WHAT ARE MY EXIT PLANNING OPTIONS

Do you have leaving on your mind? If you think you are within three to five years of retiring from the business you own and are wondering how best to leave your business, here are some exit options to consider:

- Sell or give your company to a family member
- Sell your business to one or more key employees
- Sell your business to other shareholders
- Sell to an outside third party
- Bring in an outside investor and keep a minority interest
- Hire a management team to take over and become a passive owner
- Liquidate your business

Determining the right option for you is a challenge that many business owners put off until it is too late. Windows of opportunities open and close. If you want to "leave your business on your terms and on your time table," you need to be proactive about understanding your exit options.

There is a four-step process worth following to determine which exit option is best for you. This process will ensure that your options are consistent with your goals. It will also help you take into account the realities of your company and the marketplace.

Step One: Set Personal Goals

What are your most important objectives in terms of both financial and non-financial goals? How much money do you need to retire? Do you want the business to stay in the family? Do you want to continue working for the business for a transitional period after you sell?

Setting clear, well-defined written goals and objectives is the first step in the exit planning process. Doing so in advance of your exit gives you and your advisors the necessary time to make your goals a reality.

Step Two: Make Sure Goals Are Consistent

With the help of your advisors, you need to determine whether your goals are consistent with each other. Often, this is not the case. For example, many business owners do not want to give up their control (voting power) until they receive full payment for their business. Many small business owners, particularly family members and key employees, do not have sufficient capital to pay the price for a business at the time of closing the sale. Small business owners often self-finance a portion of the sale and, in doing so, require covenants for retaining certain control of the business until fully paid. The goals of the new owners may be mutually exclusive of those of the seller. A great deal of stress and heartache can be avoided by addressing these kinds of issues early on in the process.

Step Three: Understand Value and Salability Issues

Once you have defined your objectives, you need to understand the market value of your business and whether it is salable. This analysis will give you additional data that will likely eliminate certain exit options.

For instance, if the value of your company is below what you feel you need to support a comfortable lifestyle after your exit, you may decide to take some time to enhance the value of your business or do further financial planning to ensure you clearly understand your financial needs. In addition to understanding the value of your company, you also need to know if your business is salable.

Value and salability are not the same. Salability relates to how quickly a business will sell and how much leverage a business owner will have when negotiating with a buyer. Salability depends largely on external market conditions that are out of your direct control, like business, market, or financial conditions. The option of selling your business for cash to an outside buyer, for example, may be limited due to a poor economy or downturn in the business or industry.

For larger businesses, you may want to work with an investment banking firm to determine the value and salability of your company. An investment bank that is actively talking with buyers can give you an accurate read of the marketplace and a "real world" sense of the value and salability of your company. For smaller businesses, it’s recommend that you work with a professional team of advisors like your attorney, accountant, personal financial planner, insurance professional, and banker. Selling and transitioning your business is a team effort – no one professional advisor knows it all.

Step Four: Understand Tax and Legal Implications

Finally, to know the best exit path you have to evaluate the tax and legal consequences of the exit options that are available to you. This evaluation will include factors such as the legal structure of your business entity, how its ownership is structured, exiting legal agreements, and how the sale will be financed. For example, if a transaction involves a sale of assets and the company is a C corporation, there are significant adverse tax consequences compared to a sale of assets if you are an S corporation or stock sale. Good advice from your CPA and attorney prior to making any commitments to the buyer is absolutely essential. This can help minimize the taxes you would otherwise have to pay.

Using this four-step process, you will be able to narrow down the list of exit routes to determine which one is best for you. If you think retirement is three to five years away, start the exit process now. You will be surprised how quickly the final years go by.

To learn more about exit planning strategies, valuing your business, or other services offered by our firm, visit www.rukkilanegro.com.

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