14 Exit Planning Suggestions

1. **Understand Your Options**
    a) Begin talking with (interviewing) professionals to get a sense of who they are, what they do, and how they work with clients. Most professionals will meet with you free of charge to discuss their services.
    b) Ask questions about exit planning to see how comfortable and familiar they are with the issues you need to address
    c) Read as much on the subject as you can.
    d) Talk with an investment banker who specializes in exit planning to begin to understand all of the exit strategies that are available to you.
        - Generational transfer
        - MBO
        - ESOP
        - Third party sale
        - Leveraged recap
        - Third party management
        - Liquidation

2. **Business Succession Instructions** – write out instructions to the following topics:
    a) First, what key employee(s) can and should be given the responsibility to continue to run the business and/or make financial decisions? Who should oversee internal administration? A business owner should identify specific employees.
    b) Second, what advisors and others (such as family members, friends, etc.) should be consulted in the ownership transfer process? Again, a business owner should be specific.
    c) Third, what do you want done with the business when you die? You may want the business sold to key employees, continued in the family or liquidated. If you want it sold, to whom and on what terms? Business owners should make a list of names and contacts of businesses that have expressed an interest in acquiring the company or that you think would be appropriate successor owners. Whatever your choice, you should make it during your lifetime. Why leave these decisions up to someone else.

3. **Be in Control of Your Destiny -** The following factors all impact whether or not it is a good time to exit your business:
    a) Market conditions
    b) Personal health
    c) Unsolicited offer from a competitor
    d) Death of a family member or partner
    e) Winning (or losing) a major contract or customer

f) Be prepare to capitalize on these factors, rather than react to them.

4. **Plan for a Rainy Day**
   a) What would you do if you lost a major customer?
   b) What would you do if your partner was hit by a bus?
   c) What would you do if your children announced they did not want to run the family business?
   d) What would you do if you were diagnosed with a terminal disease?

5. **Continuity Bonus**
   a) To retain key employees after your death, offer them ownership—perhaps via a buy and sell agreement, or offer them additional compensation if they continue to run the company. The compensation can be based on company profitability and continued success. As an additional incentive, you could offer these employees a substantial bonus (called a "Continuity Bonus") for providing continuity for the company. This bonus could be funded with insurance that is payable in case of your death.
   b) A continuity bonus should be a written, funded plan that provides monthly or quarterly bonuses, usually over a twelve to eighteen month period, for key employees who remain with the company during its transition from your ownership to new ownership or is liquidated in an orderly way.
   c) Typically, the bonus is funded with life insurance. This insurance can be owned by the company or outside the company in an estate tax-sensitive trust. It is important to communicate the plan to important employees when it is created so that they understand it and know the money to fund it exist.

6. **Assemble a Team of Advisors**
   a) No single professional has all of the skills necessary to help a business owner develop and implement a successful exit plan.
   b) Team should include:
      - Attorney (business and estate)
      - CPA
      - Financial advisor
      - Insurance professional
      - Tax advisor
      - Investment banker or business broker

7. **Work on Your Business, Not in It**
   a) Don’t just think of your business as a job, make sure you are working to build a business that is saleable and that will have value.
   b) Understand what adds value to a business from the eyes of buyer and then focus on building those value drivers.
   c) Discuss value enhancement factors

8. **Preserve Wealth; Don't Give it to Uncle Sam**
    a) Capital gains taxes can eat up as much as 20% of the value of your business when you decide to sell.
    b) A little advance planning can enable you to reduce, defer, or in some cases eliminate capital gains taxes.

9. **Consider Switching to S-Corp Status**
    a) S-corporations have many tax benefits for privately owned businesses.
    b) Talk with your attorney and CPA to understand whether it makes sense for you to elect S-Corp status now.
    c) Eliminates taxation at the time of sale. Makes structuring a sale much easier.

10. **Develop an Estate Plan**
    a) Many business owners do not have a formal estate plan. Many of those that do are shocked to discover that their plans don't specifically address the handling or disposition of their businesses.
    b) Make sure your estate plan specifically addresses what to do with your business when you die. Provide contingencies in case your family or other heirs are not interested in running the business.
    c) Hundreds of great businesses have to be sold at a fire sale each year because their owners didn't have sufficient liquidity to pay estate taxes. Is this the kind of legacy you want to leave for your family and heirs?

11. **Develop a Personal Plan**
    a) Have personal plan that outlines your objectives for different stages in your life.
    b) The discipline of actually putting it down in writing is a good exercise and can help you clarify your thinking.
    c) Studies show that people who put plans down in writing are 70% more likely to accomplish them than people who don't.

12. **Get a Base-line Business Valuation**
    a) Before you can make any decisions about your business, you need a basic idea of what it's worth today.
    b) There isn't any need to spend a huge amount of money to get a rough idea, but use an impartial third party to help you figure out what it might be worth.

13. **Audited Financials Pay for Themselves**
    a) If your company's financial statements are not audited, consider beginning the process.
    b) Audited financial statements add a degree of professionalism and credibility to your financial reporting that is attractive in the eyes of a buyer.
    c) When it comes time to sell a buyer will want to see three or four years of audited financial statements, so start several years before you think there is any chance you might want to or need to sell.

14. **Begin an Exit File**

   a) Keep a file containing your personal plan, your business succession instructions, information about professionals you'll include on your Exit Team, articles of interest, and finally, the contact information of anyone who has contacted you about buying your business over the years or anyone else who you think might be a good buyer of your business.

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