

Securing Your Optimal Exit Now

IT'S A TOUGH WORLD OUT THERE—especially if you're a business owner. The landscape isn't likely to improve dramatically any time soon, but there is plenty you can do to ensure that *your* business grows and thrives in this environment, culminating in an optimal exit.

The Great Recession, which began in 2008, hurt most businesses, and many are still climbing out of the hole. The volatility of the global economy, Britain's vote to leave the European Union, along with increases in terrorism, global political strife, and rising budget deficits, have created fear and uncertainty.

There is a growing belief in this country that too much wealth is flowing to the wealthiest Americans at the expense of others, and some want the government to address the problem through higher taxes. Most business owners believe that the focus should be on fostering stronger economic growth *without* raising taxes, which can thwart entrepreneurial spirit.

Our great nation is bankrupt, while politicians and economists seem to have little idea of what to do to resolve the situation. Neither do they seem to have any ability to cooperate with each other to craft a sustainable long-term solution to the national debt, which is approaching \$20 trillion. The nonpartisan Congressional Budget Office (CBO) projects that deficits will begin to

rise in 2016, and that interest payments will double by 2019, while spending will grow faster than the economy for Social Security and the major health care programs, including Medicare, Medicaid, and Obamacare subsidies.

By the end of 2016, according to the CBO, debt held by the public will be 76 percent of GDP, higher than it has been since the years immediately following World War II!

Global oil supplies are volatile. Europe is also in trouble, and strife abounds in the Middle East. Business owners also face tax increases and tighter regulation, along with the significant challenges of foreign competition, undercapitalization, health care reform, trade deals, and rising fixed costs that threaten margins.

Bad news could send the fragile economy back into a recession, potentially triggering more government intervention in the private sector. That, in turn, constrains business investment, which holds back the very economic growth that entrepreneurs seek, creating a painful catch-22 situation.

These threats combine to assault your personal and business wealth, making it imperative to exert more energy to preserve your independence, security, and stability, and the integrity of your financial affairs.

YOUR PLAN OF ACTION: ONE WAY OUT

Fortunately, you can create a comprehensive plan of action to secure your financial future. You may not be able to exert much change in the global issues I've mentioned above, but there is plenty you can do to grow, protect, and ultimately transfer your business for maximum value. This is your One (best) Way Out.

Your One Way Out plan will require informed, deliberate planning—the sort that cannot be done in a vacuum. It must take into account the whole of your life, your business, and your ultimate goals, considering your personal financial future while defending the wealth you have accumulated so far. (Learn more about this in chapter 2, “Ensuring Success with the One Way Out Process.”)

Successful business owners will always employ methods to use the tax code and legal system to

For most of our business owners, creating and implementing an Exit Plan is the most important business and financial event in their lifetime.

protect their wealth. They will work hard to grow and protect their businesses and attract and retain key employees in order to achieve company goals.

Still, you need to think beyond those baseline principles, understanding the myriad of risks and exposures you and your business face, identifying the minefields, and planning how to steer around them or defuse them before they blow up.

YOUR BUSINESS AND PERSONAL WEALTH ARE INTERRELATED

Why did you start your business? Freedom? A new idea or improvement on an old way of doing things? Creation of a family legacy? There are countless motivations for becoming your own boss and doing your own thing. High on this list is often the desire to achieve financial independence for yourself and your family. This is the “American Dream” to many. The income you generate from your business creates and supports a certain lifestyle. Various fringe benefits and perks paid by your business protect your lifestyle and provide financial security for the future.

Your business and personal wealth are inex- :
orably connected to one another. Growing the : **Do you have a plan to**
actual value of your business becomes the focal : **take your money out**
point of true financial independence. There are : **of the business on a**
multiple ways to monetize this illiquid business : **favorable basis?**
value, depending on your goals and objectives. It is :
this liquidity event that will lead to the financial independence you seek. It is critical to plan for the growth of your business, protect it along the way, and properly harvest it, under your terms, when the time comes.

When that day comes, will your financial independence goals be satisfied, or will a gap exist? How do you know for certain? We call this the *value gap*, and it must be calculated and continuously monitored to make sure you get and stay on track.

