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What is an Exit Plan?

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Roger Elkhart sold his commercial construction company a little over a year ago. His revenues and earnings had suffered over the last few years. Roger decided it was time to sell. He was 56 and had run his family's business for the last 25 years. The last few years had been tough and Roger was burned out. He felt he needed a change. Now 18 months later, Roger is depressed and lost. He's tired of playing golf and isn't sure that selling his business was the right decision.

It may surprise you to learn that over 70% of former business owners regret selling their companies less than a year after the sale. What accounts for this seller's remorse? The main reason is lack of preparation on the part of the business owner.

A recent survey showed that the number one reason business exits fail is due to a lack of planning on the part of the owner.[1] A separate study showed that most business owners spend more time planning their family vacations then they do planning how and when to exit their business. Rather than being proactive, most business owners are reactive and "forced" to sell because of burnout, health issues, marital problems, or business conditions without the time to prepare correctly. As a result, most business owners exit their companies at the worst time possible.

Developing an exit plan is the most important thing you can do to protect the value of your business.

What is an exit plan? An exit plan is a comprehensive road map that addresses all of the business, personal, financial, legal and tax issues involved in selling a privately owned business. A good exit plan includes contingencies for illness, burnout, divorce, and even your death. Its purpose is to ensure the survival of the business; to provide continuity to your employees, customers, vendors; and to preserve wealth for your family.

Without a predetermined exit plan, you will probably:

- Undervalue your company and leave hard earned wealth on the table,
- Pay too much in taxes, and
- Lose control over the process by being reactive, rather than proactive.

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[1] Source: PriceWaterhouseCoopers, *Whose Business Is It Anyway?* University of Connecticut Family Business Program, *Family Business Survey*

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On the other hand, a well designed and implemented exit plan enables you to:

- Control how and when you exit
- Maximize company value in good times and bad
- Minimize or eliminate capital gains taxes
- Ensure you achieve your business and personal goals,
- Have strategic options from which to choose, and
- Reduce uncertainty for your family and employees.

To be effective, your exit plan must include these six essential components:

1) It should include a concise statement of your business goals, personal goals, and family/estate goals. This step is essential to ensure that all of the goals are consistent and set the direction for the rest of the analysis.

2) An exit plan should contain a detailed business valuation to establish a baseline value for the business.

3) The plan should help you identify specific ways to enhance the value of the business prior to your exit.

4) A good plan should contain an analysis of the pros and cons of your different exit alternatives such as a third party sale, management buyout, family succession, or liquidation

5) A good plan should provide suggestions to minimize any capital gains, ordinary income, and estate taxes related to the exit.

6) The analysis should contain an action plan that details the specific personal and business steps you must take in order to prepare for your exit.

Perhaps the most important thing to remember is that developing a good exit plan is a multi-disciplinary endeavor. No single professional advisor has all of the expertise needed to design a comprehensive, integrated exit plan. The best exit plans incorporate input from a team of advisors that includes:

- A business attorney with M&A experience,
- A financial advisor or wealth management professional who does planning work,
- A tax specialist who is versed in the latest tax issues, an
- An insurance professional, and
- An investment banking firm that specializes in exit planning.

Sticking to your exit plan is just as important as having one. You should meet with your advisors on a regular basis to ensure that crucial steps are being completed on schedule. Nobody likes to pay unnecessary fees, but the cost of developing a good exit plan is usually tiny compared to the additional value received at the time of sale. After all, exiting your business is probably going to be the most important deal of your life time. Don’t just shoot from your hip.

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Your exit plan should be focused on two main objectives; 1) maximizing your company's value prior to your exit, and 2) ensuring that you accomplish all of your business and personal objectives as part of the exit. Venture capital firms and private equity groups never invest in a company without having a clearly defined exit plan in place first, why should you? It is never too early to create your exit plan; so act now.

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