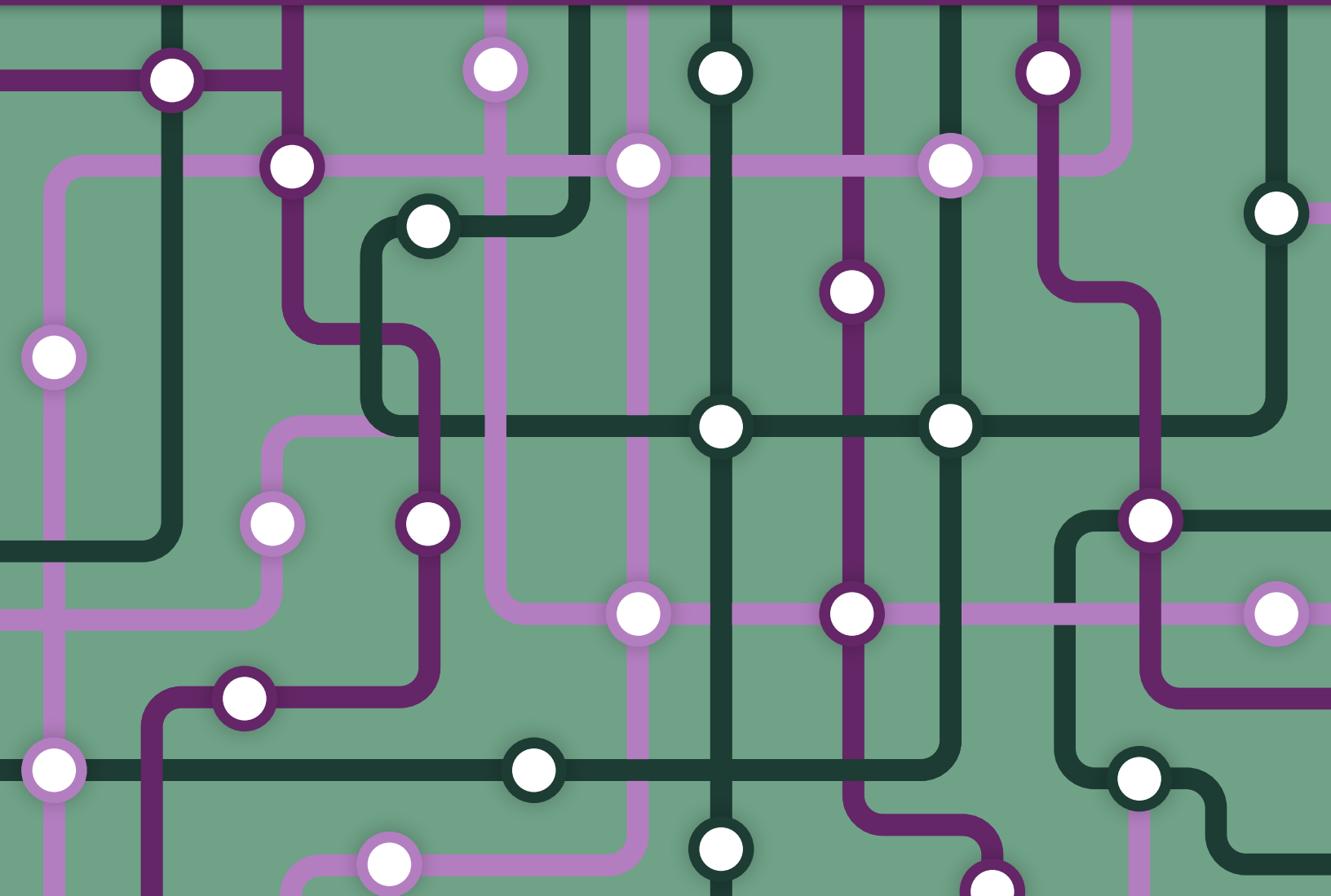




# BUSINESS EXIT / SUCCESSION PLANNING

GUIDE



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## Your Guide to a JOYful Business Exit

The time to start exit planning is now. Billions of dollars a year are left on the table due to poor exit planning.

