THE ALTERNATIVE BOARD


WHITE PAPER

# Designing Your Exit:

## What Business Owners Should Know About Creating Their Perfect Exit Strategy

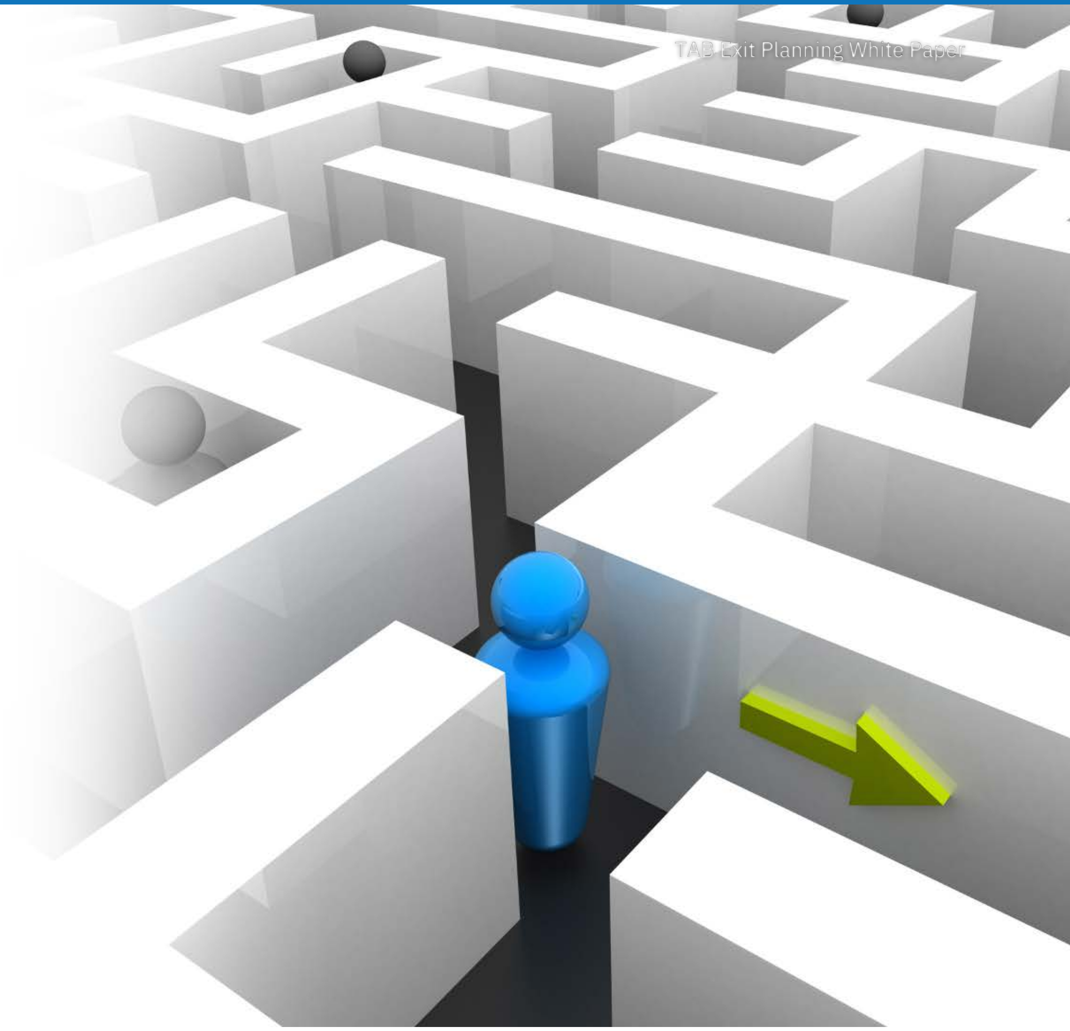
# The Importance of Exit Planning and the Key Elements of a Successful Transition

First, congratulations to you, the business owner. You have worked hard to grow a successful organisation. Along the way you have made financial and personal sacrifices, celebrated plenty of big wins, and felt the satisfaction of building a lucrative and thriving company. Milestones were achieved, customer relationships were nurtured, and capable teams were built. When you first launched and later as business boomed, you might not have considered creating an exit strategy as part of your foreseeable plan. But with every passing year, life beyond business ownership draws nearer.

Whether you intend to move on from your business in the immediate future or years from now, you should be planning your exit. By creating a five or ten-year plan, you are positioned to make stronger financial and operational strategies that are optimally designed for you, your successors, and the legacy of your business.

In this TAB white paper, we will explore essential considerations for you, the business owner, as you embark on planning your exit. This will provide information and insight that will support you in the next phase of your journey.


