

Planning A Business "Exit Strategy"

James M. Harley, CBI
The Business Exchange

We've all heard the adage "buy low and sell high." It's true for stocks, bonds, and real estate. It's good advice for anything you value and count on to increase your wealth – including your business. Too often, business owners postpone thinking of their exit strategy until illness, retirement, divorce, or other change in their personal status requires them to focus on the inevitable sale. By that time, personal commitment to the business may be waning and sales may be slumping. Too late for a sale to recoup the value the owner may have created.

Consider two examples.

Say you are the owner of a plant making widgets. It provides your family a comfortable living but the cash flow is driven by investments in the physical plant and other fixed assets that have been financed throughout the years. Should - heaven forbid - something happen to you unexpectedly, your family that had been dependent on this income stream would be faced with an uncertain future with possibly a heavy debt load. The resulting "fire sale" may not ever replace the income derived from your continued operations.

The same analogy – but reversed – could be true if you were the owner of a dot com company with few physical assets. Your brain and your abilities are the "worth" of your company. With few physical assets other than intellectual property, the owner's sudden absence could not only dry-up any income stream, but leave few, if any, assets to sell.

Needless to say, it's best to sell while your business is at a peak, not to wait for an uncertain and possibly unkind future. If a sale is not in your immediate plans, it at least makes sense to begin to plan for the process so you'll be ready if the need arises.

Plan for an exit

Start early, at a minimum, 1 to 2 years out and have a goal in mind. Clean up your books so you can give a potential buyer a good picture of what your business is worth. Put yourself in a potential buyer's shoes and take a hard look at your business. Would you buy it? Is it attractively packaged and in a condition to sell?

Here's what to look for and some action steps to take if your business does not measure up to expectations.

Set Clear Objectives

Think through the process and what you want to get out of it. For example:

- ✓ Are you willing to accept seller financing as part of the deal? If so, what are your ideal terms and conditions?
- ✓ Do you want to "cut the cord" upon sale or would you be willing to provide some transitional management and/or consulting for the new owner?
- ✓ Do you have a definitive "bottom line" that you need from the sale? What will you need and/or want to put in your pocket at closing?
- ✓ Is your main objective to see that the business continues and key employees retained?
- ✓ Do you know what your company is worth? Have an economic valuation of your business performed by an independent expert. You want to dispel any unrealistic expectations you might have as to its worth and acceptance in the marketplace.

✓ Interview and/or hire a good business intermediary to help plan and handle the sale. He can help you place your business in its most favorable light and to take over direct sales activities at the appropriate time. You need to have someone advertise the business discreetly and pre-qualify all potential buyers. A higher price will result if you keep your "head down" and stick to the details of the business. You need to keep that cash flow coming as a growing or stable cash flow serves to strengthen your potential for a successful sale.

Only you can answer these and other sales-related questions. Form your answers and take action before even thinking of a sale.

Tax Considerations

Both you and your potential buyer will have a silent partner in the transaction – the Internal Revenue Service. You will need some legal and financial "hired guns" to help you protect your investment and develop solutions of benefit to both sides.

Curb Appeal

Just as you would "spruce up" your house before putting it on the market, you need to attend to the physical, financial, and managerial "curb appeal" of your business. Someone coming in with a critical "buyer's eye" needs to see a tight ship and a well-oiled operation. The more organization you can demonstrate, the greater your credibility and the chance for a successful sale and transfer.

Action steps:

- ✓ Document operating policies and procedures. Actions you take for granted may be totally new to the buyer. Document everything!
- ✓ Get rid of any "brother-in-law" deals or contracts that you might. All

pricing and contracts should be uniform and easily understood.

- ✓ Make sure that the employees you have in place are those that will work through an ownership transition and will provide the buyer with a seamless transfer.

Look for "windows of opportunity"

A terrific year is not only good for you at present – it can provide the "window of opportunity" to sell your business at its highest possible price. As most sales are arranged as a multiple of cash flow, such a sale at the peak of business will result in the highest possible sales price. Any abnormal or non-reoccurring sales "spikes" will need to be disclosed to the seller, but a growing income stream is a good story to sell.

In the same vein, keep in tune with your industry and your competitors. Oftentimes, a growing competitor looks for strategic acquisition opportunities in lieu of starting up a new branch in your area. Your business could easily be someone's expansion vehicle. If you think that may be the case, you need to make yourself known.

Getting the deal done

Depth of Management - If you are a "one man show," you won't get the kind of value you want. You have to demonstrate to a potential buyer that "this company is not dependent on me."

Deal Structure – Generally speaking, the biggest price may not be an all cash deal. If you are prepared to take a note, work out a consulting arrangement, accept an on-going royalty, or some other financing method, you may wind up with a more lucrative deal in the long run.

It's never easy, but it can be done. The key is to plan ahead for any eventuality and to review your business as an outsider unfamiliar with your business and its individual characteristics.



The author is a graduate of Bucknell University and earned masters degrees from Cornell University and American University Jim can be reached at 859-806-3352 or by email at thebusinessexchange@gmail.com