The further in advance you begin with the process of exit planning, the better your chances of a smooth, lucrative exit.

Exit planning is about so much more than “What should I do with my business when the time comes to leave?” It’s also about readying yourself long beforehand - psychologically and financially for your exit, putting a solid plan into motion and having a post-sale strategy that aligns with your goals and the life you want to live.

At Mitlin Financial, we believe that a properly planned business exit can lead to a JOYful experience as you enter into the next stage of your life.

## THE 3 PHASES OF EXIT PLANNING

Ideally, business exit planning begins long before you set a date for your exit. Successful owners build with the exit in mind and there are several planning opportunities that require years in advance to best optimize your tax outcomes. Some business owners have their eventual exit in mind at the genesis of the business, while others don’t put much thought toward their exit until they realize it’s on the horizon.

Whether you’ve thought about your exit for years or you realize you should start thinking about it now, best practices dictate that exit planning should begin at least 2-3 years before your actual exit date.

Why? There are steps you can take beforehand to help poise you to exit from your business as prepared as possible, all while increasing the odds of a favorable sale for you.



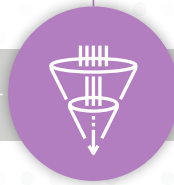
Don't underestimate the profound impact that psychological readiness can have on business exit planning. Many owners experience a business sale the same way a profound loss would be mourned – and rightfully so! Letting go of something you've worked so hard to build can be frightening. Talk about your feelings with those close to you and give yourself some grace to feel what you need to feel.

A JOYful business exit is grounded in emotional readiness.

## 1. PRE-SALE



## 3. POST-SALE



## 2. CLOSING



## MOVING FORWARD



### Pre-Sale

Long before the actual sale, quite a few tasks should be completed with the help of a knowledgeable exit professional. Depending on your situation and goals, you may have different priorities as you approach your exit. And while not all the tasks below will apply to every business exit plan, it's important to review each task to ensure everything you need to accomplish for an ideal exit will get done.

An exit planning professional/advisor can help you navigate all your pre-sale tasks, into closing and beyond. Pre-sale considerations may include, but are not limited to:

- Business valuation and **value acceleration tactics**, often consisting of two paths:
  - Addressing vision and values, readying the owner for exit (personally and financially)
  - Focusing on business improvements and risk mitigation
    - Identify, Protect, Build, Harvest, Manage
- Tax strategy through jurisdiction, creative stay bonus structures, and estate planning maneuvers
- Proper sequencing of employee communications
- Earn-out and contingent payment feasibility
- Calculating the wealth gap

### Why a CEPA®?

A Certified Exit Planning Advisor (CEPA®) has specialized knowledge and training in guiding business owners through the process of a successful business exit.

If it all feels a little overwhelming, take solace in the fact that you don't have to do it all alone. Your Mitlin Financial advisor can guide you and take a great deal of responsibility off your plate so you can get busy with what's really important: enjoying a JOYful life post-exit!

### Closing

"Closing" is the timeframe in which all necessary paperwork has been completed and signed and all tasks to transfer the business to the new owner are done. Before getting to the point of "handing over the keys," however, other preparations should be considered:

- Walk away scenario preparation
- Monitored deal negotiations
- Final decision confidence

Your pre-sale planning should take significantly longer than the closing phase of exiting a business. The more time you spend in preparation, the smoother the closing phase *should* go. How long it takes to get your business to closing varies widely and depends on a variety of factors, not all of which are within your control.

On average, it can take anywhere from six to ten months to sell a business<sup>1</sup>, but there are certainly steps you can take beforehand to potentially shorten the amount of time it takes to sell your business.



#### How much is your business worth?

**EBITDA** (earnings before interest, taxes, depreciation, amortization) **x MULTIPLE** (tangible and intangible assets) = **VALUE**

## Post-Sale

After your business is sold, the work isn't over. Your post-sale period will be a period of adjustment both financially and emotionally.

