

The

8

Exit Strategies  
for Business Owners







# Planning early is key

First, establish personal and financial objectives to identify the best buyers of your business. Second, determine the value of your company. Finally, evaluate tax consequences of each exit path.

Let's explore the eight exit strategies.

**Transfer to a family member.** Owners usually consider transferring businesses to family members for non-financial reasons. Among the advantages, this transfers the company to a known entity, provides for the well-being of your family, perpetuates your company's mission or culture and allows you to remain involved in the business.

Disadvantages include:

- little or no cash from closing available for retirement
- increased (and continued) financial risk
- required owner involvement in company post-closing
- children's inability or unwillingness to assume the ownership role and
- the family issues that surround treating all children fairly or equally.

**Transfer to key employee(s).** With this type of transfer, you hope to achieve the same objectives as when transferring the business to a family member, with the added goal of achieving financial security (albeit potentially over time).

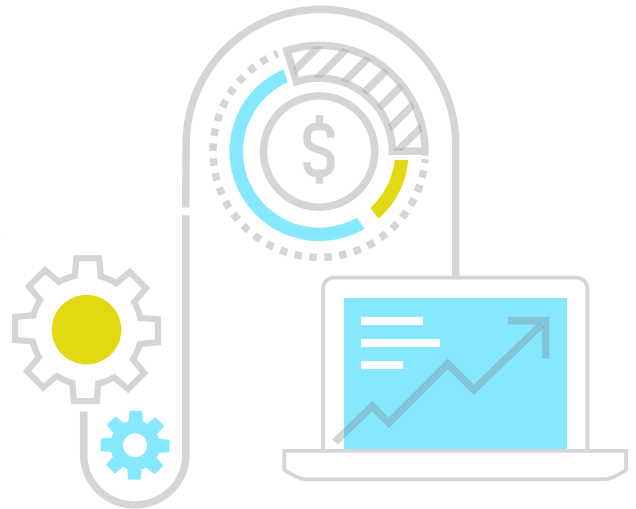
Disadvantages of this route resemble those in family transfers and include employees' possible inability or unwillingness to assume ownership.

**Transfer via ESOP.** These qualified retirement plans must invest primarily in the stock of the sponsoring employer. In addition to the advantages of a standard transfer to key employees, you enjoy tax benefits as well as cash at closing.

Again though, not all aspects of this route benefit you. ESOPs are costly and complex, offer limited company growth due to the borrowing necessary to buy the owner's stock, net less than full value at closing compared with third-party sales, and use company assets as collateral.

**Sale to co-owners.** Advantages again resemble those of transferring your business to a family member. Disadvantages include the need to typically take back an installment note for a substantial part of the purchase price and, as in other avenues, increased financial risk, owner involvement past closing, and normally netting less than full fair market value.

**Sale to a third party.** This generally offers your best chance at receiving the maximum purchase price for your company and the maximum amount of cash at closing. This route appeals to owners intending to leave after they sell and to owners who want to propel the business to the next level with someone else's financial support. It also allows you to control your date of departure.



Disadvantages include:

- potential loss of your personal identity as the business owner
- potential loss of your corporate culture and mission
- potential detriment to employees if you sell to a party that seeks consolidation and
- part of the purchase price may be subject to future performance of the company after the sale.

**IPO.** This route offers high valuation and cash for the business. Unfortunately, an IPO comes with significant disadvantages—just ask Elon Musk of Tesla. The disadvantages of this route are primarily:

- limited liquidity at closing
- not a full exit at closing
- loss of full control and
- additional reporting and fiduciary requirements.

Your company needs to be worth over \$250 million in order for the IPO route to be considered an appropriate exit option.



**Passive ownership.** This attracts owners who wish to maintain control, become less active in the company, and preserve the company culture and mission. Your disadvantages stem from you never being able to permanently leave the business, you receive little or no cash when you leave active employment, and you continue to carry the risk associated with ownership.

**Liquidation.** Only one situation justifies this route: You want, or need, to leave the company immediately and have no alternative exit strategies. Liquidation offers speed and cash, but can bring enormous disadvantages:

- yields less cash than any other exit route
- comes with a higher tax burden than any other type of sale/transfer and
- has a potentially devastating effect on employees and customers.



## Consult Your Financial Advisor

I am available to offer guidance, examples, and market perspectives as well as help you carefully compare each path in relation to your final objectives.