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Retiring business owners need an exit plan

By Cameron Morgan

It's said that the actress Ginger Rogers kept up with everything Fred Astaire did—only backward, and in heels. If you think running a company or firm profitably and gracefully is challenging, just try selling it. That's the business equivalent of Ginger Rogers. The niche of exit planning supports business owners as they pivot from startup/growth/maturity phases of their companies and begin to mull their exits.

But the transition requires more than simply dismantling what you've built. Put another way, replacing your earned income with investment and retirement income is more than a math problem. Rather, it involves aligning your financial goals and time horizons with your values and resources. Even if you are busy today working "in" your business, you can anticipate that—someday—you'll want to put your feet up, travel and spend time with family. Getting from Point A to Point B requires working "on" your business.

Exiting a business, especially one you've built, is a multifaceted project. If you've built a successful firm, you've surmounted challenges like finding capital, hiring and staffing, the legal and regulatory environment of your industry, technology, marketing, business development, client service, taxation—the list of your skills goes on. You may have found that there are many tools available to help individuals get into business, but few to help them get out.

This can be frustrating, because the skills needed to maximize the value of all you've built are completely different and new. Returning to the analogy of classic ballroom dance, you're all Fred Astaire right now. On the beat, light on your feet, impressive! But soon, you'll need Ginger's steps, and a bow at the end. Here are a few questions to spark your thinking:

- Is our firm ready for a sale? What changes or reorganization needs to happen to attain our best price upon sale, and what is the timeline for these adjustments?
- How full is our pipeline of upcoming business and how committed is our business development team?
- Are there any clients we need to retire or relocate to make our company more attractive to potential buyers? Are there minority owners to satisfy?
- Do I want to sell to my employees, and do they have the capital to buy me out? What skills are present, and which may be missing, with the current team?
- Do I want to sell to a competitor, or to a larger firm in our industry? Should we merge with a similar, smaller or larger firm?
- Can a potential buyer pay cash, or will we negotiate an earn-out? If the latter, over how many years?
- Do I have a team of advisers in place to help restructure my company and my capital stack, and to market our company both confidentially and confidently?
- What tax opportunities should be considered with shorter- or longer-term exit strategies?

At a minimum, you want to consult with advisers in the legal, banking, tax and financial services/wealth management fields. Additionally, a business valuation consultant can assist with a timely and accurate business valuation. On a personal level—but still part of the exit team—your wealth manager can work with you and your family to understand the impact of a liquidity event on your personal balance sheet.

The timeline

With the pace and competition of today's business landscape, few business owners have time to focus on preparing their company for sale. Consider one type of small company facing this inflection point: a one- or two-physician office.

In this example, the timeline may be driving by one or both partners' desire to cease practicing day-to-day medicine. Escalating financial and regulatory factors often push physicians to leave their profession, while quality of life desires sometimes pull them closer to their families, hobbies and lifestyle pursuits. Many physicians express frustration at ever-lower Medicare reimbursements and ever-higher regulatory requirements, as well as the cost of office technology and staff. Physicians who initially are drawn to the profession by a passion to provide care for patients eventually may get frustrated by the day-to-day business requirements of the job.

For any seasoned business-owner, a health event could bring the idea to the fore; with others, a peer or spouse's retirement sets their minds turning to the day they can ignore their alarm clock, endless meetings and hard-to-please clients for good. Unfortunately, few allow for the ideal three- to five-year timeline a well-planned exit requires.

Next steps

Knowing that the timeline for a profitable exit is a multiyear undertaking, where does an entrepreneur begin? Assembling an advisory team that functions well together—ideally, one that takes the time to understand your firm—will allow you the most time to continue working in your business while also beginning to work on your business. Who will advise you on legal, financial and banking transition issues? Who will you engage as a business valuation consultant? Find, vet and select these professionals while you have time to implement their recommendations.

Simply dismantling your business is avoidable; taking the first or only offer is, too. An experienced wealth manager can help you ask the key questions. The tools and tax strategies available to wealth managers have never been more powerful. Successful exit planning for a solo or small company (monetizing the years invested in building it) requires foresight and time to deliver.

Additional resources

The Business Enterprise Institute (BEI) is the industry leader in exit planning; the organization trains and supports advisers to be the pre-eminent exit-planning resource to business owners in their communities. Read Exit Planning for Advisors. The BEI Exit Planning Seven-Step Process is designed to help you maximize your financial return, minimize your tax liability, plan for contingencies and successfully transfer your business. The steps are:

1. **Owner objectives.** This includes desired departure date, the value you want or need and the individuals or entities to whom you want to sell or transfer the business.
2. **Business and professional financial resources.** Determining how much the business is worth and how much cash flow it can generate, together with nonbusiness assets and income, will guide your path and your planning tools.
3. **Maximizing and protecting business value.** Knowing your value drivers increases the likelihood of success.
4. **Ownership transfers to third parties.** Not all business owners go through this step. Some retain ownership long term. If you do follow this step, you will be identifying ways to optimize sale price and terms.
5. **Ownership transfers to insiders.** Whether children, key employees or co-owners, a sale to “insiders” can reduce tax liabilities, minimize risk and transfer a business to a purchaser with little or no personal capital.
6. **Business continuity.** Preparing for contingencies is an underappreciated but essential section of a complete exit plan. Addressing potential changes such as death or permanent disability of an owner or a key employee, or disaster means that your objectives can still be achieved.
7. **Personal wealth and estate planning.** Plan to preserve the wealth and minimize the taxes using both lifetime and estate planning tools.

BEI also maintains the Certified Exit Planner certification, or CExP. This designation can be earned by any member of an exit-planning team—legal, tax, wealth management, business valuation, etc.

Whether you choose to continue building your business or, instead, to take a bow and leave the day-to-day responsibilities, you’ll need a sensible financial guide. Together with your wealth manager, you can weigh investment opportunities, tax advantages and ever-changing investment tools. Access to carefully curated, solid information may not make you revered for your cinematic footwork with Fred Astaire, but it can lead you forward gracefully into your future.

About the author: Cameron Morgan, MBA, is a wealth manager who specializes in helping Podiatrists and other medical specialists realize their financial goals. A&I Financial Services LLC is an Englewood, Colo.-based Registered Investment Advisor. Securities provided through Geneos Wealth Management Inc., member Finra, SIPC. Investment advisory services offered through A & I Financial Services LLC, registered investment adviser.

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