

Planning with the End in Mind



Exit at your own risk

by Roderick Cavin

Have you ever started a trip without your destination in mind? Many entrepreneurs do. They begin their journey with a great product, a couple of key sales, and growth in their future. However, they haven't spent much time on their exit plan and only think about it as they prepare to sell their business. This results in missed opportunities to maximize their exit and a great deal of work to address outstanding gaps in key areas a buyer or financial partner will require.

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When business leaders think of an exit plan, they typically view it as the last step before they sell or exit the business. Successful entrepreneurs view an exit plan as part of their ongoing business planning exercises. This 'pre-exit' planning ensures that the decisions made today will support your future exit plan. And yes, it is okay if the destination changes as the business grows.

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In a recent discussion with an attorney focused primarily on mid-market business transactions, he shared that "Fifty percent of my business is fixing the mistakes made by entrepreneurs in the early stages that prohibit them from achieving the exit strategy they desire. With some input earlier in the company's development, they would be paying me a lot less and could take action more quickly."

PRE-EXIT PLANNING

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PRE-EXIT PLANNING STARTS WITH ANSWERING SOME SIMPLE QUESTIONS AS YOU BUILD YOUR BUSINESS PLAN:

What are the financial growth goals?

- Revenue and profit targets
- Growth goals and required people, products, and resources to achieve goals

What are your personal goals?

- Personal timeline to exit the business, other interests, financial goals
- Interest in including other parties in the decision making

What is the succession plan?

- Firm leadership in absence of owner, key employee roles
- Type of buyer or partners for future business

What are your capital and equity plans?

- Capital required to achieve growth
- Desire to share equity with other parties including key employees

The Plan (for now)

The answers to these questions will quickly identify issues you must address in key operating areas. The answers can have a meaningful impact on your planning. For example, the legal/financial and equity/planning issues that must be addressed for a successful sale to a buyer are different from a transfer to a family member.

ILLUSTRATION OF SOME OF THE HIGH-LEVEL ISSUES THAT PRE-EXIT PLANNING CAN ADDRESS

	External Buyer	Family Transfer
Financial/ Legal Structure	LLC, extensive contract compliance, reviewed and audited financials	Cash or accrual, reviewed statements, internal valuation model
Capital/ Equity	Limit equity holders and rely on other approaches to create 'ownership'	Equity transfer as part of tax and estate planning
Personal Goals	Plan to remain with company post-sale or to depart	Plan to exit business and reduce role
Succession	Identify and build a leadership team	Ensure alignment with key family members (not just those in business)

"You can always change the plan and destination as the business grows and circumstances change. The real goal is to address the essential elements of your exit plan in advance to ensure that less time is spent addressing gaps in the business rather than maximizing value."