*"Exit planning isn't just about leaving your business; it's about ensuring the legacy you've built continues to thrive while securing your own future."*
*– The Alternative Board (Worldwide) President & CEO Jason Zickerman*



**69%**
**of business owners now identify an exit strategy as a top priority.**

**1 in 2**
**selling business owners lack an exit strategy.**

**73%**
**of business owners plan to exit their companies in the next 10 years.**

## Start Exit Planning Early

As a business owner, you have a lot on your plate. You are often locked in a time crunch, consumed by the day-to-day activities of running and growing your organisation. The smaller your business, the more hats you wear. But even as your days are spent hustling trying to build your company, it is in your best financial interest to include exit planning in your long-term business strategy.

According to Sunbelt Business Brokers, business owners who don't plan their exit properly can lose as much as 20%-50% of their potential value due to rushed sales.

The math just makes sense. Early and comprehensive exit planning provides greater options and flexibility when the time comes to transition out of your business. Even if you have no clear timeline, an exit plan ensures important decisions are made and actions are taken that support the long-term success and ultimate sale of your business.

> *"A well-planned exit is the final act of leadership. It is really the bow that ties your entire business ownership journey together."– Jason Zickerman*

# Essential Players in Your Journey to Exit

## Accountants:

Accountants help you with the financial and tax aspects of your exit, such as valuing the business, structuring the deal, minimising the taxes and fees, and preparing financial statements and reports.

## Lawyers:

Lawyers will assist you with the legal aspects of your exit, including drafting and reviewing contracts and agreements, protecting intellectual property and confidential information, resolving disputes and claims, and ensuring compliance with pertinent laws and regulations.

## Brokers:

Brokers aid in the marketing and selling of your business, like finding and qualifying potential buyers, negotiating the terms and conditions, facilitating due diligence and closing, and maximising valuation and price.

## Bankers:

Bankers will help you with the financing and funding aspects of your exit, such as securing loans and equity or arranging escrow.

## Business Coaches:

A business coach can help you with the strategic and operational aspects of your exit and act as a key accountability partner.

## Peer Advisory Boards:

A peer advisory board can offer guidance, first-hand perspective, and support to help you as the business owner navigate your exit strategy.

# 5 Key Steps in Developing an Exit Plan

Developing an exit plan helps you achieve your personal and financial goals and ensures a smooth and successful exit from your business. Here are five key steps that you should follow to create and execute an effective exit plan:

**STEP ONE**

### Establish Your Objectives

Identify your reasons and motivations for exiting the business and your desired outcomes and benefits. Consider your personal, financial, and professional goals and your family, lifestyle, and succession preferences.

**STEP TWO**

### Determine the Value of Your Business

Estimate your business's current and potential value based on various valuation methods and market factors. Identify your business's value drivers, detractors, and opportunities and threats that may affect the value. Consider working with a Mergers and Acquisitions firm.

**STEP THREE**

### Choose Your Exit Strategy

Explore and evaluate the different exit strategies and options available, such as selling, merging, passing on, or liquidating the business. Weigh the pros and cons of each option and select the one that best suits your objectives, situation, and market conditions.

**STEP FOUR**

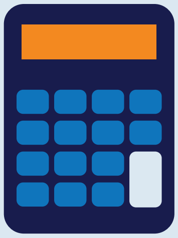
### Develop Your Exit Plan

Create and implement a comprehensive and customised exit plan outlining the specific actions and initiatives needed to execute your chosen strategy. Include a contingency plan, a timeline, and a budget for streamlined execution.

**STEP FIVE**

### Execute Your Exit Plan

Execute your exit plan with the help of an exit planning or Mergers and Acquisitions (M&A) advisor to ensure maximum compliance and value. Monitor and adjust your exit plan to respond to changing circumstances and emerging opportunities.



### Determining What Your Business Is Worth

While there are plenty of online valuation calculators, it is important to understand that putting an accurate price tag on your private business isn't an exact science. Calculations are often based on guesses, estimates, or other subjective data. Fluctuating market factors can also dramatically affect your organisation's valuation. To accurately value your business, consult with a Certified Valuation Analyst (CVA) or M&A Advisor with expertise in your industry.

# Top 9 Considerations When Exit Planning

There are many activities and actions to be addressed as you embark on your exit strategy. While every business is unique, the following are universal issues that you need to consider to ensure the best outcomes.

