MAXIMIZING YOUR BUSINESS VALUE

TAKING THE EXIT

A PRACTICAL GUIDE TO BUSINESS EXIT PLANNING

ARC ADVISORY

SO YOU ARE THINKING ABOUT EXITING YOUR BUSINESS

HERE IS WHAT YOU NEED TO KNOW...

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Understanding the Basics of Business Exit Planning

"The key to success is planning and execution." – Sun Tzu

The Basics

Over the past 8 years I have worked within the world of financial planning, assisting countless business owners with their small to midsized enterprises.

However, it wasn't until I encountered a previous client of one of my advisors, that I truly began to understand the importance of exit and transition planning. The client requested help with a rather unique request.

To keep confidentiality, the real clients name and business will not be shared, but we will refer to them in this book as Mr. Harrison and the company 'ABC Enterprises'.

Mr. Harrison and his family established a thriving business with an annual revenue surpassing $10 million. However, due to health issues and other issues, Mr. Harrison was seeking to exit ABC Enterprises and enter retirement. Therefore, in pursuit of a suitable buyer, he engaged a private equity group.

The group who showed interest in acquiring "ABC Enterprises" made Mr. Harrison and family an offer. So far, everything seemed to be going well, right?

Unfortunately, however, the offer came in several millions of dollars less than what Mr. Harrison and family needed in order to have a comfortable and secure exit into retirement.

It was at that moment that they reached out to us for guidance in navigating this uncertain situation.

The question they asked: "What kind of lifestyle could they maintain with a less than ideal sale price for their company?"

The private equity firm gave an offer of $2 million, far below the $10 million "ABC Enterprises" was grossing annually. Mr. Harrison and family were trying to comprehend how they could possibly exit from the company and retire comfortably on such an amount.

The idea that a company grossing over $10 million a year could be valued at such a low amount was quite perplexing to me. I became intrigued with understanding the 'why' behind the business. Understanding this changed the trajectory of my career.

It was thanks to this unfortunate situation that I now understand how truly important Exit Planning is to the long-term success of entrepreneurs and their business.

Understanding The "Why"

Effective exit planning is essential for entrepreneurs and business owners seeking a seamless and successful transition into retirement or other ventures. When it comes to exit planning, there are several key steps to keep in mind.

First, determine your goals and objectives. What do you hope to achieve with your exit plan? Do you want to maximize the value of your business? Do you want to ensure a smooth transition of ownership? Knowing your goals and objectives upfront will help you create a more effective exit plan.

Second, create a timeline for your exit plan. Your timeline should include when you plan to start the exit process, when you plan to complete it, and any milestones in between. This will help you stay on track and ensure that you're taking the necessary steps to achieve your goals.

Third, start planning for your long-term financial goals. What do you plan to do with the proceeds of your business's sale? Do you want to put some money aside for retirement? Do you want to use the proceeds to start a new business? Knowing how you plan to use the proceeds will help you create a financial strategy for your exit plan.

Fourth, create a plan for transitioning ownership. Do you want to sell the business to an outside party? Do you want to transfer ownership to a family member? Do you want to keep the business in the family and set up a succession plan?
Knowing the answer to these questions will help you create a successful transition of ownership.

Finally, create an action plan and stick to it. This plan should include all the steps you need to take to achieve your goals and objectives. It should also include a timeline for completing each step.

By following your action plan, you'll ensure that your exit plan is successful. Creating and executing an effective exit plan can mean the difference between business success or failure. By following these steps, you will be well on your way to a successful transition.

The Risk of Not Having an Exit Plan

Planning for the end of your business is an important step in ensuring its long-term success. However, many entrepreneurs overlook the importance of an exit plan, leaving them unprepared and exposed to unnecessary risk.

The primary risk of lacking an exit plan is the potential for subpar returns on investment. Without such a plan, you will be unaware of the condition the market is in come time of exit. Leaving you to susceptible to undervaluation and the loss of lucrative opportunities.

Additionally, without an exit plan the future of your business will be unclear and uncertain. Without clear direction it can prove difficult to make timely decisions, attract the right talent, and grow your business. Leaving your business at risk of stagnation and decline.

Finally, lacking a proper exit plan leaves you and your business at risk of financial loss.

Without a plan in place to manage debts and potential risks, both you and your business are left exposed to possible financial burden.

Assessing the Value of Your Business

AN EXIT PLAN ASKS AND ANSWERS ALL THE BUSINESS, PERSONAL, FINANCIAL, LEGAL AND TAX QUESTIONS IN TRANSITIONING A PRIVATELY OWNED BUSINESS

RICHARD JACKIM

Why is Business Valuation Important

My question to Mr. Harrison was: 'why would you even want to look at such an offer?'

