



## **Strategies for a Graceful Exit**

It was hard starting your business, and it won't be easy to leave. To ensure a smooth transition, develop an exit strategy early, and communicate it clearly.

Work with clear, clean information by assembling the functional reports you need to manage your departure. And do what it takes to keep your best people. The value you're transferring isn't warehouse space or paint lines, but a going concern that promises future earnings — whether the next owner is your granddaughter or a Fortune 500 giant.

### **Sell? Or Transfer Ownership?**

How will you leave your business? There are two broad answers, and they dictate different moves. One is to sell your business on the open market. The other is to transfer ownership to a chosen party — family members or trusted employees.

Either way, one early step will pay off: Pull together a business advisory board — a team of professional specialists to help you weigh options and make decisions objectively. An attorney, an estate planner, an accountant and an insurance expert, for example, can ensure that you cover all bases to fulfill all your aims.

### **Maximize Value to Sell on the Market**

If your goal is to sell, the first step is to identify the market for your business. Your local competitors, companies in related lines or national firms looking for a presence in your area may be interested.

One internal transfer — an employee stock ownership plan, or ESOP — can be an alternative to an open-market sale. If your goal is to get top dollar, the plan can be structured that way, and still benefit your employees with significant tax advantages.

To get the best price for your company, present it in its best light. Start with a full professional valuation, identify improvements that will produce returns, and target your spending accordingly. Revisit old tax strategies to calculate the company's value at its maximum.

### **Transferring Your Business to Heirs or Employees**

The aim here is to transfer your ownership in such a way as to favor the new owner — heirs or others — and also guard your own interests.

A venture in a second company owned by your successor, financed at a low interest rate, can provide profits with which the successor can buy stock in the primary company. Or recapitalize with voting and nonvoting stock — the latter is automatically valued lower, and your successor can start with it to buy the company's stock. An S corporation presents special opportunities in this regard.

If a business is structured as an LLC, the owner can give a profits interest — with no gift or income tax consequences — to a designated person. Another vehicle is “phantom stock,” whose value grows with that of the company. When chosen employees receive it in a nonqualified plan, their equity grows as they produce value.

### **Succession and Disengagement**

The first priority here must be protecting the owners' assets. Don't be so focused on reducing estate taxes, for example, that you undermine the value at stake in a buy-sell agreement.

Many business owners have few assets outside their company. If you plan to sell on terms, or depend upon the company's deferred compensation programs, focus on building the infrastructure and culture by which the company can continue profitably without you. That includes conserving sufficient cash — not letting the business

become so cash-strapped that it can't pay its obligations to retired owners.

Another consideration, more laden with emotion, is how much influence the owner wants to retain. Sooner or later you'll have to face it: You can either retire, or hang around and get in the way. Setting a firm date is a first step to move this process along: announce it, and set the company on course. Take into account, of course, how long you'll be needed during the transition.

What about succession? The founders worked 60 hours a week, and maybe their kids did, too. But the old shop floor holds less interest for the third generation — for some, none at all. Objective business decisions must distinguish between the *benefits* you want to bestow upon your heirs and the degree of *control* over the company you wish to give any of them.

In any case, it's not always smart to bring Junior straight in from college. Instead, you might let him make his way in the world. That way, when he comes on a board a few years later, he'll have a baseline of business savvy, and he'll bring added value in with him.

*Exiting gracefully — and profitably — is an art and a science, and we can help. Our firm can help you put together a team of the right accounting, valuation, estate planning, legal and insurance experts that's right for you.*