### Business Valuation

Determine the true worth of your business

### Timing Your Exit

Knowing when to start planning and executing your exit

### Financial Readiness

Ensure your financial independence post-exit

### Market Conditions

Monitor key industry trends and economic factors

### Successor Readiness

Assess internal leadership potential

### Business Attractiveness

Optimise operations to appeal to buyers

### Tax Implications

Minimise tax burdens and plan for capital gains

### Personal Goals

Align your exit strategy with your life aspirations

### Employee Impact

Consider effects on retention, loyalty, and culture

# 8 Most Common Exit Options to Consider

### 1. Employee Stock Ownership Plan (ESOP)

A strategy where the owner sells some or all of their shares to a trust set up for the benefit of the employees. The employees become the business owners, and the owner receives cash and tax benefits.

### 2. Merger with Another Business

The owner merges with another business with complementary assets, capabilities, or markets. The owner receives shares or cash from the merged entity and may retain some control or influence over the business.

### 3. Management Buyout (MBO)

The owner sells the business to the existing management team, who may use debt or equity financing to fund the purchase. Post-sale, the owner may retain some equity or involvement in the business.

### 4. Initial Public Offering (IPO)

The owner sells some or all their shares to the public through a stock exchange. They receive cash and may retain some ownership or control over the business. An IPO may enhance the business's reputation and visibility.

### 5. Selling to a Third Party

When selling to an external buyer, the owner receives cash and negotiates the terms and conditions of the sale. This strategy can be used to maximise the business's price and value and exit the business quickly and thoroughly.

### 6. Family Succession

The business owner transfers the ownership or control of the business to their family members, like their children, siblings, or others. The owner might maintain some involvement or influence in the business.

### 7. Recapitalisation

The owner restructures the business's capital structure by changing the mix of debt and equity. The owner may use the debt or equity issuance proceeds to pay themselves a dividend or reinvest in the business.

### 8. Liquidation

The owner sells the assets and liabilities of the business and distributes the proceeds to themselves and other stakeholders. The owner may receive cash or other assets and terminate business operations.

# Tips on Grooming Your Business Successor

**First Build a Strong Supportive Team**
Business leaders are only as successful as the teams who empower them. Build your entire team with the best and brightest talent you can afford.

**Implement a Leadership Alignment & Strategic Development Program**
Take the time, effort, and resources to cultivate your current leadership team. By building strategic alignment, you are best able to identify future successors who embrace your core values.

Click here to learn about StratPro, our popular strategic alignment and leadership development program.

**Build a Succession Timetable**
Engage your leadership team in familiarising your successor with all areas of the organisation. Create a reasonable schedule of continued interactions with your successor and each department in the business. This process not only exposes your successor to all aspects of the organisation, but also will help you identify their strengths and weaknesses, leading to specialised training when needed.

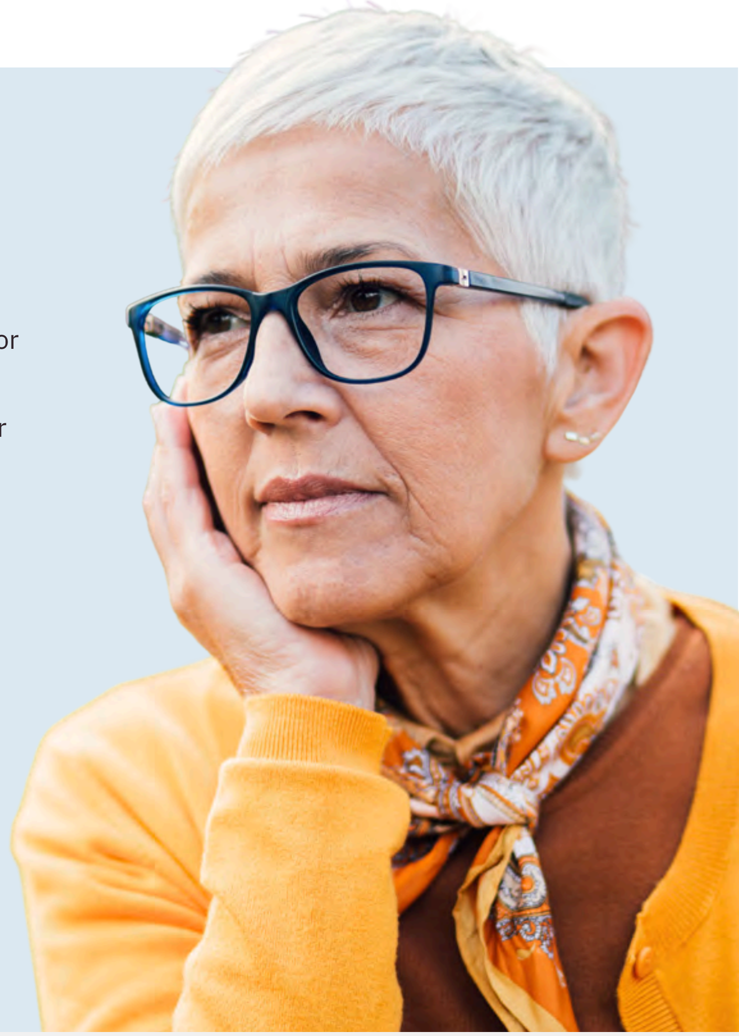
**Take Special Care When Choosing a Successor to a Family Business**
Choosing the right successor for your family business can be challenging due to loyalty and established relationships. It is ultimately about identifying and cultivating the person who will take the company to the next level. Evaluate a potential successor's vision and leadership skills, not just their relationship to you.