Your advisor can walk you through the steps you should take post-sale to create a JOYful crescendo to your business exit. Steps may include, but are not limited to:

- Dry powder and cash flow planning
- Asset protection plan
- Tax strategy:
  - Opportunity zones
  - Accurate tax liability projection
  - Bonus depreciation
- New entities:
  - Formation
  - Alignment
- Charitable and estate planning techniques:
  - Charitable Remainder Trust (CRT)
  - Charitable Lead Trust (CLT)
  - Donor Advised Funds (DAF)
  - DSTs

For some sellers, the sale of their business ends a decades-long career. For others, it's merely the beginning of another lucrative chapter.



**Personal Planning + Business Planning = Business and Personal Alignment**

Is your planning aligned on both fronts?

# EXIT PATHS: WHICH ONE IS BEST FOR YOU?

There's more than one path you can follow when exiting your business. Which path is best for you depends largely on your situation and what you envision for your business post-exit. Note that some paths can be more lucrative than others, but you should focus on which path will provide you with the most peace when it comes time to step away.

Your decision should reflect your values and goals. Your advisor will help you optimize each part of your plan (legal, tax, estate, financial, etc.). It is your role to clearly communicate which dimension is most important to you.

- Sell to a third party or private equity company.
- Sell to co-owner(s).
- Sell as an IPO.
- Transfer the company to family member(s).
- Sell to employee(s).
- Sell to employee(s) via an ESOP.
- Retain ownership but take on a passive or minority ownership role.
- Liquidate or declare bankruptcy.

## Communication Is Key

No matter the reason or route for selling your business, you will find that things tend to go more smoothly when you keep the lines of communication open.

**Customers** will want to be kept in the loop and will likely feel slighted if they abruptly learn about the sale of your business right as it happens.

**Employees** will naturally have some trepidation about a potentially big change brought on by the sale. Keeping them updated every step of the way may help alleviate their fears. Open communication can be a big aspect of your retention strategy (More on readying employees for your exit is below).

**Buyers** will want to know why you're selling your business – and rightfully so. They want to ensure they aren't purchasing a business that's so difficult to manage that it has run the owner off.

**Your exit planning professional** will need open communication from you to best guide you along in your exit planning. This open communication should be a two-way street as you ask and answer questions with them.

# MENTAL READINESS

Are you emotionally attached to your business? If you are, it's understandable. Your business is such a big part of your life until suddenly it isn't anymore – and that's a profound change for which you should prepare.

Not only should you regard your personal readiness to exit on an emotional level, but also the emotional readiness of everyone else involved.

- Are your employees emotionally prepared for you to exit?
- Are your spouse and your family members ready for this big change?
- Are your customers and vendors ready for your exit?

You may be surprised to learn how emotionally unprepared the people are around you for your exit from the business. In general, **people dislike change**. And while the emotions of the people around you certainly aren't your responsibility, you'll likely find that helping everyone else deal with the emotions tied to your exit helps you, too.

You might also be surprised by your own emotional reaction to exit planning, especially if you always tell others (and maybe even yourself) that you look forward to stepping away from the business with great anticipation. Take the time to explore and acknowledge your feelings about such a profound change to your life. And if the feelings become confusing or difficult to process, consider speaking to a mental health professional to help you sort through them effectively.

Don't keep your intentions to exit a secret from the people closest to you. You don't want to blindside them, and you don't want to miss out on the emotional support they may be able to provide you.

## Blueprinting

Blueprinting is a process by which you define your mission, vision, values and goals – everything that will help you develop a strong foundation for a fulfilling and purposeful life post-exit. Once you define your mission, vision, values and goals, the path you should follow pre- and post-exit becomes clearer.

With a clear path, you can more confidently make decisions about your business exit. Every time you are presented with an exit decision, you can weigh it against what you discovered in blueprinting.

Going through the blueprinting process can be an illuminating activity because it reveals truths you may not have yet faced. It's an invaluable practice, especially for those anticipating and navigating a life change and will help you live by design, not by default.

