



## Exiting your Business In Style - The Importance of Using a Systematic Process in Business Exit Planning

Whether your law practice includes the areas of business, real estate, estate planning or elder law, it is a fact that someday your business owner clients will be leaving their businesses...either vertically or horizontally...and either with or without proper advance planning. It is often without advance planning, because your clients are too busy working in their business and are unable to work on their business. Your clients need your help in getting started on this critical business exit planning process.

The value of a systematic and comprehensive process to Business Exit Planning cannot be overstated. The goal is to help your business owner clients successfully leave their business, whether they plan to work for only few months or for the rest of their lives. This article series will allow you to proactively help your clients with this process, potentially leading to a more successful exit for your client, with a significant role for you as their attorney.

A comprehensive exit planning process should identify and organize owner-driven exit planning issues. Ultimately, it should create a written roadmap of recommended actions, which acknowledges and requires a multi-disciplinary approach to exit planning, as well as a methodology to implement recommendations, which incorporates the client and advisor roles and provides an accountability timeline.

### THE SEVEN STEP EXIT PLANNING PROCESS

This systematic seven step planning process helps owners maximize and distribute wealth from their businesses.

#### THE SEVEN STEP

##### EXIT PLANNING PROCESS:

- Step 1: Owner Objective
- Step 2: Business and Personal Financial Resources
- Step 3: Maximizing and Protecting Business Value
- Step 4: Ownership Transfers to Third Parties
- Step 5: Ownership Transfers to Insiders
- Step 6: Business Continuity Planning
- Step 7: Personal Wealth and Estate Planning

#### STEP 1: OWNER OBJECTIVES

Each business owner's unique objectives drive the creation of his or her Exit Plan. Step One articulates and tests owner objectives, so that the comprehensive Exit Plan focuses on achieving those goals. Some of the key exit objectives that will be identified as part of the Exit Planning Process include: (1) the owner's desired departure date, (2) the value the owner wants or needs from the business, and (3) the individuals or entities to whom the owner wants to sell/transfer the business.

#### STEP 2: BUSINESS AND PERSONAL FINANCIAL RESOURCES

Step Two determines what owners have - how much the business is worth, and how much cash flow the business can generate for Exit Planning. The current value and projected cash flow, along with other non-business assets and income, are used to determine the paths and planning tools available to reach the owner's objectives.

### **STEP 3: MAXIMIZING AND PROTECTING BUSINESS VALUE**

The elements that build the value of a business or protect the value the owner has worked so hard to create are called Value Drivers. In Step Three, owners and their advisors identify which Value Drivers are important to meeting the owner's overall exit objectives and devise specific steps to maximize the impact of the Value Drivers.

### **STEP 4: OWNERSHIP TRANSFERS TO THIRD PARTIES**

During Step Four, owners who want to sell their business to a third party will work with their advisors to identify ways to do so in the manner that results in the most beneficial sale price and terms. Not all business owners go through Step Four – those who don't either retain their ownership long-term or skip to Step Five.

### **STEP 5: OWNERSHIP TRANSFERS TO INSIDERS**

Step Five includes a detailed plan to transfer the business to insiders (children, key employees or co-owners.) Careful planning in Step Five seeks to allow the owner to receive both the desired value from the business and minimize risk, while using the resources of the business should the purchaser have little or no personal capital.

### **STEP 6: BUSINESS CONTINUITY PLANNING**

Step Six prepares the owner for the contingencies that affect the business and its owners. A complete Exit Plan incorporates potential changes, such as death or permanent disability of an owner so that the owner's objectives can still be achieved if circumstances change.

### **STEP 7: PERSONAL WEALTH AND ESTATE PLANNING**

The sale of a business generates cash for owners, their families and the IRS. During Step Seven, owners and their advisors create a plan that may not only preserve wealth, but may also minimize taxes using both lifetime and estate planning tools.

### **IN CONCLUSION**

Given the nature of this process, which involves multiple areas of expertise and experience, a systematic and disciplined Exit Planning Process potentially yields the best results for the business owner clients.

In future articles, we will break down and discuss the Seven Step Business Exit Planning Process in greater detail.



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