WHAT SHOULD YOUR EXIT STRATEGY LOOK LIKE?

This document will help your business identify the steps and strategies for exiting your business, but FIRST, you need to ask yourself:

- Are you AND your business ready to sell?
- Do you have all your valuations?
- Do you have a target audience to sell to?

Take some time and compile a list of all the factors that make you want to exit your business. Then make a list of all the things you want to do after you leave your company.

Typical Pull Factors

Travel the world
Get fit and healthy
Set up a charitable foundation
Start a new business
Spend more time with family and friends
Cash in to build retirement funds

Typical Push Factors

Reaching retirement age
Feeling yours business has reached its peak
Too much wealth invested in one asset
Getting bored with current status
Experiencing a health issue
Needing a break to reduce stress

These are factors in determining reasons to sell and move on to something else. Push factors are legitimate reasons to want to exit your business, while pull factors are things you want to do after you leave your business.

Things to consider:

- **What is your business worth**

The biggest asset for most business owners is their business. However, most business owners can more accurately guess the value of their home than they can the value of their business. There are things an owner can do to maximize a business' value. How well prepared an owner is for exit, can mean millions of dollars won or lost in the deal.

- **What does a valuation cost?**

Establish a starting point with a business valuation. Valuations can range in cost from $1,000 to $30,000, or more, and can take anywhere from a few days to months to complete. It's best to stay on the $1,000 to $2,000 / few days range as a starting point.

- **Make sure your exit is secure**

Too many owners work all their lives and walk away with little or nothing when they're done. It's estimated that 2/3 of business owners are unprepared for profitable exit.
Selling a business is usually a one-time event; not enough opportunity to practice and improve. If it's time for exit now, you're going to have to work quickly and smartly, hire advisors to help you maximize value. If you have a few years left, learn about what goes into buying and selling a business. It's better to be prepared to make money than to be caught by surprise and forced to leave a lot on the table in the end stage.

- **What makes your business stand out in the marketplace**

Do you have a special product, do you have special vendor relationships, maybe some intellectual property, a top quality customer list, efficient processes for doing what you do, a great website or marketing campaigns, competitive dominance, talented and trained workforce? Think about why a company would want to buy, assets you may have to sell. Create documentation on all areas of importance.

- **Who might buy?**

Maybe someone who has experience with your kind of business, someone who can pivot off your business and expand by joining forces, or someone with assets who wants to get into an up and running business. It's important to know that your buyer doesn't have to make an all-cash offer. The SBA wants to help and will fund much of the deal for creditworthy buyers looking to make a deal that is priced correctly.

- **How do you find your buyers?**

Gather a list of the buyers that you think would be a good fit to purchase your company. Research lists through online libraries, Look at both small and large companies. And don't forget about your employees. If your company has enough value, the deal might self-fund.

Strategy Leaders can assist with defining options and where to look for solutions.
Advice for owners? Get a realistic picture of what your business is worth, documented so you can share it with potential buyers. Work each year on building equity value in the business – which is very different from focusing on tax planning. As you develop the business, build a list of potential buyers. Make your business visible and desirable by

sending employees to classes, joining owner roundtables, attending trade shows, engaging in online marketing, having a great website. Be clear that what you will get for the business will be based on the value you've built into the business and that it's not a buyer's problem to close any gaps you may have in your retirement plan. Every year put money aside to fund your retirement, so that you don't have to depend on the business' exit value. Build an exit plan now, whatever stage you're at in the business' growth and development. Steadily work from this point forward to building a saleable asset. Don't try to negotiate the deal yourself. Have skilled advisors who can work together as a team to negotiate and correctly document the transaction.

Advice for buyers? Build a list of potential targets. Ask each target to get a well-documented valuation that they can share with you, so that you know they've established a realistic ballpark of what the business is worth. Assemble a team of advisors to work through negotiations and ask the seller to do the same. Consider having more than one transaction on the horizon, so that if one falls through, you can easily pivot to another. Look for owners who are realistic about the value of the asset they hold and who are ready to make a deal.

- **Consider your employees for potential buyers?**

This might be a good option in some cases because who knows your business better than the right employee. They are vested, they understand your business, they bring value. With the right preparation, they can easily step up. When you're ready, the work you've done to prepare the team can make the buying and negotiation process run smoothly, so long as you and they are clear and in agreement about the value of the business and the goals and timeline for buyout.

Advice for owners? Start early by training people for leadership roles and by talking about the joys and benefits of ownership. Help employees build an equity stake they can use to help finance the deal. Or build an equity stake within the business that can be leveraged by employees when the time is right. Look for employees who are accountable, responsible, and looking for opportunity. Avoid counting on employees who present themselves as entitled. Build long term plans and engage managers in implementing those plans. Set up KPIs and reporting structures. Track performance, meet regularly, guide the growth and development of the business and the team. Get to a size that the business can afford a new team of owners as well as make the payments on any financing needed to buy out your shares. Build relationships with bankers who will be willing to finance the deal. Hire advisors to guide the team as you step back. Build employees' leadership confidence. Build a team that can work together. Teach them what they'll need to know to succeed.