Blueprinting can be done at any stage of exit planning, from long before you intend to sell, to when you're in the thick of it in negotiations, or even after your successful exit when you're easing into your next chapter.

Your Mitlin Financial advisor can walk you through the blueprinting process. It's a valuable activity regardless of where you are in your exit journey.

## Preparing Yourself Emotionally

The exit from a business can be a big life change and disruption, even when it's a smooth, lucrative transition. You may find yourself ruminating over the "what-ifs" or feeling stress about the tasks ahead of you. For lack of a better term, you may find yourself *mourning* the loss of your business and the life you once had.

It's likely you have an emotional attachment to your business, especially if you built it from the ground up. That's normal – and it's something you should acknowledge and work through in your mind as you prepare to exit.

### Why do I feel this way?

When a business exit feels like a loss, it can manifest as grief. This isn't unusual with a major life change. If that grief starts to impact your daily life, it's important to reach out for support before the grief evolves into depression. There are two ways you can help yourself deal with the emotional rollercoaster that is often encountered with a big life change:

1. **Accept help from someone who can guide you through the process, such as a Certified Exit Planning Advisor (CEPA®) or an advisor with experience in exit planning.** They can take a good amount of the mental burden off your shoulders and can be a resource to answer your questions that might otherwise go unanswered and cause you anxiety.

2. **Be open and honest about your feelings to the people around you.** Talking about how you feel can help "clear your mind" and help you function better cognitively at a time when it's important to think clearly. Research suggests that bottled up emotions can negatively impact your ability to learn and remember – two very important abilities for someone heading into a big life change.

Setting goals can also be quite helpful when navigating the emotions involved in exiting a business. When you set goals for your exit, you create a roadmap that you can follow, which will help you feel in control.

Common goals of business owners approaching their exit include securing a legacy for their family, maintaining control of the business in another form, or maximizing the profits from the sale of their business. Do any of these goals resonate with you, or do you have different goals in mind?

Whatever your goals in exiting your business, **acknowledge** them and **recognize** the steps you need to take to reach your goals. Your advisor can help you design the path toward your goals – or to figure out what your goals are in the first place!



## Readying Employees Emotionally

Your high-value employees are one of the selling points of your business, so leaving them in the dark or not emotionally preparing them for a change of ownership can be detrimental to your exit planning.

You should absolutely keep lines of communication open with all your employees, but especially for your key employees who are the heart and soul of the business. These are the employees who will set the tone for the rest of the staff, so you don't want them to feel as though they're being left in the dark or not getting their questions answered.

Your exit strategy should include a **retention strategy** for keeping key employees throughout the exit process. Ensure leadership in your company continues to recognize employees' accomplishments and provide a work/life balance that would dissuade them from resigning as a reaction to your exit.

Time your employee communication well. You don't want to take employees on an emotional rollercoaster of announcing the sale of the business, followed by that deal perhaps falling through and employees being left to feel in limbo as they apprehensively await whatever is next. Reveal details as needed, without creating an air of mystery around the process that will inevitably leave employees feeling anxious about their future with the company.

If possible, present the idea of a change of ownership in a celebratory tone. You want your employees to regard your exit as something that makes sense and is good for everyone involved. Allow your employees to voice their concerns, and if necessary, appoint some key leaders to a points-of-contact role that other employees can trust for everything related to your business exit.

If appropriate, convey to employees that your exit from the business doesn't mean an exit from their lives. This is particularly important for businesses in which everyone "feels like family" – but don't make this statement if you truly intend on never seeing any of your employees ever again.

Be open with the timeline and what employees can expect – they will take comfort in knowing what's next and the predictability of events will help from a psychological perspective.

## Readying Family Members Emotionally

Family members who aren't involved in your business may still need some help dealing with the emotions attached to your exiting from your business.