“Is My Business OK? It’s the Primary Source of My Wealth!”

As a business owner, you face a multitude of issues that require you to work *on* your business and not just *in* it.

These challenges suggest the need for sophisticated strategies and experienced advisors to help design and execute growth and protection strategies, wealth preservation plans, and strategic plans for the transfer or sale of your business to achieve financial independence. (See Figure 1.1.)

Oftentimes, the day-to-day, pressing concerns about running your business may dominate your thinking. You're not alone. Business owners everywhere are focused on surviving under the intense pressures of today's economy. They're also concerned about maximizing their value as shareholders and ultimately, keeping their businesses in their families or converting business equity into cash when they exit from their businesses, depending on their specific goals.

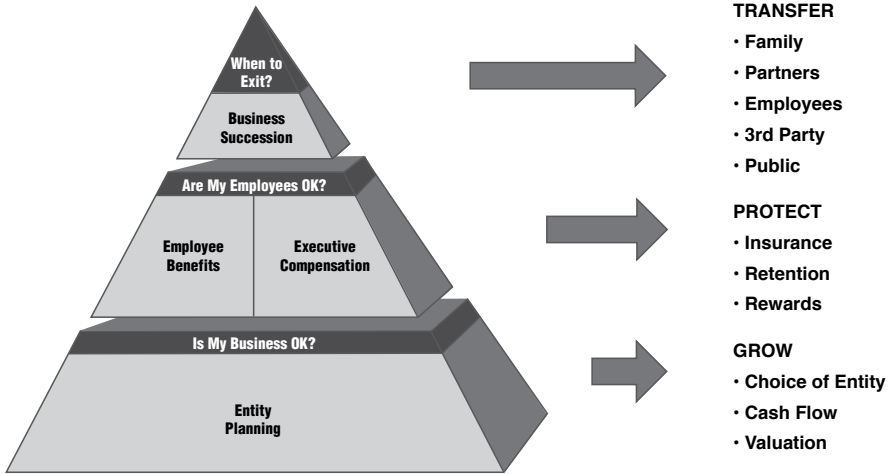


Figure 1.1. Succession planning encompasses the imperatives to grow, protect, and transfer the business.

Do you have a catastrophe plan? What would happen to your business if you or your partner(s) met an untimely death? Do you have a shareholders' agreement (also known as a buy/sell agreement)? Is it up to date? Does the price reflect today's valuation? Unless your agreement has been reviewed in the past two to three years, it may pose a serious threat to you, your business, and your family. Is the agreement properly funded with insurance to give it teeth and make it operative? Without proper funding, the burden of additional debt assumed by you, your partner(s), or the business could be crushing.

**As you consider
leaving your business,
what keeps you up at
night?**

Similarly, what will happen if the banks call in loans and mortgages that you have signed for and guaranteed personally? An infusion of cash at a critical point in time (such as the death of the borrower or guarantor) can make the difference between business survival and business failure.

How do you attract, retain, and reward key employees? Everyone offers the typical package of 401(k) plans, medical benefits, dental insurance, and so on. You can make a difference by offering special incentive programs to reward long-term retention. This can be an excellent alternative to giving up equity or cash now. These nonequity performance packages can also be designed creatively to align with corporate growth goals and increased revenues and profitability. The better the employee performs, the bigger the payoff will be in the end. These programs can also serve as a sort of “golden handcuffs,” in that if the employee leaves before an agreed-upon time frame, benefits will be reduced or forfeited back to the company.

Many additional factors threaten your business wealth as well, including the following:

- ◆ Not knowing the value of your business for different purposes, such as, collateral, estate, and gift taxes; future sale; and the like. Planning is difficult if you don't know what your business is worth.
- ◆ Lack of a management succession plan. Who will lead your business after your retirement, disability, or death?
- ◆ Operational issues. Who will handle the day-to-day operations within your company in your absence? Will key employees stay or go? Issues of compensation, governance, dealing with inactive siblings, and the like need to be addressed.
- ◆ Lack of a buy/sell agreement, having the wrong agreement, or having one that is underfunded and can't become operative without potentially disrupting or even bankrupting the business with debt.
- ◆ The financial and legal structure of stock transfers to children. Consider the emotional impact among siblings, as well.
- ◆ Tax planning to mitigate income, capital gains, and gift and estate taxes.
- ◆ Creation of liquidity to pay unavoidable estate taxes due at death and avoid forced liquidation of the business.
- ◆ Corporate taxes, a constant threat that hits businesses especially hard these days. Increasing income taxes directly affect your bottom line and ability to create (or just maintain) jobs, provide employee benefits, satisfy lenders, perform research and development, compete effectively, and maintain your lifestyle.

