Introduction to Exit Planning

3 Steps to Choosing Which Way is Right for You

Sure, you may not be ready to leave your business any time soon, but someday you will. We guarantee it. And when you do, it will be in one of eight ways:

1. Transfer the business to a family member
2. Sell the business to one or more key employees
3. Sell to key employees using an Employee Stock Ownership Plan (ESOP)
4. Sell the business to one or more co-owners
5. Sell to an outside third party
6. Engage in an Initial Public Offering (IPO)
7. Retain ownership but become a passive owner
8. Liquidate

Do you know which one you'd choose? Is it important to you to be able to choose? How do you decide what's best for you?

Establishing thoughtful objectives is the foundation for an exit plan. Doing so well in advance of your departure gives you and your advisors time to make your goals a reality. As you work through this path selection process, you will synthesize or harmonize your exit objectives with the characteristics and capabilities of your company as well as with the external realities of the marketplace.

Step 1

First, with the help of your advisors, *identify your most important objectives*. The objectives are both financial ("How much money will I need from the transfer of the business to assure my, and my family's, financial security?") and non-financial ("I want the company to stay in the family." or "I want to remain involved.").

Internal and external considerations also impact an owner's choice of exit path. For example, the owner who wishes to transfer the business for cash but is unwilling to entrust the fate of his company and employees to an unknown third party may decide that an ESOP or carefully designed sale to a key employee group is the best exit route.

Exterior considerations that may impact the choice of exit path include business, market, or financial conditions. For example, the option of selling your business for cash to an outside buyer may be eliminated because of an anemic M&A market.

Step 2

As you develop consistent objectives and motives, you then must *value your company and determine its marketability*. This analysis usually provides direction and can eliminate potential exit paths. For example, if the value of a company is high and its marketability is low (perhaps because of a depressed M&A market), an owner may decide that a sale of the business to an outside party is impractical. Instead, selling to an "insider" (co-owner, family member, or employee) may be a better option.

Step 3

The final step in choosing a path is to *evaluate the tax consequences and strategies of various exit paths*. Many tax minimizing strategies require, literally, years to fully implement and are often linked to the person or entity to whom you wish to transfer the business.

Using these three criteria (objectives, value, and tax consequences), owners can begin to narrow the list of exit routes. It is far better to choose the appropriate exit path than to delay and allow circumstances to force you into a particular path.

If you have already decided on a path, but have failed to implement the appropriate transfer and tax decisions, you have delayed your departure. Likewise, if you have decided to sell to a third party, but haven't prepared your company to go to market when the time is right, you have not taken advantage of the tools that can make your company valuable in the eyes of a third party buyer. And as the

economy has clearly demonstrated over the past few years, postponing decisions can increase business risk.

If you have not yet chosen a specific exit path, we encourage you to conduct open and frank discussions with your advisors about which path to take and when.

For more information or to learn how L. Harris Partners can help you plan your exit:

Phone 952.944.3303
tom.siders@lharrispartners.com
www.lharrispartners.com