Advice for employees? Look for business owners who develop employees, build management teams, share power, talk about long term plans and the next generation of the business. Make it clear that ownership is your ultimate goal. Set up a personal training program to get ready. Learn the business – every aspect, from doing to managing. Be ready to put in the hours necessary. Surround yourself with advisors who can help the business succeed. Get a written agreement as to how and when an ownership transition might happen.

- **Look into Employee Stock Ownership Programs (ESOPS)?**

For companies with revenues over $3 million, ESOP might be an option. You sell shares into a nonprofit company that receives the net income, pays off the loan with tax-free dollars, and once the loan is paid off profits become like a pension plan. It takes expertise to get these deals done, but because of tax advantages and employees who recognize the value of what they could own, ESOPs can be the most lucrative solution for business owners. Strategy Leaders can help you to evaluate the potential. They can also give the owner a great deal of flexibility, depending on the readiness of the business to fund the transaction: owners can choose whether to exit all at once or in stages, if the business can afford the deal.

Advice for the current owners? Talk to employees about the potential to reap rewards of ownership. Develop a management team that can run the business and keep it growing and profitable long into the future. Critically assess the talent team, and carefully add skilled executives who can fit in with the culture of the business, to fill in the holes in the leadership team. Make sure every aspect of managing the business is covered: finance, sales, marketing, operations & technology, human resources. Set up reporting structures and tools. Make progress with your leadership team by stepping away for vacations and letting them take the reins and run the business in your absence. Develop relationships with ESOP players: attorneys, advisors, accountants, financing sources. Build a plan to follow. Get used to working with a board of advisors. Start early, as it can take time to put everything in place. Build a reserve of funds to support the run-up and transition. Get a valuation to document the business' worth and ask your employees to do so as well. Be prepared to negotiate. Hire advisors who know what they're doing to do the negotiating and to advise you on how to put a deal in place that sticks.

Advice for employees? Interested in becoming a future owner? ESOPS can be a great solution for making that transition without putting the financial burden on your shoulders. Look for a business that is fiscally healthy, growing, with at least an outline of how the business can be run without the owners in place. Look for companies that encourage employees to step forward into leadership roles and get training to improve both technical and managerial skills. Ask the owners to work with you on developing the plans and team needed to run the company. Build a timeline to follow and clarify expectations. When the time is right to pursue the ESOP, get your own evaluation of the business value, and hire your team of advisors to represent you in the negotiations. Be ready to step into the leadership roles that the current owners now hold.

- **What about family members as buyers?**

Lots of owners dream of passing the company on to the next generation in the family. It's worth noting that 75% of the next generation say they'd rather have the money. And only 1/6 of next gen companies survive 10 years. That said, there are still plenty of businesses that implement this solution. It takes years to engage and train a next-gen. Not only do they have to learn the business, they also have to make the leap from the administrators their parents trained them to be, to demonstrating a take-charge entrepreneurial leadership spirit and the skills necessary to succeed as owners of a growing business. Getting from one generation of success to the next can happen, but it takes training, planning and personal and business development. One problem that happens as children become serious about taking over is that the generations disagree about tactics. Parents want to save their children from making mistakes. They forget that the best way to learn a lesson is by fixing the things that go wrong. Everyone wants the same big goal: for the business to survive into another generation. But as disputes crop up about how to run the business, parents find it hard to give up control and often get stuck resisting change. Children get frustrated that they don't have the freedom they need to implement solutions they believe in.

Advice to parents? No matter how badly you want the children to take over, don't make it too easy. Make them work their way up as they're growing up, by having them put in time on the weekends and summers. When they're old enough to get real jobs, let the next generation first prove themselves as ready and deserving by getting experience elsewhere. Help them get a job with a vendor, client, friendly competitor, so they can learn the business under someone else's tutelage. Help them prepare so they can run a business twice the size of the one you own today. Let them come back when they're ready to be serious. Set up milestones that they have to reach, in order to prove themselves. And then be ready to hand over the reins when they perform.

Advice for children? When you are ready to be serious about joining the business, get an agreement in writing as to how the transition will unfold. Make sure you fully understand and can live with the rules of progression from family member-worker to owner. Be ready to show up, do your best work, put in long hours. Don't act entitled. Enlist the help and support of the workers you'll someday be managing as an owner. Be willing to listen, learn, and then demonstrate the skills you'll be gaining. Make sure you're ready to take on the emotional, intellectual and financial challenges that come with running an ongoing business. Don't expect to be given the business – you'll have to buy it, with help from the banks if the business is credit worthy. Instead of fighting with your parents over issues of disagreement, focus on the end goal and make them your board of advisors.

