

Mining the Gold Out of Your Business: Failing to Plan is Planning to Fail

Part Three of Three

Many would say that failing to plan is planning to fail. When it comes to exiting your business and mining the gold out, why would you want to fail? After all, isn't this your payoff for years of hard work, financial risk, nights away from home, and the like? In Parts I and II of this series, we outlined ways to get started planning as well as three of the most common exit strategies. Following a brief recap, we have a few final thoughts when it comes to maximizing value and optimizing timing for the favorable outcome you so richly desire and deserve.

Getting Started:

Getting started with long-term succession planning can be a daunting task. Following are some ways to get the process started:

- 1) Take a step back and think about your goals. Determine what you want to do once you exit.
- 2) Get your advisory team in place. From legal and financial counsel to family members, determine who will be involved in the decision process.
- 3) Prioritize/choose your exit strategy. Discussed later in this article, select the strategy that helps you achieve your goals.
- 4) Select a time frame. Exiting takes time, especially when an entity restructuring is involved. This is why the business owner should begin his/her journey with the end in mind.
- 5) Get a professional business valuation – once you determine your exit strategy. Remember, valuations are only useful when they are conducted for a specific purpose. While not a definitive bull's eye, this will provide you with a point to shoot for.
- 6) Get your books and legal paperwork in order.

Exit strategies:

When contemplating ways to leave your business, it is important to remember that each alternative can take on many forms and have a variety of cash flow and tax implications.

- 1) Keeping it in the family. One of the most popular exit strategies, keeping the family business in the family is a transition that very few companies survive – mostly due to a lack of planning when it comes to family concerns and tax issues. From the tax side, properly valuing the business for estate and gift tax purposes is key.
- 2) Selling to employees (Employee Stock Ownership Plans or ESOPs). This option allows the business owner to take care of the employees who have contributed to the success of the company. It also provides a number of tax benefits including allowing the owner to sell all, or part of, his/her interest and possibly defer taxation on the gain. The cost to pull through the implementation steps, however, can be expensive.
- 3) Selling to a strategic buyer. This strategy requires an accurate, professionally prepared business valuation to get started -- no matter what type of strategic buyer you sell to. Should you opt to sell to the competition, the sale may yield a greater return resulting from the synergy that will be realized by the transaction. On the other hand, selling to an investor may prove more difficult since the purchase is based on an expected financial return.

No matter which exit strategy is right for you, work with your tax professional to set a selling price that provides financial security for your family and maximizes payback for all your hard work, while keeping Uncle Sam happy.

Maximizing Value and Optimizing Timing:

Indicators of high value include characteristics like sustainable cash flow and historical growth as well as opportunities for future growth. Low value indicators may include unpredictable cash flow, a struggling industry, reliance on a few key clients, etc. Needless to say, some of these factors are out of anyone's control. But, what is in your control?

What if, for example, you choose to keep your business in the family? It would then be beneficial to diminish the value in an effort to reduce gift and/or estate taxes. To

accomplish this, have you considered paying your staff bonuses to reduce cash flow? Or, have you considered having the business valuation performed when the business is at a low point in the annual sales cycle? What about the opposite? What if you are selling to an outside investor? Wouldn't it make sense to get that valuation done at a peak in your sales cycle? Other ideas might include selling off unproductive assets or even acquiring another small business to enhance the total value. Strategize with your CPA and your advisory team to control those factors within your grasp.

Timing is everything! Through advanced planning, you will be able to exit your business when and how you want to, not when the situation dictates such. As with many things in life, the optimum time to do something is when there is no compelling reason to do so. Plan ahead: get an exit strategy in place today so that you can mine the gold out of your business when the time is right!

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