PRIVATE EQUITY transitions

Can I Afford to Exit My Business Today? Five (5) Questions to Begin Planning Your Exit

Dear [member_name_first],

An exit from a privately-held business is a complex decision. Each exiting owner will have a unique relationship with their company as well as their community, family, employees, managers, vendors, customers, and others who are tied to that successful business. However, there are a common set of factors that every owner will need to answer before successfully exiting their business. Every owner first needs to know whether or not they can afford to exit their business. This newsletter will provide you with five (5) questions that, answered in order, will assist you in addressing this very question and getting your exit planning started today.

The Five (5) Questions that Need to be Answered

Here are the five (5) questions that every owner needs to answer to give serious consideration to their business exit:

1. What do I need to get out of this business to meet my personal, financial goals?
2. What is my business worth today?
3. When can I expect to get paid that value?
4. What will be the tax implications – or, put another way - ‘How much will I keep from those payments?
5. Will the ‘net amount’ that I keep provide enough of a stream of income to meet my personal financial goals?

Owners who can answer these five (5) questions are well on their way to establishing a strong foundation for the development of a comprehensive plan for their exit from their business. Let’s take a look at each one of these to provide you with a little more guidance for your planning.

1. What do I need to get out of this business to meet my personal, financial goals?

The majority of privately-held business owners take salary, expenses and bonuses out of their businesses to fund their lifestyles. In fact, one of the great benefits of owning and running your business are the freedoms that are provided to you with controlling your financial compensation each year. However, if you are thinking about an exit, you must consider that your future owner will also want to enjoy those benefits of ownership and your ability to draw salary, expenses, and bonuses will be diminished or eliminated all together. The question becomes, 'what do I need to get out of this business to meet my personal, financial needs?' [Assuming that you no longer control your company's cash flow.] This critical 'value gap' calculation is the first question to be answered by all owners who want to consider an exit.

2. What is my business worth today?

After determining what you need to get from the business, the logical next step is to determine what your business would be worth to a future owner. This is easier said than done because, as the saying goes, value (like beauty) is in the eye of the beholder (or, in this case, the future owner). So your company will have a range of values depending upon who you transfer the business to. Knowing what this range of values is becomes the 2nd question to answer in determining whether or not you can afford to exit your business today.

3. When can I expect to get paid that value?

When your business transfers to a new owner, it is not uncommon for the payments to be made over a certain number of years. Now, some owners will only settle for 'cash at the closing' with their transaction. That is a reasonable position to take but it will likely eliminate the opportunity to sell the business to any family, managers, or even to an Employee Stock Ownership Plan. Knowing when you will get paid the value that you will receive is the 3rd question to answer in getting started with your exit planning.

4. What will be the tax implications or, put another way. 'How much will I keep from those payments?

There is a saying in exit planning that 'it's not what you get, but what you keep that matters'. So, after knowing (1) what you need, (2) what your business is worth, and (3) when you are likely to receive those payments, you now need to know what the tax implications of those payments will be in order to see how much of those sales proceeds you will keep. Owners who know their likely tax obligations in advance are better prepared to execute a transaction because they are one step closer to knowing whether or not they can truly afford to exit their business today.

5. Will the 'net amount' that I keep, plus other assets and streams of income, be enough to meet my personal financial goals?

Finally, when you know what you need, what your business is worth, when you will get paid, and what taxes you will pay, you'll come to the final of the five questions, which is 'will I have enough money to meet my financial goals?' By taking an estimated return on investment from the net proceeds from your transaction, along with your other sources of income, including real estate rents, continued salary, retirement account distributions, pension incomes, social security payments, and any other income producing assets, you will be able to measure whether or not you have enough to meet your personal financial goals.

Concluding Thoughts

If you are interested in having my office assist you with answering these five (5) questions, we have a short assessment that can be completed in a few hours of your time to answer all of the five questions above. We are in the business of planning exits for owners and would appreciate the opportunity to work with you in answering these five (5) questions as a first step towards putting you on track to a successful exit.

Regards,

Joe Bazzano