**Leverage a TAB Board as a Strategic Succession Tool**
TAB peer advisory boards can play a pivotal role in smart succession planning by providing guidance and continuity during leadership transitions. Passing a board seat to a successor ensures the new leader gains invaluable insights from board members who understand the company's history, dynamics, and the intricacies of succession.

## Top Tips for Working with an Mergers and Acquisitions (M&A) Firm

- **Do Your Homework:** Research M&A firms to ensure their expertise aligns with your industry and business goals.
- **Communicate Clearly:** Share your vision and expectations upfront to create a strong foundation for collaboration.
- **Leverage Their Expertise:** They are the pros.Trust their guidance on valuation, market trends, and deal structuring.
- **Stay Involved:** While the firm is hard at work, remain actively engaged to ensure the process reflects your priorities.
- **Build a Partnership:** Treat the firm as not just a service provider, but a strategic partner in the sale of your business.

# The Emotional Side of Exit Planning



Every business owner will eventually leave their organisation. For many, the prospect of exiting can trigger an intense emotional response. As their transition approaches, it is not uncommon for business owners to experience a profound sense of loss, fear of the unknown, or a certain amount of melancholy.

If you are planning to exit your business, it is important that you understand and prepare for common psychological challenges associated with your ownership transition. By addressing the potential emotional aspects of exiting your business, you best ensure your exit is not just a financial success, but also a boost to your mental health and wellbeing.

**For smart strategies to help you emotionally prepare for your exit, click here to read "The Emotional Side of Exit Planning."**

## Is The Alternative Board (TAB) Right for You?

The Alternative Board (TAB) helps forward-thinking business owners grow their companies, increase profitability, and improve their lives by leveraging local peer advisory boards, private business coaching, and proprietary strategic services.

Becoming a member of TAB gives you access to valuable resources and expert advice that will help you build a better organisation and create a strategic exit plan that secures your legacy and ensures lasting success.

Click here to contact us and learn more about the transformative power of a TAB Board.

# Your Exit Planning Check List

## 5+ Years Before Exit

- ☐ Assess current value of your business with a professional valuation.
- ☐ Define personal and business financial goals for the post-exit phase.
- ☐ Evaluate and enhance operational efficiencies and ensure financial records are accurate.
- ☐ Identify potential successors (internal leaders, family members, external buyers).
- ☐ Build or update key business documentation (standard ops, contracts).

## 3-5 Years Before Exit

- ☐ Develop a formal succession plan, including leadership transition strategy.
- ☐ Maximise profitability by reducing extra expenses and boosting revenue streams.
- ☐ Strengthen key customer relationships and diversify client base.
- ☐ Address any legal, tax, or regulatory issues that could impact a sale or transfer.
- ☐ Engage a trusted advisory team (legal, financial, M&A, peer advisory board).

## 1-3 Years Before Exit

- ☐ Prepare for due diligence by organising all financial, legal, and operational documents.
- ☐ Update business valuation to reflect any recent growth or market changes.
- ☐ Begin preliminary discussions with potential buyers or successors.
- ☐ Optimise tax strategies to minimise capital gains and other exit-related taxes.
- ☐ Develop an employee retention plan to ensure key staff remain post-transition.

## 6-12 Months Before Exit

- ☐ Finalise deal structure and negotiate key terms of the sale or transfer.
- ☐ Communicate exit plans to leadership team and key stakeholders.
- ☐ Ensure all contracts and legal agreements are in place for a smooth transition.
- ☐ Create a post-exit plan for yourself, including personal goals and next steps.
- ☐ Draft a communication plan for employees, customers, and partners.

## Final Months Before Exit

- ☐ Conduct final financial audits and resolve any outstanding legal matters.
- ☐ Oversee the training and onboarding of the successor or new owner.
- ☐ Transition key relationships (vendors, clients, partners) to new leadership.
- ☐ Celebrate the business's achievements and your journey with your team.
- ☐ Execute the final transfer of ownership and close the transaction.

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