- **What's the process for selling?**

The selling process unfolds in stages. It's not unusual for deals to take 3 – 9 months, or more, to get from interested bidder to close, depending on deal size, transaction complexity and readiness of the players. To get started, form a team to support you. At a minimum, team members should include a skilled negotiator, an accountant, and a business contracts attorney. Use this team to guide & protect you, document details, and keep the original plan intact with a level head utilizing a strategic approach to accomplish what you want. Strategy Leaders has lots of experience at building the team, finding the right players, and managing the process of preparing for and completing negotiations and transition.

- **Make sure you have accurate records and books**

You don't want to lose 30% or more of the agreed upon deal because you can't back up your claims. Have accurate records including 3-5 years of P&Ls, balance sheets and business tax returns that match. Build spreadsheets to show a buyer historical customer performance and future potential. Make sure you provide a realistic picture that will hold up through due diligence. Early on, ask key players in your management team to sign non-compete and non-disclosure agreements. Use tools such as vesting retirement plans and stock options to build golden handcuffs, tying key players to the business financially. Along the way, build written processes and job descriptions for everyone and everything. Hire good people and weed out the people who don't fit, so you can deliver a high-performance team to the future owners. Invest in protecting intellectual property. Make a profit every year. Demonstrate how the business has grown consistently and show that it can keep growing under new management. Make sure your balance sheet accurately reflects the value of the business. Demonstrate the strengths of the business, making it obvious to a buyer that the deal can pay for itself within a reasonable timeframe.

- **Back away from negotiations**

Business owners like to be involved, and it can be hard not to engage in negotiations. It's better to stand back and give yourself time to observe and think before you have to react. Let the experts do their jobs and provide you with advice. If you must get on a call, have your advisors with you. Don't be afraid to step away from the negotiating table for an offline discussion about what to do next. Once negotiations are complete, make sure your attorney, accountant and strategic advisor have reviewed final documents and are in agreement.

- **Have a clear vision on how you want to exit the company**

Be clear about how you want your exit to occur. Do you want to completely walk away, do you want some involvement and for how long do you want to be involved? Prefer to be a consultant or get hired as an employee? What about insurance, car allowance, cell phone? This should be given a lot of thought and ironed out in the plan beforehand. Get advice on how to tax-advantage the deal: it's not about how much you sell the business for, it's how much of the sale you keep.

- **The Process: Phase 1 - Teaser overview and a non-compete non-disclosure agreement**

A teaser is a brief 2-4-page outline about the history of the business. Include a brief description of how your business runs, employee skills, customer groups and how much money they spend, what services they buy, any special gems about the business. Once interested bidder(s) sign the non-compete, non-disclosure agreement, be ready to provide redacted (names removed) information about employees (title, salary, benefits), customers ($/year and what they buy), and competitors (size, advantages).

- **The Process: Phase 2 – Letter of Intent and Due Diligence**

Usually the buyer prepares a letter of intent based on purchase details you've both agreed to. Once signed, you go into due diligence and open your books for the buyer to verify what you've told them. It's a good idea to ask for a "walk-away" fee if the buyer doesn't follow through to close, to compensate you for your time spent in discovery. It's also smart to do some checking of you own. Verify bidder's ability to get the deal closed. Make sure that your attorney will have full possession of funds at closing. If you're carrying any risk related to payments over time, make sure this is a buyer who has the ability and desire to follow through to successfully implement what has to happen in order for you to get paid. Have other potential buyers in the pipeline as a safety net, since, according to a leading business brokerage organization, 70% - 80% of offers never get finalized. Put the odds in your favor with back-up solutions.

IN TIMES OF UNSTABLE ENVIRONMENTS SUCH AS COVID-19 A LOT OF RESEARCH IS NEEDED TO DETERMINE WHETHER TO SELL. OBTAIN EVALUATIONS ABOUT YOUR BUSINESS BEFORE YOU SELL. MAYBE AN OPTION OF JOINING FORCES WITH OTHER BUSINESS TO HELP EACH OTHER COULD BUILD UPON FAVORABLE ASPECTS WITHIN EACH COMPANY TO ACT AS A LIFELINE.

• **The Process: Phase 3 - Time to Sign**
Once you've finished negotiating concessions based on the bidder's due diligence findings, it's time to sign. Make this a celebration day. Bring a special pen. Take pictures. Include people who are important to you. Have a bottle of champagne or sparkling cider chilling to toast the moment. Go out for dinner or take off on vacation as a reward for competing the hard work. Have a plan for what you'll do next, whether its volunteer, travel, start another business, spend time with family, or anything else you want to do. Don't just go home with nothing to do.

· **Next Steps** Deciding to sell, especially in unstable markets, can be tough and stressful. It is imperative to do research and talk to the right advisors. Weigh all your options so you can feel comfortable that you'll be making the right decision for yourself, your family and your business. Give Strategy Leaders a call to discuss concerns, options, and details about your exit strategy. We have been in business for over 25 years and have specialized experience in dealing with buying and selling businesses, advising business owners on the best possible outcomes for their businesses and for themselves personally. Family and employee transitions are a specialty for us – we've seen that option work well for many owners. Ask us for references, we have a lot of happy customers.