- ◆ Increased regulation, compliance requirements, and bureaucratic red tape.
- ◆ Insufficient or expensive capital.
- ◆ Employee benefit packages that fall out of compliance or become prohibitively expensive or ineffective.
- ◆ Exposure of personal and business assets to lawsuits.

“What About My Personal Wealth? Am I OK?”

“Will all of these threats to my business cause me to run out of money, give up my lifestyle, or become dependent on others down the road?”

This is the question we hear day in and day out, at all income and net worth levels (even those with eight- or nine-figure net worths). You need to protect yourself from future threats, such as the following:

- ◆ What will happen to me financially after I retire, transfer, or sell my business?
- ◆ Standard of living—How much income do I need over the next 20, 30, or 40 years?
- ◆ Life expectancy—Will my spouse or I live to age 100-plus? If so, will we have enough?
- ◆ What if my net after-tax rate of return in the future is less than it was in the past?
- ◆ What if inflation reappears?
- ◆ What about the impact of health care when I’m older? Will costs erode my assets?

“Is My Family OK?”

Of course, this consideration is part and parcel of defending your personal wealth assessment. Numerous threats to your family wealth include the following:

- ◆ A neglected, out-of-date wealth preservation plan and estate documents. A plan more than three years old should receive a comprehensive review. Inappropriate or outdated wills, trusts, powers of attorney, and health-care proxies can do more harm than you realize.
- ◆ Children who are uninformed, inexperienced, and unprepared to handle large sums of money.

- ◆ Divorce and substance abuse problems within the family that may affect judgment and good stewardship of your wealth.
- ◆ Creditors your children (and grandchildren) may face, including siblings, divorcing and disgruntled spouses, bankruptcies, contracts, or torts (malpractice, slips and falls, automobile accidents, etc.).
- ◆ Dying too soon or living too long. A shortened or extended life expectancy can jeopardize family wealth distribution.
- ◆ The wrong fiduciaries and a lack of proper successors or trust protectors. These unfortunate conditions place your assets at risk.
- ◆ Not adjusting your plans for births, deaths, adoptions, special health needs, or other family changes.
- ◆ Lack of liquidity to pay estate taxes. This can result in the forced sale of your most valuable family assets, such as a business or income-producing real estate. Even if your estate is liquid (has cash or short-term investments on hand), the liquidity you stockpile is itself subject to taxes. The challenge is to create a “tax-exclusive” stash of liquidity.

“But I’ve Had It All Done! I Have Advisors in Place.”

Here’s a word of caution: Do not fall into the proverbial “I’ve had it all done” mind-set. I have never met a person whose business and personal wealth defense could not be meaningfully improved or updated in some way. Our clients have found that the difference between merely having their planning work done and having it done as well as possible can save them substantial sums of money, and that’s in wealth protected or tax savings.

No single advisor has a monopoly on all of the good ideas, and the rules are constantly changing. Proper planning requires working in concert with experts and advisors, including your financial advisor, CPA, attorney, investment banker, and others, to provide a truly coordinated effort to keep you out of harm’s way. The problem is that most advisors don’t deliver what you hope they can on their own.

Other impediments to progress come from business owners themselves:

- ◆ “These things wouldn’t affect me.”
- ◆ “I just finished going through all of this planning work; I’m sure it’s fine.”

- ◆ “Who cares what happens? I’ll be dead and gone.”
- ◆ “I’m too busy or distracted. I’ll get to it later.”
- ◆ “I hate this stuff.”
- ◆ “My situation is unique.”
- ◆ “The tax laws keep changing . . . let’s wait and see what happens next.”

I urge you to become educated, using tools such as this book. An informed client is always the best client.

