The Tobin Group | Solutions to Enjoy & Protect Your Life's Work™

MYTHS & REALITY OF EXIT PLANNING

Myths	Reality	Facts
▪ I'm only 45—I don't have to worry about an exit plan until I'm 60 or 65.	▪ Delaying the planning process limits your options, denies you the opportunity to take advantage of the time value of money, and puts more pressure on the buyer to pay you over a shorter time period (which means a lower total payout).	▪ You will leave your business one day. ▪ An exit and succession plan is the single most important financial transaction of your business career.
▪ That sounds so final, like making out a will. I plan to work for at least another 10 years or more.	▪ It just makes sound business sense to protect and secure the equity you have built up in your business to date, from decades of hard work, and put a plan in place that will enable you to enjoy the fruits of your life's work when you decide to "move on." An exit plan is not a final act—it's the pathway to the enjoyment of the rest of your life. (When you are 60 or 70, you will thank your lucky stars that you did so.) Besides, you can design a plan that gives you the option to work as long as you desire, with ample flexibility to change key components.	▪ Owners without plans receive only 50-70% of the true value of their business when they sell.
▪ I'll just sell out to one of those big firms when I am 60 or older, pocket the cash and retire.	▪ Most third-party deals require the seller to sign an employment contract for 3 to 5 years, and generate enough profit from his or her acquired profit center to pay for the purchase of his or her own business. Typically, the seller receives only a fraction of the payout up front—the rest must be earned through a "work-out." Also, let's face it, the longer you wait, the less valuable you will be to the acquiring firm.	▪ Not having a plan can make it difficult for you to leave your business on your terms and on your schedule. ▪ Lack of a plan can also increase your personal exposure to creditors, cause key employees to leave, and put at risk the equity you have built up in your business to date (particularly if you do not have a buy-sell agreement in place that allows for the continuation of the business and an orderly transition of management in the event of disability).
▪ I can get more money by selling to a big firm than to an employee or group of employees.	▪ Perhaps, but not necessarily. Structured properly, an employee buy-out can pay the owner more for his or her equity stake than selling to a third party—even if the employee has no money, per se, to invest in the business.	
▪ A straight stock sale will give me the highest payout.	▪ When selling to a partner, employee or group of employees, tt is possible to receive a higher payout if the value of your stock is discounted, in accordance with acceptable IRS rules, and you receive supplemental payments from other revenue streams, using the pretax dollars of the company.	
▪ My company will just take a loan from a bank and pay me.	▪ It is very difficult, if not impossible, for a professional service firm that has no hard assets to acquire financing through a bank loan.	▪ Not having a plan can jeopardize your family's long-term financial security—and can result in lower retirement income.
▪ I have no idea who I will sell to, or when I want to retire—so it's just not a high priority for me. And I don't want to be locked into binding legal agreements.	▪ An exit plan is a general road map to your future, and a security blanket that guarantees the continuation of your business, plus financial security for you and your family—in the event of disability or other unforeseen contingencies. It is not etched in stone, and can be readily altered and amended as your personal goals change.	▪ Exit planning is simply the "bookend" strategy to your start-up business plan. While a business plan defines the company's mission, vision, target markets, etc., the exit plan is a strategic plan for converting business value into personal wealth in a timely and orderly manner.
▪ My accountant or lawyer can take care of this for me.	▪ Exit planning requires the coordination of multiple disciplines, including commercial law, tax accounting, valuation experts, financial and insurance experts, estate planners, ESOP and M&A specialists, brokers and bankers.	