

# If You Own a Business, You Need An Exit Plan Team

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## The Benefits of Exit Planning for Founder-Owned Businesses

For the past several decades, The Sharpe Group has been working with business owners, attorneys, CPAs, investment bankers and other highly qualified fiduciaries in the field of middle market mergers and acquisitions. The many transaction successes and failures we've witnessed over this time have made us a believer that independent professionals must collaborate effectively in order to deliver superior outcomes to clients. Over the years we've come to appreciate the importance of a multidisciplinary approach in establishing goals, creating plans to attain those goals and persevering to see their plans through to completion. Creating a plan to exit your business is no different.

Every business owner will exit their business —it's inevitable. A business will be sold, liquidated, brought public, or transferred to a family member or partner. Yet despite the inevitability of an exit, most business owners do not have an exit plan. The number one reason private business sales fail or only partially succeed is a lack of planning on the seller's part. And yet most business owners spend more time planning a family vacation, than thinking about when and how to exit their business. In fact, only an estimated 28% of private businesses have done any exit planning. Research shows that the reluctance to plan is attributable to the supposed difficulty of the process and too many business and personal issues to consider, and requiring expertise from too many separate professionals. Due to lack of good planning, only 30% of family-owned businesses survive through the second generation. A Small Business Association (SBA) study of 300 business owners who sold their companies within the last 12 months stated that 75% of the respondents felt the sale did not accomplish their personal or financial goals.

As Steven Covey reveals in his bestselling book, *The 7 Habits of Highly Effective People*, one essential element of effectiveness is to begin with the end in mind. Nothing could be truer as it pertains to exit planning. We believe every business owner should have a strategic exit plan regardless of their age and the stage in the life cycle of their company. We often start with one simple question "when do you intend to exit your business and what do the net proceeds need to be?" A founder aspiring to sell their businesses for \$250,000,000 in 10 years should make business valuation their primary strategic imperative from start to finish. If you want to have a successful exit, you need to look at it through a buyer's eyes. Structuring the business with a logical acquirer in mind has the added benefit that it is attractive to investors in the initial stages.

It shows them a clear path to exit and return of their invested capital. In our experience Venture Capitalists (VC) who fund start-up companies will not invest in a business unless they believe the founders have a good exit plan. Likewise, Private Equity (PE) groups will not buy or invest in a successful middle-market company without developing a detailed exit plan for themselves prior to investing.

The major challenge facing every company founder is making the time to build out their trusted exit team of tax, legal and investment advisory during what is usually a period of rapid growth for their company. A founder's focus and time is best spent on company-specific activities. Most business owners we work with are the visionaries, idea generators and relationship builders of their ventures. Their companies will do best when they stay focused in these areas. This can only happen if the founders have built a team early in this process with one of the advisors taking a leadership role. A founder's exit

will be defined by how well or how poorly they executed upon the pre and post liquidity objectives. Those who begin to ask themselves “what is my business worth?” only when the time to sell arrives are far less likely to have their expectations met. Waiting for the deal announcement to activate a battle tested team of advisors often leads to lack of planning, suboptimal outcomes and a swarm of advisors making empty promises without having deep knowledge about the transaction. Ideally, business owners would develop their exit plan when they start their business.

## What is The Exit Planning Process?

An exit plan is a comprehensive road map to successfully exit a privately held business. An exit plan asks and answers all the business, personal, financial, legal, and tax questions involved in selling a privately owned business. An exit plan is a way to ensure that the business owner is consistently building their company to achieve their long term personal and financial goals. The exit planning process involves helping business owners overcome several issues, including their fear of letting go, their desire to avoid the stress it may cause their family, and not knowing when to start. The crucial challenges business owners face during this process is dealing effectively with business and financial issues

like ownership transition, management training, retirement planning, tax planning and strategic direction, while at the same time managing the emotional situation of all the stakeholders, including the owners themselves.

Exit planning is a bespoke process. There is no solution that is an exact fit for every business owner. Because there are so many variables and diverse professionals involved, successful exit planning must follow a rigorous process in order to ensure each situation is handled in a consistent manner for the business owner to achieve the best possible outcome.

### *The Exit Planning Process Consists of Four Steps:*

#### 1 DATA COLLECTION

This initial step focuses on collecting information covering personal, business, financial, family, and estate planning goals. It also collects operating and financial information about the company.

#### 2 VALUATION / ANALYSIS

Using the operational and financial data a detailed baseline business valuation is created to get an idea about fair market value of the business as well as providing some indication of how marketable the business is based on current market conditions.

A personal financial strategy and analysis is created. The plan not only explores anticipated lifestyle needs and tax strategies, but also the type of financial legacy the founder wants to leave to family or the community.

#### 3 RECOMMENDATIONS

Based on the planning from the previous step a review is conducted of legal options and how to structure an exit to meet the business owner's goals. This includes reviewing all exit options, ways to help maximize business value and minimize taxes.

#### 4 IMPLEMENTATION

This is where having a cohesive multidisciplinary team of advisors becomes most crucial. During the pretransaction due diligence an M&A attorney is engaged. The CPA develops an appropriate strategy to help minimize taxes at the time of sale. The estate planning attorney develops an estate plan that fits together with the tax plan and reflects the proceeds from the eventual sale. In advance of the exit the founder engages a wealth management team to determine how the net proceeds from the sale will be invested and managed to pursue their goals. When all of this is complete an investment bank is engaged to implement the appropriate exit option.

## Assembling Your Multidisciplinary Advisory Team

Exit planning is not a solo endeavor. During our careers as wealth managers, we have not met a single professional who has all the knowledge, experience or skills necessary to design a successful exit plan on their own. The most successful business sales are a result of the combined efforts of the best professionals you can assemble for your specific situation. The lead advisor could be the wealthmanager, attorney, CPA or investment banker with whom the owner and stakeholders work throughout the exit planning process. Communication between the owner and the team is critical. In addition, the team members should have the best possible credentials—ones that are in proportion to the magnitude of the assignment. Elite teams have identified and worked with top professionals in their fields and know who to turn to when asked to help founders assemble their exit planning team. An effective exit plan focuses on all the unique business, personal, financial, tax, estate planning and wealth-management issues involved in exiting a privately owned business.

## Conclusions

Deciding on an exit strategy might feel a little overwhelming, especially in the beginning stages of developing your business, but the planning that comes along with it is essential in creating a successful transaction. To increase the likelihood of a successful exit, a business owner must assemble a team with a variety of skill sets necessary to design a comprehensive and integrated exit plan. The Summa Group understands the multidisciplinary approach of working closely with a founder's most trusted advisors in order to prepare for your business exit ahead of time, but also plan for life after your exit, with the goals of protecting and growing your wealth and ensuring a legacy for your future generations, so you can focus on new ventures, personal goals, and living a fulfilling life after the sale.



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## About Us...

The Sharpe Group of Oppenheimer & Co. Inc. has been established for the primary purpose of assisting our clients with risk-adjusted returns, based upon individual needs and objectives. The processes begins with the creation of an investment policy statement, and where appropriate, a comprehensive financial strategy. Taking into account those needs and objectives, we will help design both tactical and strategic asset allocation models based upon those ideas and or policies. Next, we will help with the evaluation and the choice of appropriate investment managers in order to implement the strategies. Finally, through ongoing due diligence and performance reporting, we will recommend portfolio adjustments to help keep client portfolios working toward achieving each client's long-term goals.

## Meet The Team



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