

THE 5D'S

Nearly six in ten business owners lack a written transition plan, and 9% have done no exit planning whatsoever. At the same time, roughly ½ of business exits occur involuntarily due to unforeseen circumstances. Having a thoughtful plan in place can help safeguard your business and provide greater security for your family.

Business owners must plan not only for an ideal exit, but also for situations that force a rapid transition. Without preparation for worst-case scenarios, owners often exit under pressure and leave significant value behind.

They are often referred to as the 5 D's:

- Death
- Disability
- Divorce
- Disagreement
- Distress

Many owners assume a will fully addresses business needs after death, but continuity risks often arise long before that point. If a spouse or partner passes away, can you absorb their role at the same level of performance? If a sudden illness or disability forces you to step away from the business, what happens to operations, leadership, and value?

Unplanned exits carry real consequences. Research shows that within four years of an owner's death, average sales decline by 60 percent and employment falls by 17 percent, significantly reducing business value.

Within two years, 1 out of 5 companies are most likely to fail or file for bankruptcy. Planning ahead helps reduce these risks during a sudden absence.

Key questions must be addressed in advance. What should your family, clients, and management team know? What happens if you die or become disabled? How is the business affected by divorce or a partner dispute? Unplanned exits can disrupt daily operations and create tax, legal, and valuation challenges.

Preparing for the five Ds requires clear contingency plans for each scenario. While every event is different, one effective step is documenting and communicating an action plan. A contingency letter serves as a practical playbook that complements your operating agreement and estate planning documents. It outlines your intentions if you are no longer able to operate the business.

Not every risk can be controlled, but many of the most damaging ones can be anticipated. Planning for these contingencies helps protect continuity, value, and the people who rely on the business.



THE 5D'S

Have You Planned for These Contingencies?

DEATH



Consider a sudden, unthinkable event that forces an immediate transition. Are your family, management, and ownership teams clear on next steps? Is there an update to date buy/sell agreement? How are business loans and obligations addressed? Are asset and life insurance beneficiaries properly designated? Who provides counsel during this period? Is there a documented plan in place, and how does the business satisfy its obligation to your estate for the value of your shares?

DISABILITY



If a key owner becomes incapacitated and cannot communicate, is the business prepared to operate without disruption? Are critical documents accessible to decision makers? Do authorized individuals have secure access to systems required for payroll, bill payment, and customer and vendor management? Would incapacity trigger a mandatory purchase of ownership interests, how would it be funded, and who retains voting authority during this period?

DIVORCE



Consider an amicable divorce scenario. How is your ownership interest valued and divided? Are prenuptial agreements in force? What impact will personal financial changes have on the company's liquidity and operations? Are there strategies available to separate financial interests without creating unnecessary strain on the business?

DISAGREEMENT



When partners form a business, optimism often outweighs preparation. Yet partnerships can change over time. If co-ownership no longer makes sense, is there a clear, productive exit clause in place? How will ownership interests be valued, and how will a departing partner be paid?

DISTRESS



The disruptions of 2020 highlighted risks few businesses had anticipated. Productivity stalled, delivery channels were interrupted, and contingency plans were tested. Were your backup systems sufficient? Did your insurance portfolio cover business interruption losses? Strong contingency planning focuses on risk mitigation and protection against common threats including cyber incidents, property losses, supply chain disruption, workplace injuries, and key employee dependency.

