

THE EDGE

**FOCUS: EXIT
 STRATEGIES**

Strategize for a graceful exit

Solid exit strategy can minimize risk, capitalize on assets

It's inevitable. Someday, you'll exit your business. Regardless of your reason for leaving — retirement, slowing down, or an unexpected event — it's important to be prepared in advance. A good exit plan can minimize risks to your business like a bankruptcy or sale, waning value, staff reductions or complicated relationships in the company or your family. More importantly, it can help you capitalize on an asset you've worked hard to grow.



GUEST OPINION
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AN EXIT PLAN IS JUST AS IMPORTANT

as the plan you devised to start and grow your business. It will help you reap the best reward from the asset you've built up, and will lay the foundation for your company's future.

Consider who will take over. There are many things to consider before you leave a business. Start with some basic questions: Who will own the company? Will the new owner operate it or will someone else? A good first step is to determine your family's interest in owning or operating the business. Then, establish how relatives with a stake in the company who choose not to be actively involved will be compensated. If a family member isn't taking over, think about who will. You may turn the business over to an employee or an outside source.

Collect Information. As with any plan for your business, you'll need a lot of information for your exit plan. Think about your business finances and your personal life as well. For the business, have an outside accountant prepare financial statements on cash flow, assets and liabilities. These will help set the value and sale price. For your personal finances, list your goals and needs — including how much you'll take with you, or if you want to retain a stake in the company for future income. Consider these issues for your heirs as well.

Gather job descriptions and responsibilities for key positions, including your own. List the qualifications for your successor(s). If you'll be promoting someone already in the business, consider whether you'll need to replace that person. If multiple transitions will occur, you'll need relevant information for all of them. Staff changes will inevitably affect your company, so it's best to be prepared with good training plans and clear expectations.

Determine value. To sell or transfer the

business, you need to know its value. One way to determine value is to simply set a price and use independent appraisals to back it. Another option is to use the book value, based on an evaluation of the balance sheet and further appraisals. A third option is to fix the price by capitalizing on the company's net income. You can also use a combination of these methods. Always look at multiple years and trends to get an overall picture of how the business has fared to assign a reasonable value.

Set an agreement. A buy-sell agreement is an arrangement between two or more parties where one party buys and the other sells an interest in the business when a trigger event occurs, such as a specific date, or when one of the parties reaches a certain age. An important purpose of the agreement, beyond setting the price, is to define the new ownership. In the case of a sole proprietorship, the agreement can set the outright sale of the company either all at once or over time. Check to ensure that the buy-sell agreement meets IRS tests for arm-length transactions. This will reduce the chance of IRS objections to the agreement's predetermined price in resolving tax liabilities.

Fund the agreement. To realize the benefits of the agreement, it must be properly funded. While there are several funding choices, life insurance and disability buyout coverage are effective sources

because each can provide the right amount of financing at the exact time it's needed.

Think about taxes. No one wants to be limited in options, or have an unpleasant surprise awaiting their heirs. Your business is included in your estate and may be part of estate taxes, so plan ahead to reduce these costs. A buy-sell agreement can help generate funds to cover any taxes due upon death. Additionally, your business may be gifted to family members so that any future proceeds are untaxed. A good financial plan can help address various transfer tax issues for your heirs. It's always important to consult your financial adviser and attorney on these matters, as well as any of the exit planning considerations.

An exit plan is just as important as the plan you devised to start and grow your business. It will help you reap the best reward from the asset you've built up, and will lay the foundation for your company's future.

This article was prepared by Northwestern Mutual with the cooperation of Patrick Ireland, managing director of Northwestern Mutual-Broomfield. He served as a financial representative with Northwestern Mutual-Denver before opening the firm's satellite office at 350 Interlocken Blvd. in Broomfield. He can be reached at 720-382-5000. The Northwestern Mutual Life Insurance Company, Milwaukee, Wisconsin.