

The Family Office

For larger family enterprises, it may be appropriate to create a family office. Family offices provide a broad spectrum of private wealth management services to one or a small number of ultra-high-net-worth families. Besides financial services, family offices also offer planning, charitable giving advice, concierge, and other comprehensive services. Single-family offices serve one individual and their family, while multi-family offices serve a few families benefiting from economies of scale.

But no matter what structure you use, the purpose of any of these approaches is to:

- Define family vision, goals and objectives
- Create a governance process
- Improve communication within the family
- Handle conflict
- Manage family wealth
- Determine the exit strategy for a family-owned business
- Train family members to work in family-owned businesses
- Create succession plans
- Build a team of family and business advisors
- Divide and transition family assets

Exit planning is critical to the successful management of a family business or family enterprise. As described early in this book, exit planning includes defining both personal and business vision, developing and achieving goals and objectives, communicating with and aligning all interested parties, guiding the business through the growth versus exit decision, and implementing the selected exit strategy.

The transition of a family-owned business presents its own unique challenges. In preparing for a family member to take over leadership of the company, the family often must deal with family dynamics and conflicts. Often the owner is reluctant to move forward with the transition because they fear the possibility of family conflict. These are some of the challenges:

- How many family members will work in the business?
- If multiple businesses are owned, who will get what?
- How will family wealth be distributed?
- How will the transition impact employees?
- Will the employees respect the new leadership?
- When will the transition occur?
- How to create a common vision between all interested parties
- How to communicate between all interest parties
- How to prepare family members to become the new management
- How to deal with conflict
- How to manage the business profitably through the change

According to the Family Firm Institute only 30% of family businesses survive after the first generational transfer. Only 12% survive after the second generational transfer and only 3% survive after a third generational transfer. With such poor survival rates, it is imperative that the transition be managed properly. Otherwise selling to a third party may be the better alternative.

According to Mike McGrann from the Telos company, 60% of transition failures are due to breakdown of communication and trust within the family, 25% of transition failures are due to heirs being unprepared for required roles and accountability and 15% from other causes.

With these statistics in mind, it is critical for the family-owned business to do everything it can to prepare the family for transition of ownership to other family members. The education of family members is critical to preparing them to take on new business management responsibilities.

One of my clients who transitioned their son to take over the business had the son participate in the Goldman Sachs 10,000 Small Businesses program. These types of educational programs are designed to educate owners and potential owners of small businesses on how to run a business.

If transition is not the goal of the family, then selling the company at the best possible time at the highest possible price can help add significant wealth to the family.

Proper exit planning is a key factor in helping the family business make and execute these decisions.

When Should I Start Planning?

Now we arrive at the most important question – "**When Should I Start?"** After reading this book, you should be screaming "**I NEED TO START NOW**."

Even if you are not considering selling or transferring your business in the next five years, you can still benefit from much of the exit planning process. That was why John Warrillow wrote his book in the first place. In many ways, it's all about the process.

Business acceleration is a major portion of the exit planning process. If you only focus on building a company that is run better, makes better long-term decisions and helps you understand that you can continue to increase the value of the business that you built, you have won. Even if you never sell or transfer your business.

Many owners run what are referred to as a Lifestyle business – those businesses that were created to fund their lifestyle during one's lifetime. Many Lifestyle businesses have built value and can be sold to other individuals wanting to have that same lifestyle.

It is also important to make End Game Planning and Exit Planning a priority in the allocation of your time and focus. These are critical strategic activities. Be careful not to let the urgent, but less important tasks consume your time and take away your focus on properly exiting from your business.

Please take the time to think about your own business and the value of joining the thousands of business owners that have committed to incorporate exit planning into their strategic planning process.

And, of course, contact us if you would like our help.

APPENDIX 1 – Sample End Game Plan

Personal Drivers

There are several factors that are pushing me to exit my business. This includes concerns about my health and my lack of time that is available for me to get enough exercise. The stress of running my business has caused me to develop ulcers, which I now have under control with medication, but I am concerned for the future.

There are multiple drivers that are pulling me out of my current business. I want to spend more time with my family and travel more while I am still young enough to travel. As long as I can sell the business for what I believe it is worth, my family will have enough net worth to fund our planned lifestyle, including funding my 2 children through graduate school.

My Responsibilities

Funding the needs of my family is my top priority. My next priority is to my long-term and loyal management team of four people. I can accomplish this is two different ways. First, I can secure an agreement that the buyer will keep them on for a minimum of 3 years. If I am not able to accomplish that, I will consider distributing part of the sale proceeds to them. I might be able to do both.

