THE EXIT PLANNING REVIEW™

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Does Value Building Equal Exit Planning?

We work every day with owners to build sustainable value in their companies. Some of these owners build value so their companies can be more profitable, others build value with an eye on growth, while still others want to use systems (that build value) to become more organized.

All of these are great reasons to build value, but we look at building value a little differently because in exit planning, we take a longer view and help business owners prepare to exit their companies when they choose, and for the amount of cash they desire.

So building value is not exit planning, but building value is a necessary and principal part of every owner's Exit Plan. In turn, Exit Planning provides the context for building value. In other words, building value serves many masters—one (and I'd argue the primary one) is to enable owners to reach their ultimate goal of converting their lives' work into the post-business lives they desire.

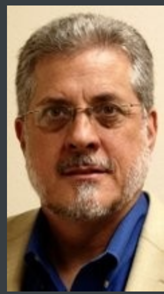
When we talk about building value in the context of Exit Planning we ask:

1. **What is the company's current value?**
2. **What value must the company achieve to enable its owner to reach his/her lifetime income and other exit objectives?**
3. **What tactics will you employ to close any gap between today's business value and the value you need upon exit?**
4. **How can you transfer business value most efficiently (tax and otherwise)?**

To see how we answer these questions in an Exit Planning context, let's look at the case of fictional owner Peter Daniels.

Peter:

- *Age 58 married to Pam, also age 58.*
- *Sole owner of Daniels Food Processing, Inc.*
- *Salary of $250,000.*
- *Exit Objectives: 1) Exit at age 63 (five years from today);* 2) *Post-exit income of $200,000 for 30 years.* (I note here that owners consistently tend to underestimate the future amount of annual income they will want and need. In doing so, they set themselves up for a disappointing post-business life style. In Peter's case, he used a Financial Planner to arrive at a realistic income goal.);



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John F. Dini is recognized as one of the foremost authorities on business ownership in America. He coaches hundreds of CEOs, speaks to national groups of business owners, and writes a weekly column for business owners "Awake at 2 o'clock in the Morning."

With over 10,000 hours of face-to-face coaching with entrepreneurs, John specializes in defining an owner's financial and life objectives, and the steps that make them come true. He approaches exit planning in cooperation with legal, risk and tax professionals, focusing on the strategic and operational aspects of a business exit.

For 25 years, John and his staff have worked tirelessly to live their mission. "We are passionate about working with business owners who compete aggressively, play fair, and work to improve their community and the lives of their employees."

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and 3) *No specific successor in mind.*

Daniels Food Processing, Inc.

- *Annual cash flow of $250,000.*
- *Estimated value today: $1,000,000 to $1,250,000 as calculated by a business appraiser.*

Bottom Line:

- *To finance the Daniels' post-exit income needs, given the number of years they want income and their assumed rate of investment return (7%), Peter needs to sell his company for between $3M and $3.5M to net $2.5M.*
- *Peter must increase the value of his company by at least $2M if he is to exit on his terms.*

In Peter's case, the Two Million Dollar Question is: How can he increase the value of his company by $2,000,000 over the next five years and thus close the gap between the business value he has and the business value he needs?

1. What is the company's current value?

Based on an industry rule of thumb, Peter thought he knew the current value of his company. Because in Exit Planning the company's current value is a fundamental cornerstone of the work to follow, guesses and assumptions about value don't cut the mustard. Owners must retain valuation experts to establish (at least) a thumbnail valuation. Do you know what your company is really worth?

2. What value must the company achieve to enable its owner to reach his/her lifetime income and other exit objectives?

In creating an Exit Plan, owners quantify the amount they will need to support the post-exit lifestyle they desire. Usually, they work with a financial planning professional to establish the "Working Assumptions" Peter established above (life expectancy, the future value of non-business assets, and rates of return on investments). Owners must also ask and answer hard questions about how lavishly or simply their post-exit lifestyles will be. Without an accurate and realistic assessment of where you are and where you want to be, it is difficult to develop and implement any plan.

3. What tactics will you employ to close the gap between today's business value and the value you need upon exit?

Only after you have determined the size of the gap between current and desired business value, does it make sense to decide what needs to be done to close it.

Understanding *how far you have to go within a specific time frame* provides the context for achieving your goals. Without a timeframe, most owners do not take the sustained action to accomplish what is needed and instead pledge to plan "right after this crisis," "this major project," or "this busy season." But somehow these pledges are rarely kept.

The timeframe inherent in the gap analysis creates responsibility: it requires self-discipline and each small step is subject to the accountability we teach our children but—when it comes to Exit Planning—fail to practice.

Using the gap analysis as its foundation, owners can then identify and implement specific actions that will increase the value of their companies. While there are a myriad of value-building actions from which owners can choose, the most critical are those that *enable a business to operate successfully without its owner's involvement*. These include the creation of a stable and highly-skilled management team, understanding and using current financial information to track and alter company performance and the installation of sustainable, organization-wide systems.

An Exit Plan should also include collecting, interpreting and using the data necessary to track progress toward your goal. Tracking may include monthly, quarterly and annual cash flow projections, as well as the creation of an annual business.

4. How can you transfer business value most efficiently (tax and otherwise)?

Good Exit Plans view value-building and all other activities through an income tax lens. Owners use every legal strategy and tactic to minimize taxes while they earn money, grow value and transfer that value. Because taxes simply skim off the value it takes decades to create, it is far more effective to act with a grasp of current and future tax consequences. Use knowledgeable advisors years in advance of the eventual transfer of your company in a way that limits (as far as legally possible) the tax burden on both the owner/seller and the buyer.

Exit Planning's value-building tools can close the often significant gap between a company's current and desired values. We are eager to help you figure out if you are facing such a gap, and if so, to quantify it, and help you close it.

If you'd like more information about how we can help you to increase the value of your business in the context of planning your business exit, please contact me.

Subsequent issues of The Exit Planning Review™ provide unbiased and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit Planning topics. If you have any questions or want additional Exit Planning information, please contact us.