In my opinion, it would be better to keep the company, rather than sell it for what seems to me a very low price.

Mr. Harrison's answer was that his health wouldn't allow him to continue to run 'ABC Enterprises' in the same manner, so he had to make a change.

This led me to my next question: Why doesn't one of the family members take over the leadership of the company? The answer to this question, was what helped me to understand what makes up the true value of a business.

Mr. Harrison's answer was that he had all the contacts, systems, and processes stored in his mind. He never set aside the time to write down or create any systems within the company.

This meant that to remain successful, the company would require his direct guidance and leadership after his exit from the business. There were no Standard Operating Procedures (SOPs) or any Key Performance Indicators (KPI).

This meant that the vision of the company resided solely in Mr. Harrison's mind. In his absence, his company would have no way to know whether or not they were still on course.

Since they had not conducted a business valuation, they had no way of quantifying the tangible or intangible value of their company and no knowledge of how to effectively reduce their Value Gap.

Business valuation is important for three main groups; Investors, owners and for Lenders, For the following reasons;

- For investors, it helps them determine the potential worth of a company and make informed decisions on investment.
- For business owners, it helps them understand the potential worth of their business and make decisions on strategies to increase the value.
- For lenders, it helps them assess the creditworthiness of a business and whether or not to provide it with funding.

If you're looking to assess the value of your business, you will need to consider the following.

How to Assess Value in Your Business

First and foremost, it is important to understand what factors go into valuing a business.
Generally speaking, the value of a business is determined by the assets it owns, the amount of profit it generates, its liabilities, and the market conditions.

When it comes to assets, you should consider the physical assets of the business such as inventory, equipment, real estate, and accounts receivable. You should also consider intangible assets such as intellectual property, brand recognition, and customer loyalty.

Next, you should examine the business's profits. This can be done by reviewing the company's income statement. A business's liabilities should also be taken into consideration. This includes debts, outstanding loans, and other financial obligations.

Finally, you should understand the current market conditions. This includes the industry's outlook, the competition, and the economy in general. All these factors should be taken into account when assessing the value of a business.

Now that you have a better understanding of how to assess the value of your business, let's dive into some helpful tips. First, make sure you're looking at the big picture. Don't focus too much on short-term gains or losses. Instead, try to look at the long-term value of the business.

Second, it's important to understand market conditions. This means doing research on your business's industry, competition, and condition in relation to the current economic climate.

Third, it's important to be realistic. Don't overestimate the value of your business. Make sure you're being honest and accurate when estimating the worth of your business.

Finally, don't forget to use helpful resources. There are many online calculators that can help you estimate the value of your business.
Additionally, there are professional services that specialize in business valuation.

In conclusion, there are many ways you can assess the value of your business. Make sure you are taking all the available resources into consideration.

79% of Owners Have no Transition plan

Developing a Comprehensive Exit Plan

After a deep dive into Mr. Harrison's business, it was clear both to Mr. Harrison and our team as to why the private equity group had valued the company at such a low multiple.

I asked Mr. Harrison to give me and my team a few days so we could come up with alternative plans.

I had a long talk with the team and ran several different variation models to come up with one that we felt would address Mr. Harrison's issues.

Most of Mr. Harrison's adult children worked in the business and were actively helping to manage the day-to-day operations of the company, but they did not have the liquidity to out-right buyout the company from Mr. Harrison.

Our team looked at the advantages and disadvantages of an Employee Stock Ownership Plan (ESOP).

An ESOP is an employee benefit plan that enables employees to own part or all the company they work for. We felt that this would be the most advantageous solution for Mr.
Harrison's particular situation.

This would allow Mr. Harrison to strategize his exit and slowly turn over daily operation control to the next generation, at the same time obtaining some liquidity.

Most business owners only know one or two ways to exit their business, However, after I went through this exercise, I discovered over 12 paths a business owner can take to successfully exit his or her business.

Therefore, developing a comprehensive Exit Plan is one of the most important steps in running your business. As Steven Covey would say "begin with the end in mind".

"Good business planning is the difference between success and failure."
– Richard Branson

DO YOU UNDERSTAND THE VALUE OF YOUR BUSINESS TODAY?

WHAT WOULD YOU LIKE TO SEE HAPPEN TO YOUR BUSINESS?

The 6 most common business exit strategies

Are you considering exiting your business? If so, it's important to be aware of the various strategies available to you. While many factors will influence which exit strategy is best for your business, here are five of the most common exit strategies to consider.