BUILDING YOUR ONE WAY OUT TEAM

Assembling a team of trusted advisors should be one of your priorities in creating a holistic plan to grow, protect, and exit from your business. (See Figure 1.2.) Think of this as assembling your personal brain trust. Who should be on this team? While each situation is different, here is my suggested list of essential members:

Financial Advisors: Choose a financial advisor who is committed to working with business owners to solve their complex problems. Find one who has the necessary training, support, and access to the multitude of resources you will need to create and execute your One Way Out plan. In my world, we call them *Business Intelligence Specialists*, as they are part of a highly trained national business owner initiative most qualified for this type of planning. Other advisors exist in the industry; just be sure to check their qualifications carefully to make sure they are experienced in working with successful business owners like you. The right advisor can provide the leadership to work through this process and can identify, communicate, and address advanced business and wealth management strategies to allow you to grow, protect, and exit from your business.

Accountant: Frequently this will be your company’s certified public accountant (CPA). Select a CPA who has experience in this type of planning and the various tax aspects of growing, transferring, or monetizing a business.

Corporate Attorney: This may be your company’s existing attorney, or you may need to seek one who specializes in documenting purchase and sale agreements and other shareholder and employee-related documents.

Transaction Intermediary: An investment banker or mergers and acquisition (M&A) advisor can help you execute the appropriate transaction, if you choose an exit path that requires his or her services. This expert will conduct



Figure 1.2. Assembling a team of trusted advisors should be one of the priorities in planning to grow, protect, and exit from your business.

a business analysis and provide valuation assistance to help develop a possible range of values, as well as find sources of capital or buyers for your business. It is critical to work with the right investment banker for your particular company, industry, and type of transaction. A generalist will not do. Going through a proper exit planning process prior to engaging an investment banker will lead you to an objective, goals-based decision and access to the “right fit” advisor to execute the appropriate transaction for you.

Estate Planning Attorney: Choose an attorney who has experience in planning and drafting documents you will need, and who specializes in executing advanced estate planning strategies for business owners. No generalists here.

Engage your team as early as possible, and make sure they are consistently collaborating on your behalf proactively, not simply responding to your requests.

As your exit and achievement of financial independence draw closer, many decisions will be made—either through proactive planning or passive ignorance—that cannot be undone, so choose advisors wisely.

WHY MANY ADVISORS FALL SHORT

You need to be careful and extremely selective when engaging your One Way Out team. There are many talented and accomplished professionals in every area in which you will need assistance. However, as in any industry, there sometimes

Have your existing advisors discussed exit planning, your preferred timing and strategies to enable this to happen successfully? Or have they been silent?

are conflicts of interest or lack of focus that may create problems with some practitioners—those who may not be at the top of their game in the field of exit planning or don't work well as part of a team. It is these few who make your selection process a little tricky.

Accountants

Accountants are essential to every business. Their core services include the preparation, review, or sometimes audits of financial statements and tax returns, and a variety of other valuable services for businesses and their owners. Having practiced previously as a CPA, I know many excellent people in that field. The vast majority work hard to serve their clients' best interests. However, some are solely interested in keeping you as a fee-paying client forever. Any idea or plan that results in them losing your business for accounting or tax services becomes problematic.

In my experience, some clients have reported finding that financial planning services offered by some firms were not up to the same quality as the core services performed by those firms. The financial planning services seemed like a separate entity, unsupported and on their own, resulting in a disjointed effort.

Some firms may feel threatened if someone gives you advice that they didn't think of first. "If the idea didn't originate here, it can't be good" becomes the mantra of some guarded CPAs. This results in "blind spots" that thwart creativity.

Some present only a historical view. They look at the world through the rearview mirror, instead of looking to the future. Some CPAs are not optimistic by nature. Their training and perspective can make them cautious, conservative, even wary of the future. They tend to focus on what can go wrong, not what can go right. Their eagle eye is trained to seek out problems, breakdowns, and exposure, but not always opportunity. If something goes wrong and they missed the threat, they fear it is their fault.

I had an old football coach who always stuck to his running game. He almost never allowed our quarterback to throw a pass. Why not? "Three things can happen when you throw a pass—and two of them are bad." So, our offense became stale, predictable, and ultimately ineffective, until a new coach stepped in with a different mind-set.