- A spouse or children who regard the business as part of their identity within the community may find themselves grieving your exit.
- If your exit from your business changes your finances, you should discuss this openly with your family to ensure they don't dread the change.
- If your exit significantly changes your lifestyle (such as in the instance of retiring after your exit), speak with your spouse about this lifestyle change. Together, set parameters as to what this means for you both. Will you take on more responsibilities around the house, or do you fully anticipate living a retirement of leisure? This discussion can allay fears your spouse may have about your anticipated role post-exit.

- Family who has been with you through a previous business exit that was particularly rough may need reassurance that this exit will be smoother.

Similarly to your employees, your family members will likely take the tone of their response to your business exit from you. If you present it as a positive and exciting process, they're more likely to respond in kind.

This is **not** to say that you should present your business exit as all "sunshine and roses" if it indeed isn't, simply in an attempt to placate your family. Instead, you should take steps now to ensure that your exit is as smooth as possible when it happens for the benefit of everyone involved.

## Readying Customers and Vendors Emotionally

Your clients and the other companies you work with closely are entitled to know when your exit is imminent. Remember that your customer base and existing business relationships are one of the assets you bring to the negotiating table when selling your company. You should continue to care for and cultivate those relationships throughout your exit strategy.

## Consider a Trial Run

If possible, take a month or so off from work long before exiting. See how it feels to not run the business on a day-to-day basis and live your life as you anticipate living it after the sale. This trial run will show you what's coming as you work through the exit process, removing some of the mystery of what's to come.

If your exit means retirement, you may find that you already have enough to fill your days or might discover that you want to pursue a hobby you've been thinking about for years. Is it time to train for that marathon? Do you want to write the Great American Novel? Do you want to have a bigger part in your grandchildren's lives? Knowing that something fun is on the horizon can help you better navigate your emotions as you exit your business.

Knowing that you will still feel fulfilled and content after your exit is an invaluable practice that will help you navigate your exit feeling emotionally strong. And if you're able to see that your business can run efficiently without you during your absence, it may help you feel more confident in your exit.



### The unexpected exit:

Not everyone has the luxury of planning their business exit far in advance. Your advisor can still offer you some valuable guidance if you find yourself unexpectedly needing to exit your business. Don't allow a lack of time to stop you from seeking out help from a knowledgeable professional.

The same ideal of maintaining outward positivity with employees and family members should apply to your customers and vendors. Exude confidence in your decision to exit and they will follow suit, maintaining their confidence in the business during and after your exit.

# YOU DON'T HAVE TO DO IT ALONE.

Exiting your business can be stressful and time-consuming. And without proper guidance, you could wind up leaving substantial money on the table.

Whether you've meticulously researched the exit planning process years in advance, or you have no idea where you should start as your planned exit date approaches, it's a good idea to get guidance from a professional who is familiar with the process and has experience in executing a successful exit.

As a business owner, you can't be expected to understand the many intricacies involved in exiting a business, even if you've been through the process before and that's why there are professionals who can guide you through the process without an emotional attachment to the business.

We simplify the exit process while staying focused on what matters most to you. As fiduciaries, we are required always to do what's in your best interest. Helping you achieve your ideal version of tomorrow is the goal.

**At Mitlin Financial, we plan your exit around what matters most: your JOY. This isn't the end. It's your next beginning.**

<sup>1</sup> [https://assets.ibba.org/wp-content/uploads/2022/02/MP\\_ExecutiveReport\\_Q4\\_2021.pdf?ga=2.110491271.301052372.1646066582-1291877256.1595421181](https://assets.ibba.org/wp-content/uploads/2022/02/MP_ExecutiveReport_Q4_2021.pdf?ga=2.110491271.301052372.1646066582-1291877256.1595421181)

<sup>2</sup> Tyng CM, Amin HU, Saad MNM, Malik AS. The Influences of Emotion on Learning and Memory. *Front Psychol*. 2017 Aug 24;8:1454. doi: 10.3389/fpsyg.2017.01454. PMID: 28883804; PMCID: PMC5573739.

<sup>3</sup> <https://www.carsonwealth.com/insights/blog/planning-your-exit-strategy/>

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