

Hope is Not an Exit Strategy

How to Exit Your Business on Your Terms and Your Timing

By Walt Lipski

Most successful businesses have a Strategic Business Plan which focuses on making the business successful and ensuring its growth and continuity. However, many business owners have rarely thought about or put into action a plan to help them decide when to sell or transition out of their business, what proceeds they will need, how they will find the best buyers and what they will do next. Have you got an exit strategy?

Ben Franklin said, "In this world nothing is certain but death and taxes". For the business owner we can add one more certainty: **at some point all business owners will exit their business.** It may be in the form of a sale, passing the business on to the next generation or closing it down. Do you want to leave your future to hope and chance?

Having a Strategic Exit Plan in place well before it's time to go, allows you to exit on your terms, your timing and with peace of mind.

Begin with the End in Mind

Over time you will make more money owning and working in your business, assuming it is profitable and growing, than by selling it. The possible exception may be a high tech or super growth industry business. So unless you have something else really important, compelling or urgent to do, or an unfortunate life changing event happens, you should probably consider working in your business a while longer.

However, at some point you will want to ask yourself this question: **If you were looking back to today in 18 to 36 months, what would need to happen for you, or you and your spouse, to feel successful and confident in both your personal and professional lives?** If the sale of your business factors into that answer, then please keep reading, this article is for you. If not, you should read this article anyway, for future reference.

The business world is awash in articles and opinions outlining what you should do to get your business ready for sale. However, what is rarely discussed is what you should be doing to **PREPARE YOURSELF** for when it comes time to sell or transition out of your business.

When thinking about your vision for the next chapter in your life, you may want to consider a few of these questions as it relates to selling your business:

- What would I do if I sold my business?
- What personal objectives would be achieved through a sale?
- How much is it really worth?
- Are there any family members or employees that could buy or manage my business?
- Are there any philanthropic desires I want to pursue?
- Do I want to continue working, but not want the headaches and uncertainty of ownership?
- Who would be the best buyer or buyers for my business?
- How long will it take to sell?
- How much will it cost me to do it right?

You can probably think of many more questions that pertain specifically to you and your family's goals and objectives. The important point is, ***before you consider putting your business on the market, you should have a clear picture of what you want your life to be like after the sale of your business.***

Here is the next question: If you sold your business today, would the net proceeds of the sale, properly invested, plus your other assets and investments generate enough income to fund the next chapter in your life and the lives of your spouse and family?

Start From Where You Are Today

To answer this question, you need a starting point and where you are today is as good as any to begin. Generally, in this step you want to arrive at an understanding of:

- What is the realistic value of my company if it were to be sold today?
- What would be the likely terms and conditions of a sale, and how, and over what period of time would the proceeds be received?
- What would be the tax implications from a likely transaction?
- Would the net proceeds from a sale today, combined with my other assets and investments, provide the future income and financial security I desire?
- If the answers above indicate it does not make financial sense to sell now, what are the two or three most critical initiatives I should focus on to accelerate the value of my business to where it needs to be?

Your CPA and attorney are certainly trusted advisors and should be an integral part of any business transition that may occur. Two other advisors who can provide immense value are an experienced **M&A Intermediary** and **Wealth Planner**. In this initial stage of planning, it is crucial to remember the adage, “garbage in, garbage out.” A team of highly qualified advisors will give the best, most realistic and honest answers you need to have confidence in your strategy to reach your goals and objectives.

Here is an example of how your team of advisors can work for you:

- Start with a review and evaluation from an experienced **Wealth Planner** of your overall financial position including real estate holdings, business interests, stock and bond portfolios and other income producing assets, insurance, medical, long term care needs etc.
- Next, get an assessment of a likely sale transaction from an experienced **M&A Intermediary** outlining the different types of buyers for your business, the ranges of value they would likely pay and the terms the deal might command in today’s market. A business may often be 60% to 80% of an owner’s entire net worth. Knowing the realistic proceeds that could be expected from the sale of the business in today’s market, along with the terms on which they would be received, is absolutely critical to the CPA’s tax planning and the Wealth Planners overall financial plan.
- With the above information, your **CPA** will be able to provide valuable tax insight and advice.
- With the range of value estimates provided by the M&A Intermediary, coupled with the tax insights from the CPA, your Wealth Advisor can combine the effect of “investing” the net proceeds from the sale of the business, with your current financial position so YOU can answer this question: *Will there be enough money to confidently fund the next chapter in my life and the lives of my spouse and family?*

It’s Decision time

Yogi Berra said, “When you come to a fork in the road...take it.” Now that you know what you want the next chapter in your life to look like, and what you can likely expect from the sale of your business, it’s time to decide: will you sell, or will you stay and grow your business?

Sell & Go

If the financial plan your Wealth Advisor provides shows a reasonable probability that the sale of your business will deliver the financial dollars needed to fund your vision for the next chapter in your life, **and** you have something other than work you want to do, this could be the right time to sell. Your M&A Intermediary, along with your CPA and Attorney can certainly assist with this process.

Hold & Grow

If selling today won't meet your expectations or provide the funding you need for the next chapter in your life, it may be best to hold on to the business a while longer and grow it to where it will fund your expectations. Going through the process of building your Strategic Exit Plan with your team of advisors will have given you important information you need to take your business from where it is today to what you need it to be.

1. First, you will know the **gap** – what you need financially to exit on your terms vs. where you are today.
2. You will learn from the M&A Intermediary's assessment:
 - Who the **best buyers** are, who can buy the way you need to sell
 - What **benchmarks** you will need to reach in terms of earnings and operational strengths to be likely to “get your number” when it is time to sell and go.
3. You will learn how you may be able to accelerate your business growth either **organically** or through **acquisitions** or a blend of both.

4. You will have identified **options for partnering** with a private equity firm to:

- Bring in additional capital to facilitate the above strategies.
- Fund a transition to family members or employees.
- Allow you to take some chips off the table now, stay active in the business and grow for a bigger payday down the road.

John F. Kennedy said, “Things do not happen. Things are made to happen”. As a business owner, you can ensure you exit your business on your timing and terms. Just follow these suggestions and form a Strategic Exit Plan before making the decision to sell your business. Then when it's time, you will have confidence and peace of mind in your decision to pull the trigger. *WL*

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