Attorneys

In today's litigious world, you cannot operate a business without attorneys. They can keep you out of hot water, or pull you out if you fall in. Extremely knowledgeable in their areas of expertise, they are needed for legal advice and to draft important documents.

The challenge with attorneys is really not their fault. It's this: You usually only call them when you *really* need them—for example, when a lawsuit has been threatened or filed, a shareholder is getting divorced, you're about to jump on an airplane and want to quickly draft a will or business agreement, or someone has just died.

So why don't you sit down and talk with your attorneys more frequently? Most business owners perceive their hourly (or quarter-hourly) fees to be too expensive for chitchat. "I only call my attorney when it's absolutely necessary. He sends me a bill for every question I ask!" Guess what? Your attorney's expertise and time are his stock and trade. But business owners often want to avoid paying legal fees—even when by doing so they could have prevented a problem from occurring.

Because of their hourly fee structure, attorneys are sometimes hesitant to ask all of the questions necessary to fully uncover their clients' true feelings and intentions. They may sometimes move hastily into recommendations and drafting of legal documents without taking the time to fully understand the issues. Some are not "wired" to ask sensitive questions, or may lack the patience to get into the weeds on what they may misinterpret as "superfluous" non-legal issues.

Financial Planners

Most financial planners want to help but are really investment advisors. Their business model is to provide investment advice and gather assets under management (AUM). Don't get me wrong—investment advice is important. Most investors lack the knowledge and discipline to implement a sound investment strategy on their own. My point is that most financial planners lack the training and support to be much of a resource to business owners. Don't expect the average financial planner to understand or be able to deliver meaningful advice to grow, protect, or transfer your business.

If they purport to focus on business owners, check out their qualifications. Do they have business-owner clients like you, or is their practice a mixed bag of doctors, dentists, widows, and retirees? Do they specialize in working with

successful business owners? What services do they offer specifically to this marketplace? Is your financial planner a “lone ranger” or part of a large firm committed to supporting him or her on his or her quest to serve business owners? The smart ones align themselves with firms committed to providing advanced-level training and support, with access to experts—working collaboratively with them to address the complexities that are outside of their practice focus.

Investment Bankers

“When your only tool is a hammer, everything looks like a nail.” That’s how I would describe many investment bankers or mergers and acquisition (M&A) advisors. They are voraciously looking for their next deal. They get paid a success fee (and initial retainer) to sell businesses.

Once you have gone through an exit planning process, including an extensive analysis of your business and personal well-being and have determined that selling to an outside buyer is the best option for you, then you should absolutely seek out the best investment banker or M&A advisor you can find to represent you and your business. But don’t be rushed into a transaction without examining all of your options. Be sensitive to market timing. Is now the right time to sell? Is your business optimized to attract top dollar, or does it need some preparation first? Are you psychologically ready to go? What will life look like after you no longer own your business? How will the sale of your business affect your spouse, children, management team, and other employees? How will your community be affected if the wrong buyer is chosen?

Watch for investment bankers who tell you your baby is extra pretty and build up a false expectation of value. I have seen inferior investment bankers make exaggerated claims regarding what an owner’s business is worth in order to get them to sign an engagement letter. It takes months and much emotional agony to later come to the realization that expectations were overinflated.

By then, your choices are limited to selling for less or pulling the plug on the entire process. Find an investment banker who has been thoroughly vetted by your advisors and will work closely with your advisory team to achieve the best outcome for you.

ANOTHER PROBLEM: LACK OF COORDINATION

You may have avoided the pitfalls described in the previous sections, and may already have the very best professionals on your team. However, do they regu-

larly talk to one another about your situation? When was the last time they all sat down together in a conference room for half a day to focus on you and your business situation? Did they work together in a collaborative way to create a well-thought-out plan of action and a way to get it done?

Most business owners I speak with laugh when I pose these questions... because it's never happened! But here's the reality—it's not really the advisors' fault. Who said they should do it? It's not their responsibility. Naturally, you turn to your current advisors to provide expertise to help you achieve your business and personal goals, while trying to avoid costly mistakes and exposure to risk. But here's the reality: Most advisors are very good at performing tasks related to their specific discipline—for example, accounting or law or banking. Many owners express a desire to find that one trusted advisor who can see the big picture, lead the charge, and act as a strategic leader and catalyst to help implement their plan.

