

By MARC SOLOMON

Exiting your Business – Only One Chance to Do It Right



Founding a business, nurturing its growth, and establishing it in the marketplace are difficult tasks that require the entrepreneur to be diligent and proactive. Simply building a business however is not the end game. A successful exit from your business is what is required to gain financial independence. How you exit your business will determine whether or not you get what you want and feel you deserve out of the multi-year journey of building your company. A well planned exit can maximize the value of your business, provide for the continued welfare of family and employees, preserve the culture and legacy of your company and provide a tremendous amount of pride and accomplishment. The alternative — an exit with little or no planning – may jeopardize all that you have accomplished in your business and deprive you of the opportunity to shape and control your future.

There are numerous factors that determine how successful an exit will be.

- **Leave on your own terms.** By planning in advance you can expand the pool of potential buyers for our business. The more options and choices that are available to you will increase the odds of a successful exit. The planning process should commence several years before the exit event takes place.
- **What form will your exit take?** An exit event may take many forms including a sale to a third party, a gift or sale to family members, a management buyout, a sale to employees or a public offering. There are advantages and disadvantages to each potential exit. Educate yourself and determine which type of exit is most compatible with your personal goals and objectives.

- **Sales to Third Parties** A sale to a third party is the most common type of exit event. If you decide to sell to a third party, concentrate on what type of buyer is best suited to meet your goals for a successful exit. The buyer could be a private equity firm, an individual with sufficient capital, a competitor, a customer or supplier, or a large company who wants to expand its market or capability. The type of buyer that you are seeking for your business will be influenced by factors such as: (i) your desire to stay involved with the business; (ii) how important it is to you to have the Buyer retain your employees; and (ii) your level of concern about the Buyer's commitment to maintaining the culture and values of your business.

Prior planning and a thoughtful approach to leaving your business will make the odds of a smooth exiting transition much more likely. The most significant advantage gained from developing and implementing an exit plan is that it provides an opportunity for you to evaluate the strengths and weaknesses of your business from the perspective of a potential buyer. Most buyers will value your company based on its earnings before interest, taxes, depreciation and amortization (EBITDA). What changes need to occur in order to improve the performance of your Company prior to taking the business to market? The development of better business practices and a strong management team are essential to increasing the EBITDA and cash flow of your Company. If you start planning for your exit early enough you will have the time to build a stronger and more dynamic company which will command a higher market value. There is a strong correlation between the amount of time you spend preparing for an exit and the number of choices you have as to when and to whom your business can be sold.

- Exiting a business is a process that takes years to cultivate. A well thought out exit plan can create monetary value and peace of mind. It sets the stage for a satisfying life after the exit.
- This is the last leg of the journey and the stakes are very high. The need to be proactive in setting the stage for your departure requires the same level of planning, diligence and execution that has been vital to the success of your company. Pursuing the desired result is well worth the required investment of time, energy and resources. There are few things more meaningful than preserving a life's work, creating financial independence for and your family, taking care of your employees and having the ability to make a difference in your community.



About Marc Solomon

Marc Solomon is a partner with Weiss Serota Helfman Cole & Bierman. He provides counsel to clients regarding the structure and execution of business transactions including exit and succession planning. Mr. Solomon previously owned a business which was sold to a publicly traded company.