



Exit Your Business Without Leaving It

As advisors, we often hear from business owners some variation of the following comments:

- “I think it is time to back away from my business.”
- “I'd really like the freedom to do whatever I want, whenever I want.”
- “I'm tired of running this company, but if I sell, I'm unlikely to get the sale price I want in today's merger and acquisition marketplace.”
- “If I could cash out, where could I invest and generate a reasonable rate of return?” Don't even think about suggesting that I put my money in the stock market!! Even if I were foolish enough to let you do so, I doubt you could match the return I get on investments in my own business.”

Faced with limited prospects, owners often wonder if, rather than exiting, they can “back away” from their companies. They contemplate treating their companies as investments that they continue to own.

Many owners realize that today's merger and acquisition market contains fewer cash buyers. Consequently, owners may be reluctant to offer their companies for sale. They may be convinced that there could be less risk in keeping their businesses—at least in the short term.

In addition to a scarcity of all-cash buyers, except for the top companies in the market, the merger and acquisition market is no longer supporting the valuation multiples of six or seven times EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) achievable just a few years ago.

It may be difficult to dispute that the lack of cash buyers willing to pay fair value for successful companies, and poor investment opportunities may certainly be sound reasons for owners to choose to stay in their companies. The issue for many owners then is: how do I back away and let others run the business *without transferring ownership and control*?

One answer is to engage in Exit Planning as if you were going to exit your business. After all, someday you will exit—even if you are carried out on a shield. As a subscriber to this newsletter, you know that traditional Exit Planning can help to enable you to orchestrate a successful, permanent exit. Intermediate Exit Planning, however, can help to enable you to forge a path toward an exit without giving up ownership.

In order to create an intermediate Exit Plan, you should:

- Establish your (owner-based) on-going business objectives
- Determine future cash flow needs for yourself and for your business
- Build a stronger business—defined as one capable of running without you

Let's look briefly at each component.

First, working with your Exit Planning Advisors, establish your timetable for backing away from your business. Communicate your wishes clearly: What does backing away mean to you in terms of time commitment, emotional involvement, financial guarantees, etc.

Second, you must determine the amount of income that you need the business to provide you. Ask members of your Advisory Team to help you make this determination.

Third, the characteristics of a stand-alone business (one that can run without you) may be the same characteristics third party cash buyers look for. A company that can be managed from a distance and that is able to pay adequate cash flow with little risk of nose-diving without its owner at the helm, may be a highly-attractive business. It can be valuable both to third parties and to the owner who wants to step away. To create that type of business, you should have in place critical Value Drivers. They are:

- Increased cash flow
- Operating systems that improve sustainability of cash flows
- Improved facility appearance
- Debt reduction
- Documented sustainable earnings
- Growth strategy
- Strong management team

When you work with your advisors to fashion your stand-alone business, pay particular attention to creating repeatable, sustainable internal systems and developing and properly motivating your management team. In order to run successfully without you, your company needs systems and management in place capable of replicating your leadership.

The most valuable businesses are those in which the owners are no longer valuable. Planning to step away using intermediate exit planning can create a more vibrant business. When your day of departure does eventually arrive, both you and your business will be prepared.

Brought to you by:



Chris Rich ChFC, MSFS, CFP®
chris.rich@goldenhawkprofessionals.com

GoldenHawk Professional Associates, LLC
3254 East Cactus Road
Phoenix, Arizona 85032
Office Phone: 602-923-8300

Chris Rich is the Founder and President of **GoldenHawk Professional Associates, LLC**. He has been serving the business owner/ CEO community for nearly 25 years, with expertise and wisdom. He holds numerous professional designations, including Certified Financial Planner (CFP®), Master of Science in Financial Services (MSFS), & Chartered Financial Consultant (ChFC).

The information contained in this article is general in nature and is not legal, tax or financial advice. For information regarding your particular situation, contact an attorney or a tax or financial advisor. The information in this newsletter is provided with the understanding that it does not render legal, accounting, tax or financial advice. In specific cases, clients should consult their legal, accounting, tax or financial advisor. This article is not intended to give advice or to represent our firm as being qualified to give advice in all areas of professional services. Exit Planning is a discipline that typically requires the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need.

This is an opt-in newsletter published by Business Enterprise Institute, Inc., and presented to you by our firm. We appreciate your interest.

Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity.