Exit planning:

Start with the end in mind

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For a business owner, exit planning is all about being proactive and prioritizing the things you can control about transitioning away from ownership. A thoughtful exit planning strategy includes identifying and addressing personal, financial and business needs so you can confidently step away from a privately held business when and how you choose. Taking steps long before you're ready to exit the business sets you up for a successful shift to your next chapter.

An effective exit plan will:

- Articulate your personal goals for the transaction as well as life after the transaction
- Identify your personal financial needs from a transaction
- Highlight ways to increase the value and marketability of the business prior to a transaction
- Identify a potential successor
- Address the tax and legal considerations of a transfer of ownership
- Provide contingency plans should the owner be forced to exit the business due to unforeseen circumstances

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Why you should start exit planning now

Whether you're starting to think about stepping away or that's far in the future, it's never too early to think about your exit strategy. Proper exit planning can inform business strategy by providing context for decision-making and can help improve the value and marketability of your company. Your exit plan may have implications for whom you hire, how you invest in the business and even how you finance operations. Even if it seems early, decisions you're making today could impact your ability to exit the business on your terms.

80%-90%	Amount of their net worth most business owners have invested in their businesses[1]
70%-80%	Number of businesses put on the market that don't sell[2]
50%	Number of business exits that are involuntary and are forced by dramatic, unanticipated external factors[1]

[1] Exit Planning Institute, *New York State of Owner Readiness Report*, 2021.

[2] Snider, C., *Walking to Destiny*, 2nd ed., 2023.

Prepare for the unexpected

Proactive exit planning can help prepare the business for the unexpected. It can help you be more prepared for what industry experts commonly refer to as the 5 D's (death, disability, disaster, divorce, disagreement), and in the event of an unsolicited offer, it can help ensure you know what you need and want out of a potential transaction.

Five steps to help you get started

1. Build your professional team

At the center of your professional team is a financial advisor. They will be with you during the planning, execution and post-sale phases. They can help you articulate and quantify your goals for an exit, communicate those goals across your professional team and address a wide breadth of financial needs throughout the process.

In addition to a financial advisor, it is likely you will benefit from having a well-rounded team of professionals to assist you, such as a tax professional, legal professional, commercial banker and business valuation professional. It is important to note that financial advisors cannot provide tax or legal advice, so these additional professionals on your team will help round out the advice you need.

Later, depending on your chosen exit option and the complexity of your business, you may want additional professionals on your team like a business broker, investment banker, specialty legal professionals, family business advisor, value advisor or employee stock ownership plan (ESOP) advisor, to name a few.

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2. Determine how much you want or need from a sale

One of the most important parts of an exit plan is determining how much you'll need from the sale of your business to fund your desired lifestyle in retirement as well as your legacy goals. Keep in mind, though, that exiting the business doesn't have to mean retirement. You may decide to:

- Sell only a portion of the business
- Sell the business but stay on to help manage or consult
- Use the sales proceeds to start your next venture

To that end, you should envision how you want to spend your time after you exit the business, which can also help you determine whether you're personally ready to step away. An Edward Jones financial advisor can be instrumental in helping you think through what life might look like post-exit and determine how much you need from the sale of your business to meet your goals.

Be sure to add expenses into your budget that are currently being billed to the business — cell phone, vehicles, travel, health care, etc. Since you will be paying for those going forward, you'll want to account for them.

3. Understand how much your business is worth

It's important to have a reasonable understanding of the value of your company and what drives it. This will help you:

- Know what your business is currently worth
- Identify any gap between what you need to fund your goals and what the business could potentially be sold for
- Highlight ways to enhance the company's value

Because it can take time to enhance the value of your business, we recommend getting a calculation of value at least three to five years prior to your planned exit. That said, anyone engaging in exit planning will likely benefit from it. Consider getting a new one any time the business has undergone meaningful changes that may impact its value.

Calculation of value vs. qualified appraisal

A calculation of value is an estimate of the business's value typically expressed as a range. It's less time consuming and costs less than a qualified appraisal. While it's possible to do this on your own based on recent sales data, it can be beneficial to use professional valuation services.

A qualified appraisal is necessary for things like gifting or selling a business to family, settling an estate or selling to an employee stock ownership plan. While a calculation of value is helpful in early stages of exit planning, it does not meet the IRS standards of a qualified appraisal, even if it is generated by a professional valuation service.

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4. Develop a strategy to close the gap between steps 2 and 3

Next, consider how you can close the gap (if it exists) between what you need (step 2) and what your business is worth (step 3). Again, your financial advisor can be instrumental in this step. You may consider working longer, reassessing your spending needs, saving more outside the business or looking for ways to increase the value of the business. There are two primary ways to enhance the value of your business:

- Increase the amount of profit the business generates. This can be done through increasing market share, introducing new product lines, increasing prices or reducing costs.
- Improve the company's intangible value. These are things like the depth and expertise of your personnel; the systems, tools, and processes that enable operations; and the relationship with your customers.

Improving these drivers of business value may take several years to achieve, which is why starting early is so beneficial.

5. Consider the successor who can best meet your goals

Succession planning is part of an effective exit plan. It's the process of choosing who will take over ownership, management and leadership of your company once you step away. These responsibilities don't have to go to the same person, but they can. There are important considerations and trade-offs to weigh when choosing a successor. There are generally two main categories of successors (also referred to as exit options) — internal and external. You could also choose to liquidate the company. Whichever direction you choose, there are important action steps you can take now to best position both you and the successor for prosperity before, during and after your exit.

	Definition	Potential outcomes
Internal transfer	A sale/transfer to someone affiliated with the company, such as a family member, business partner or employees	• Net lower sales proceeds • Incur lower transaction costs because of buyer's familiarity with the business • Provide greater control over timing of your exit • Provide greater continuity for employees, clients and suppliers
External transfer	A sale/transfer to an unrelated third party	• Net higher sales proceeds • Require longer and potentially more costly due diligence process • Provide less control over timing of your exit • Have greater potential for changes to business operations and culture
Liquidation	An unwinding of the business by selling individual assets to the highest bidder	• Net significantly lower sales proceeds but raise cash quickly • The most disruptive situation for employees, clients and suppliers, given the dissolution of the business

For more information about planning your exit strategy, contact your financial advisor.

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