

Exit Strategies For Retirement



CORPORATE FINANCE ASSOCIATES

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HOW DO I GET OUT OF THIS BUSINESS?

The buzz phrase is “Exit strategy” - and you have one whether or not you have a plan in place.

Your financial planner says you should have an exit strategy; your lawyer says you should have an exit strategy; your spouse says you should have an exit strategy. They may not say it in just that way. The financial planner says you need to diversify your assets; your lawyer says you need to spread your risks and your spouse asks, “When are we going to spend more time together?”

In planning your exit strategy, you will have to look at many areas of the business and your personal life.

- Estate planning
- Retirement plans
- Financial requirements
- Mergers/acquisitions/sale
- Heirs
- Liability issues
- Current management capabilities
- Tax planning
- Timing and phasing

The nine-step chart, **Exit Strategy Plan Decision Tree**, will help you plan.

Step 1. Decide whether or not you are going to plan your exit strategy. If your answer is to plan, go to step 2. If you choose not to plan, you have by default selected the “work until I drop dead” strategy. Do not read any further - *go back to work*.

Step 2. Decide the most likely buyer of your business if you were to sell right now. Is it a family member? An employee? An investor? A competitor? A synergistic buyer? Your partner?

Should you do an ESOP? Should you go public? Should you sell the business to a relative or management through a recapitalization plan?

Step 3. Develop the estimated market value of your business to that likely buyer.

Step 4. Estimate your CIP (Cash In Pocket) after taxes from selling or transferring your business to that likely buyer.

Without planning, combined taxes on selling and on the estate can be over 60%, sometimes as high as 70%. With proper planning taxes can be deferred, reduced substantially, and in some

cases, eliminated.

For tax reasons alone, every owner of a privately held business should have an exit strategy plan.

Step 5. Evaluate the CIP with reference to the cash you want and need to live the rest of your life. If the CIP is enough to meet your objectives, go to Step 6. If it isn't, go to Step 8.

Step 6. Do you want to do other things for the rest of your life? If yes, sell the business, enjoy life. (We'll venture you have never met anyone who on their deathbed said, “I wish I'd spent more time at the plant.”) If no, go to Step 7.

Most privately held businesses sell because the seller has non-monetary issues to resolve. The owner has some family or personal goal that is more important than the long-term cash flow benefits of the business.

Step 7. The risk you have in continuing to operate the business is that something will happen to decrease the value of the business.

You need to assure that your insurance is adequate, and that your heirs have enough money to pay the estate taxes without having to liquidate the company. The value of companies in liquidation because of the death of the owner is discounted heavily.

Even if you are years away from stepping down, there are recapitalization strategies that allow you to unlock a portion of your wealth without giving up control.

Business plans, strategic plans and proper insurance are normal in well-run businesses. Just make sure, having made your exit strategy decision to continue to run the business, that your insurance and planning reflects today's reality.

Step 8. If your CIP is not enough to support you in the lifestyle you would like, then you need to develop a program to make the company worth more. That calls for a strategic plan.

A strategic plan looks at:

- Where are we?
- Where do we want to be?
- How do we get there?

In our experience, the best way to develop a strategic plan is to go in retreat with your key staff people for two to five days. In the retreat, you develop your goals and a program with responsibilities and a schedule of what to start doing tomorrow to achieve them.

You will need a facilitator to put you through the process and to assure that you come out of the retreat with realistic goals, consensus and commitment by the participants to achieve the goals.

Once you achieve your goals and the results meet your CIP objectives, sell the business and enjoy life.

If your strategic plan shows that you have no hope of achieving the CIP you want or need, go to Step 9.

Step 9. You have three choices:

1. You can wait it out. The longer you wait, the less money you need to live the rest of your life.
2. You can transfer the business, and accept less of the lifestyle features you wanted.
3. You can change the nature of the business or start a new business to achieve the CIP you want and need. When ready, go back to Step 1.

Every privately held business will be transferred. The ownership will change by selling, liquidation, bankruptcy, going public, transferring to a relative, donating to charity, or merging with another company.

Each of these transfers has different tax, family and lifestyle consequences for the owner. Exit planning is essential to assure that you end with the maximum CIP.

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EXIT STRATEGY PLAN DECISION TREE

