

Leaving Your Business on Your Terms



By Keith A. VERES, CPA, CGMA
Financial Advisor

THERE ARE MANY WAYS you as an owner can exit your business. It is important to understand your options and how to prepare yourself and your business for this inevitable event. A well thought-out plan increases your chances of not only being prepared to leave, but departing on your own terms.

Most business owners are entrepreneurs. You know how to succeed doing what you know how to do. You likely haven't had the time and don't have the expertise to know what exiting your business will entail. But taking the time now to work with your advisors to create a formal exit plan — essentially a comprehensive road map — can make a world of difference in how your departure will affect you, your family, your employees, your customers and your community.

Following are brief descriptions of some of your options. Your professional advisors can provide additional detail. You'll likely have only one opportunity to exit your business, so it is critical to seek the counsel of professionals experienced in exit planning.

1. LIQUIDATION – You simply close the doors and sell off your business's fixed assets and real estate. In addition to receiving cash for the assets, you would collect accounts receivable and pay any outstanding bills. Any cash left over after taxes is your net from the sale. This option is usually a last resort and typically produces the smallest amount of proceeds.

2. TRANSITION/SELL TO FAMILY MEMBERS – Some business owners have employed family members, helping them build a skill, make some money or enhance their résumé. Other business owners have employed family members expecting them to take over the business at some point. Transitioning your business to the next generation often involves some gifting of ownership shares, but not always. As with all exit strategies, your personal financial plan may dictate both the price and terms of the transition.

3. SELL TO KEY EMPLOYEES/MANAGEMENT TEAM MEMBERS – If you have employees who can run the business — and have the financial wherewithal to buy it — this option allows you to turn your business over to people you already have a

You likely haven't had the time and don't have the expertise to know what exiting your business will entail.

Taking the time to work with your advisors to create a formal exit plan can make a world of difference in how your departure will affect you, your family, your employees, your customers and your community.

relationship with. Such a transition can be smoother than others, much like transitioning to family members. Typically gifting shares is not a part of this transaction, though it can be. Some of our business-owner clients have employees they've worked with for decades and who have become like family and will run the business capably.

4. SELL TO OTHER SHAREHOLDERS – If there are other shareholders in your business, you might have shareholder agreements that dictate how your shares can be redeemed. One of the most common agreement provisions is that your other shareholders have “right of first refusal,” which means that if one of the shareholders wants to sell their shares, they have to offer those shares to the other shareholders first. There is usually a predetermined process for valuing those shares as well. When there is no shareholder agreement in place, this option can be complicated and will likely require the support of an attorney. Having your attorney prepare a shareholder agreement when your partnership is formed, or even thereafter, may help you avoid additional legal fees, not to mention potential confusion and confrontation.

5. GOING PUBLIC – If your business is of substantial size and reach you might consider an Initial Public Offering (IPO). An IPO allows a company to sell shares of its stock to the public to raise money, typically to grow and operate the business. This option is not realistic for most businesses. If you find yourself in the position of being able to “take your company public,” you will be choosing the most sophisticated and complex exit strategy. You will undoubtedly have a large group of advisors at you side throughout the process.

6. RECAPITALIZE THE BUSINESS – Recapitalization is another way of saying you are borrowing money to be able to distribute cash to shareholders. In essence you are bringing on bankers as partners. It's not a true exit strategy, only a way for you to take some chips off the table. Sometimes the cash raised is used inside the business instead of being distributed to the owners.

7. SELL TO AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) – An ESOP allows you to cash in a portion of your stock by selling it to your employees—and to exit the business gradually over time. Execution can be complex; there are entire full-length books dedicated to explaining how ESOPs work. Given the appropriate circumstances and structure, ESOPs can work well for business owners.

8. SELL PART OR ALL OF THE BUSINESS TO AN OUTSIDE PARTY – Buyers of privately-held businesses are typically individuals, other businesses, private equity firms or family offices. If you choose this route you are advised to hire a reputable business broker or investment banker to help you prepare, value, market and negotiate a deal. It is rarely wise for a business owner to handle this process on their own; some things should be left to professionals, and structuring a deal to sell your business is high on that list.

Given the inevitability of your exit, and the importance and potential complexity of the process, you should consider investing some time and money into developing a thoughtful exit plan. You might get only one chance to exit your business on your best terms. Professionals agree that the decisions you make about your transition may be the most important in your life as a business owner.

IMPORTANT DISCLOSURES

The information included in this document is for general, informational purposes only. It does not contain any investment advice and does not address any individual facts and circumstances. As such, it cannot be relied on as providing any investment advice. If you would like investment advice regarding your specific facts and circumstances, please contact a qualified financial advisor.

Some of the transition methods discussed in this document involve the issuance, sale and/or purchase of securities as defined by the Securities and Exchange Commission. Such activity can only be performed by an appropriately registered investment banking broker dealer. HBKS® Wealth Advisors is not an investment banking broker dealer and cannot perform these functions. If you wish to obtain services involving the issuance, sale and/or purchase of securities in connection with a business transition, you should retain an appropriately registered investment banking broker dealer.



Keith A. Veres, CPA, CGMA™
Financial Advisor

Keith provides the comprehensive and critical financial support owners and operators of small and mid-sized businesses require to grow their companies and secure their financial futures for themselves, their families and their businesses. Keith relies on broad experience and knowledge to bring small and mid-sized businesses and their owners the services and support they require at the most critical times in their careers and the development of their businesses.

Upon earning his Bachelor of Arts degree in accounting and business administration from Mercyhurst University, Keith began his career as an HBK CPA in 1991 in the Alliance, Ohio, office. He then moved to Fort Myers in 2002 to open the HBK office there. His clients include medical practices, construction companies, automobile dealerships, retail establishments, other closely-held business and high net worth individuals.

Keith is a member of the American Institute of Certified Public Accountants (AICPA) and the Florida Institute of Certified Public Accountants (FICPA).

Investment advisory services are offered through HBK Sorce Advisory LLC, doing business as HBKS Wealth Advisors. NOT FDIC INSURED - NOT BANK GUARANTEED - MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL - NOT INSURED BY ANY STATE OR FEDERAL AGENCY