

MONTANA BUSINESS JOURNAL

Vol. 4, No. 3 - March 2007

Be Prepared

Your business—one of your most valued possessions, your largest asset, and the place you spend most of your waking hours. It is your contribution to the entrepreneurial engine that drives our economy.

Today you might not give up your business for anything, but have you pondered the inevitable departure from your company? Whether it is because of burn out, poor health, retirement, or whether you are a serial entrepreneur who wants to move on to the next venture, eventually you will exit your company. Although it may be a decade down the road, the course you chart now will determine how well your exit is made.

Despite the unavoidable reality of an eventual departure from your company, *M&A Today* magazine reports that 85% of business owners do not have an exit plan! Research indicates that many of the most successful entrepreneurs still have not prepared a succession plan. Isn't your largest asset worthy of a carefully planned and implemented exit strategy? You can leave your company through many doors, so let's take a glance at some of your options.

If your management team is suited for assuming ownership, a management buyout is a clear option. Management continuity provides for a seamless transition that customers won't even

notice. Alternately, you can form an Employee Stock Ownership Plan (ESOP) to purchase all or part of your stock. This achieves a tax free transaction when the proceeds from the sale are rolled into qualifying securities.

If you have prepared the next generation for the challenge of entrepreneurship, then transferring your company to your children can be tremendously rewarding. A generational succession plan should be started now to allow sufficient time to design a tax-friendly transfer. Entities such as a Family Limited Liability Company (FLLC) or a Family Limited Partnership (FLP) are vehicles for the gradual transferring of stock while you retain control of the company. Discounted stock value at the time of transfer brings tax savings.

Selling to a third party is a versatile option that brings you the best possible price. When the selling process is handled properly, your company will be marketed confidentially to a broad pool of individual investors, strategic acquirers, and investment groups, and thus gaining access to the highest and best buyer. Marketing a company is a multifaceted process that requires commitment, patience and procedures. According to PricewaterhouseCoopers, a substantial 50% of businesses will be acquired in the next decade. Will yours be one of them?

And if all else fails you can liquidate, but who wants that? A fire sale should only be considered in problematic situations, when you cannot proceed with another option that will maximize value. It lets your employees and customers down and in many cases

leaves unrealized value on the table. Don't plan for this one.

As you begin to sort through the options to arrive at the plan that suits your personal goals, that is the time to involve professional advisors. From your financial planner, to your lawyer, they all need to be involved as a team. Bring in your partners, accountant, business appraiser, business intermediary or M&A advisor, trust officer, and lastly, but most importantly, your spouse.

Let's adopt the Boy Scout's maxim and "be prepared". Will you start preparing today for that graceful exit tomorrow? Remember, you only have one chance to do it right.

Next time we will look at what specific steps you can take, as you start down the path toward an eventual exit.

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