- **Sale of the Business:** Selling your business is one of the most common exit strategies. This strategy involves finding a buyer for your business and negotiating the terms of the sale. The most important factor to consider when selling your business is finding the right buyer. Make sure to find someone who understands the industry, has the resources to purchase the business, and is committed to taking it to the next level.

- **Merger or Acquisition:** Another option is to merge your business with another or become a part of a larger organization through an acquisition. This strategy can be beneficial as it allows you to take advantage of the larger company's resources and knowledge base. Merging or acquiring can also allow you to maintain an ownership stake in your business, so you can still benefit from its success.

- **Strategic Alliances:** If you don't want to completely exit your business, you can consider forming strategic alliances with other companies. This strategy can help you to expand your customer base, gain access to new markets, and leverage the resources of your partner.

- **ESOP:** This option is an employee benefit plan that enables employees to own part or all of the company they work for. ESOPs are most commonly used to facilitate succession planning, allowing a company owner to sell his or her shares and transition flexibly out of the business. For an overview, check out the ESOP Association, a pro-ESOP organization, and its series of briefs on ESOPs, including "What is an ESOP?" ESOPs can create higher productivity, employee retention, tax advantages[1] and higher job satisfaction.[2] ESOPs are also attractive because they provide a financing tool for the company, who can sell its stock to the ESOP and use the cash to pay off debt, etc.[3]

- **Franchise Your Business:** Franchising is a great way to expand your business without having to give up ownership. This strategy involves selling the rights to use your intellectual property and business model to another entity. You will maintain control of the brand and receive a portion of the profits from the franchisee.

- **Liquidation:** Liquidation is a last resort exit strategy and involves selling off a business's assets. This strategy is typically used when the business is in financial distress and its debts cannot be repaid. Liquidation is a difficult process, so make sure to consult with a qualified professional before taking this route.

Setting Your Exit Goals and Objectives

Now that Mr. Harrison has an effective exit strategy, he had the ability to set goals and objectives that were measurable, achievable, and realistic.

The next step, for Mr. Harrison was to record all the steps, systems, and procedures he utilized to successfully run his business. This ensures that the next generation of leadership is fully equipped with a road map to successfully run Mr. Harrison's company and prolong his vision.

With a clear strategy and timeline, Mr. Harrison now understood that he had to train a new CEO and to create a board of advisors to help guide the new leadership. This is what I came to know later as professionalizing the company.

This is when you involve consultants and other professionals to help guide and advise your company.

An owner's ability to acquire the help needed to properly grow their company can increase its value tremendously.

From an outside buyer's point of view, the willingness to have others guide you and your business gives them comfort and validation, which often helps to increase the final sale price.

Setting Business Exit Goals and Objectives

Setting exit goals and objectives for your business is an important part of achieving your long-term business success. With a clearly defined set of objectives and goals, you will be able to focus your efforts and resources on reaching your desired destination. Here is the importance of setting exit goals and objectives, how to go about creating them, and some tips for staying on track.

First and foremost, it is important to understand why setting exit goals and objectives is so important. Having a goal or objective allows you to be more focused and motivated in achieving it. When you have a clear goal, you can more easily identify the steps you need to take to reach that goal. Additionally, having a goal helps you stay motivated, as you can use it as a reminder of why you are doing what you are doing.

When it comes to setting exit goals and objectives, it is important to be both realistic and specific. Your goals should be achievable, and measurable. Additionally, you should focus on objectives that are in line with your overall business strategy. If your goal is to increase profits, you should focus on objectives that will help you do so, like increasing sales or cutting costs.

When creating your exit goals and objectives, it is important to break them down into smaller, achievable steps. This will help you stay on track and make sure that you are working towards your goal. Additionally, it is important to set a timeline for each of your goals. This will help keep you motivated and ensure that you are staying on track.

Finally, it is important to review and adjust your goals and objectives as needed. As your business and the market change, your goals and objectives may also need to be adjusted. This will help ensure that you are staying on track and that your goals are still achievable.

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"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." – Warren Buffett

Preparing Your Business for Sale

"A business plan should be seen as a living document that you can regularly review and update." – Elon Musk

After a year of working with Mr. Harrison and his family, they successfully adopted the changes needed to professionalize their business, gain the interest of a private equity firm, and secure an offer of more than $10 million.

Since I was on the advisory side of finance at this time, the goal for me and my team was to help Mr. Harrison acquire a large injection of cash in order to the secure his family's future. Answering questions like, what are his tax implications and how does he plan for legacy, or how will he live the rest of his life with a set income. These were all questions we were more than happy to help him answer.

In the end Mr. Harrison and family successfully sold their company, happily retired, and are now focusing on this new chapter.