Additionally, we often find that an owner may have several different plans (for example, wills, trusts, buy/sell agreements, and beneficiary arrangements) that actually conflict with one another. How does this happen? These plans have been set up at different times, often with different advisors—resulting in an incoherent, disjointed series of actions that lack cohesion and coordination.

So how do you navigate the pitfalls of all of these different financial professionals providing input solely from their own specific viewpoints? What if they lack cross-disciplinary skills or the ability to effectively lead, communicate with, and coordinate the team of specialists required to properly carry out your strategic plan?

***LACK OF COORDINATION CAN COST YOU HUNDREDS OF THOUSANDS,
AND POSSIBLY MILLIONS, OF DOLLARS OVER YOUR LIFETIME
AND THE LIFETIMES OF YOUR HEIRS.***

No one advisor can replace all of these professionals (nor is that ever advisable). Nevertheless, the need for cross-disciplinary collaboration with an overall knowledge of how these interrelated areas impact your exit strategy and financial independence plan is imperative.

WORKING WITH A BUSINESS INTELLIGENCE SPECIALIST

Working with a Business Intelligence Specialist—your “advisor of advisors”—will help you negotiate all that has to be done. This person is a trusted, qualified,

experienced professional who can go up in a helicopter and review your *entire* situation, both business and personal, and take you through a *process*.

This advisor will bring the strength of perspective to the table. He or she will have worked with many different business owners to develop their comprehensive plan, regardless of their chosen exit path. Such an experienced advisor has seen what works and what doesn't. He or she asks questions no one else asks you, and has certain street smarts, not just book smarts, just like the right CPA, attorney, and investment banker on your team.

This professional also knows how to apply technical concepts to the real world, with access to a deep well of resources, both inside of his or her firm and outside. This expert can crunch numbers to “stress test” and help you choose which option will work best for you financially. He or she will also have the skill set and compassion to understand your wants and know how to carry them out.

A comprehensive, holistic process covering all of the bases simplifies your life and results in the creation of a written action plan that considers the “what-ifs,” models your alternatives, quantifies the impact of decisions, and provides a road map for you to follow. Your Business Intelligence Specialist will be able to deeply understand your goals and how all of the moving parts of the process will work together, coordinating and evaluating the progress of your other specialists while providing trusted guidance and counsel for you.

CHAPTER SUMMARY

It's a tough world out there—especially if you're a business owner. We're still clawing our way back from the Great Recession, the global economy is volatile, the national budget deficit is growing. Our national debt is approaching \$20 trillion, there are calls for higher taxes, and terrorism is on the rise. All of this isn't likely to improve dramatically any time soon.

Nevertheless, there is plenty you can do to ensure that your business grows and thrives in this environment, culminating in an optimal exit. What do you need to do today to set the groundwork for your successful business exit—your One Way Out? Now is the time to create a comprehensive plan of action, as there is plenty you can do to grow, protect, and ultimately transfer your business internally or externally for the right value.

Your One Way Out plan will require an informed, deliberate process—the sort that cannot be done in a vacuum. It must take into account the whole

of your life, your business, and your ultimate goals, considering your personal financial future while defending the wealth you have accumulated so far.

You probably already have a team of advisors—financial, legal, investment—who are helping you manage your business and personal wealth, and these people will be essential to planning your One Way Out business exit. However, not all advisors are created equal. Some are subject to systemic industry issues and conflicts of interest that could come back to bite you. Furthermore, advisors also do not tend to ever sit around a table and coordinate their activities with your overall goals in mind. For these reasons, you need a *Business Intelligence Specialist*—your “advisor of advisors”—someone who deeply understands your situation and goals and can help you negotiate all that has to be done in your One Way Out planning process.

Once you have put together your team, you will be ready to implement your One Way Out plan. Remember that too much talk without clarity of purpose or decisive action is a waste of your time and effort. A leader won't let this happen. Inaction is unacceptable, and the time for you to put your plan into motion is now!