Regarding the rest of my employees, I don't feel that I have any direct obligation. However, by choosing the right buyer that I believe will continue to invest in and grow the company, I can help secure the likelihood of their long-term employment.

Business Valuation

I have talked to a couple of companies who have expressed interest in purchasing my business. Based on what they suggested would be the valuation of my company and discussions I have had with a couple of M&A advisors, I believe I have a good range of value for my company.

Financial Planning

Based on my expected valuation of my company, I have worked with my current financial advisor and should have enough money to meet my family's financial needs. This is based on an expected sale price of $20 million and net after-tax proceeds of $16.4 million.

Exit Options

No one in my family is interested in running the company. My management team, although a strong team, has neither the interest nor the financial resources to buy the company. An ESOP might work – we are big enough for an ESOP, but I am not sure if the timing fits.

That leaves selling to a third party the most likely option, but this will take more research.

Exit Timing

In this area I have conflicting inputs. With the interest rate at above historical levels, I believe that selling might be best delayed for up to 2 years. The business is still in a growth mode, so its valuation should hold up and even increase over the next couple of years. One option would be to sell a minority share now, with the buyer having the right to purchase the rest of the company within 3 years. That might increase the overall value that I would receive from selling the company.

Personal and Business Readiness

I am ready to exit now, providing I can secure the expected sales price. However, if I need to stay on for a few more years as owner or consultant, I am okay with that approach also.

Regarding the readiness of the business to exit, there are several things that need to be done before I move forward with selling the company. The company is still highly dependent on me for some sales activities. I need to document the company's sales process and make sure the sales force is fully trained in this area. There are a couple of key customer relationships that I need to pass on to others within the organization.

Tax Planning

With the size of my net worth, including the expected Net Proceeds from the sale of the business, I will be facing significant income taxes and estate taxes. This is not an area where I have much knowledge, so I will have to reach out to experienced M&A tax advisors.

My Advisory Team

I have been with my accountant and my company lawyer for over 10 years. Neither of them is an expert in the specialty skills required for me to sell my company. I know I will need to either replace them or supplement their missing skills with other professional advisors.

I need some help in dealing with the complex human resources issue that will come up. I also need to bring in someone who will function as my Exit Planner. I also need to hire an outside M&A professional to help prepare the company for sale and find the right company at the right price and terms and conditions. I will need expert tax advice to minimize my taxes from the sale and estate taxes that might otherwise need to be paid in the future.

What Will My Life Look Like After I Exit?

I will be 62 next year. One of my drivers is losing weight and getting back in shape. We have developed a detailed travel plan that will take us about 3 years to complete. Some of these trips require extensive hiking. My two children will be starting graduate school – one next year and the other 2 years later. Both children are married and live nearby. We hope to have grandchildren to help raise within a few years. My wife has recently started a not-for-profit focusing on providing educational services to underprivileged children. I want to join her and help her make a difference.

When Should I Start Planning?

With my targeted exit date within the next few years, I need to start planning now.

What About My Company Would be Attractive to Potential Buyers?

My company has been profitable for the last 12 years and has grown year over year during that period. We have an excellent management team, a sold customer base, and a good reputation with our customers.

What Is My High-level Timeline?

Planned Actions - Business	Timing
Create a written exit plan	90 days
Build an advisor team	180 days
Prepare the company for sale	6 months
Market the company	3 months
Find a buyer and negotiate a deal	3 months
Sell the company	< 2 years
Planned Actions - Personal	**Timing**
Start losing weight and getting back in shape	2 years
Complete our 3 years travel plan	2 – 5 years
Financially support our ~~2~~ two children for grad school	1 – 4 years
Start working in my wife's not-for-profit	3 years

ABOUT THE AUTHOR

Richard Strautman, the owner of Picus Enterprises LLC, is a seasoned corporate executive, board member, business growth specialist, Certified Exit Planning Advisor, Certified Value Builder, and a Certified Merger & Acquisition Advisor.

He served for over a decade as a Peer-to-Peer board Facilitator with The Alternative Board and helped advise~~d~~ business owners in a broad range of industries.

In his corporate roles, he successfully completed several buy-side and sell-side transactions for both private and publicly owned companies.

He is a Partner with Stony Hill Advisors, a wholly owned subsidiary of the Small Business Development Group, a public company committed to providing financing and M&A advisory services to small businesses.

Richard Strautman advises business owners on a variety of management consulting areas, including growing companies, preparing owners to exit, transitioning business ownership and management from one generation to the next, and working with business owners to purchase and sell companies.

He has published multiple books and videos on exit planning related topics.

He is active in a variety of related exit planning and M&A networks including the New York Chapter of the Exit Planning Institute, the Alliance of Merger & Acquisition Advisors, and the Exit Planning Exchange.