This was my very first exposure to exit planning. However, once I saw how this impacted the life of business owners, it became my calling and passion.

By helping business owners with their greatest asset, and ensuring that their dreams came to reality, I came away understanding that exit planning is simply good business strategy.

To ensure you get the best outcome and payment for all your hard work, here are key steps you must take to ensure that your business is properly prepared for sale.

1. Analyze the Market: Before you list your business for sale, it is important to understand the current market conditions and state of the industry. Knowing the current trends and demand can help you set more realistic expectations and price your business accordingly.

2. Get Your Finances in Order: Having accurate and up-to-date financial records is essential when preparing to sell your business. Ensure all your books are up to date and that you have a full understanding of the financial performance of your business.

3. Document Your Business Processes: Create a comprehensive description of how your business operates to provide potential buyers with a clear understanding of your business. Documenting your business processes will also help a potential buyer easily transition into their new role.

4. Update Your Branding: If you are looking to increase the value of your business, make sure your branding is modern and up to date. This includes your logo, website, and any other materials used to market your business.

5. Find a Buyer: Once your business is prepared for sale, it is time to find the right buyer. Network with other business owners, use online resources, and contact any potential buyers you already have in mind.

6. Establish an Asking Price: Establishing a realistic asking price for your business is one of the most important steps in preparing for sale. Consider the current market conditions, industry trends, and the financial performance of your business when setting the price.

7. Know Your Tax Obligations: Selling your business can come with several tax obligations. Make sure you understand the impact selling your business will have on your tax situation.

8. Find a Buyer: Once your business is prepared for sale, it is time to find the right buyer. Network with other business owners, use online resources, and contact any potential buyers you already have in mind.

9. Negotiate the Sale: Once you have identified a buyer, it is time to negotiate the sale. Be prepared to discuss the terms of the

10.

Are you considering selling your business? Whether you are just looking to move on to your next venture or are ready to retire, selling your business can be a complex process. We can help!

Thanks for taking the time to better understand Exit Planning and the options available to you.

RESOURCES

Business Exit Terms:

Cash Flow: The amount of money coming in and out of a business.

Profit Margin: The amount of profit a business makes after subtracting all expenses from its revenue.

Return on Investment (ROI): The amount of money gained from an investment relative to the amount of money invested.

Break-Even Analysis: An analysis that determines the point at which a business's costs equal its revenue.

Cost-Benefit Analysis: A method of evaluating a project or business decision by comparing the cost to the potential benefits.

Capitalization Rate: The ratio of the expected cash flow of an investment to the initial cost of the investment.

Balance Sheet: A financial document that shows a company's assets, liabilities, and equity at a given point in time.

Diversification: Investing in a variety of different asset types to reduce risk.

Leverage: The use of borrowed money to increase the return on an investment.

Liquidity: The ability of an asset to be quickly converted into cash.

Working Capital: The amount of money available to a business to finance its operations.

Valuation: The process of determining the value of a business.

Amortization: The process of paying off a debt over time in regular payments.

Depreciation: The process of allocating the cost of an asset over its useful life.

Risk Tolerance: A company's willingness to take on risk in pursuit of its goals.

Contingency Planning: A plan of action in the event of an unexpected situation.

Cost Structure: The costs associated with providing a product or service.

Market Share: The percentage of total sales in a market that a company controls.

Pricing Strategy: The approach a company takes when setting the price of its products and services.

Cash Management: The process of managing the cash flow of a business.

Questions & Answers

What is business exit planning?

Answer: Business exit planning is the process of preparing a business owner for the eventual sale of their business. It involves developing a plan to maximize the value of the business and transfer ownership in a way that is tax efficient, meets the owner's financial objectives, and meets the needs of any other stakeholders.

What are the key steps in business exit planning?

Answer: The key steps in business exit planning are: identifying your goals and objectives; assessing your current business situation; developing a strategy to maximize the value of the business; implementing the strategy; and closing the transaction.

How long does it take to complete a business exit plan?

Answer: The length of time it takes to complete a business exit plan varies depending on the complexity of the business, the size of the business, and the goals of the business owner. Generally, it takes 6-9 months to complete a business exit plan.

What are the advantages of a business exit plan?

Answer: A business exit plan provides numerous advantages, including maximizing the value of the business, identifying potential buyers and preparing them for the sale, reducing tax liability, preserving the business owner's legacy, and creating a smooth transition to the new owner.

What are the risks associated with business exit planning?

Answer: The risks associated with business exit planning include not meeting the financial objectives of the owner, not finding a suitable buyer, and not properly considering the needs of other stakeholders.

What are the tax implications of business exit planning?

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