

INTRODUCTION

Those who are unwilling to invest in the future haven't earned one.

—H. W. LEWIS, *TECHNOLOGICAL RISK*

When you launched your business, whether it was two years ago or twenty-five years ago, you probably planned on selling it sometime in the future—preferably for a load of money. Millions of business owners around the United States share the same goal: cash out and use the proceeds of the sale to fund the hobbies, travel, and family time they had to put on hold in order to focus on running their company. That may be your dream as well.

Dreams are terrific, but selling a business isn't easy. Even if you can do it, you won't necessarily gain lifelong financial freedom. So while an entrepreneur about to launch his company might give himself a pep talk about selling in twenty years for

WALK AWAY WEALTHY

\$10 million and retiring to a beach house on Maui, the reality is sobering. For example:

- » Based on my experience, only 20 percent of businesses for sale will successfully transfer to another owner. The other 80 percent will transfer to family members, be taken over by employees, or cease to exist, usually because the owner doesn't have any other options. While some might consider transferring their business to the next generation a successful outcome, it rarely produces a payout comparable to what may be realized by selling to a third party. If your business does more than \$2 million in annual revenues, your odds improve to about 30 percent, but that's still nothing to write home about.
- » According to the 2013 Q3 BizBuySell Insight Report, the average sale price for a small business was \$180,000 with a multiple of 0.6.¹ That means the average small business sold for only 60 percent of the value of EBITDA (earnings before interest, taxes, depreciation, and amortization, the standard measure of a company's cash flow). That's a rude wake-up call for an owner who assumes that selling for four or five times EBITDA is inevitable.
- » According to the 2010–2011 PriceWaterhouseCoopers Family Business Survey, 55 percent of family business owners expect to sell their businesses to another company, a private

INTRODUCTION

equity firm or a management team within the next five years. However, only half of those owners have a succession plan.²

Despite these alarming facts, many owners stubbornly cling to fantasies about selling their businesses easily and for big money. They're certain that they will (a) find multiple high-quality suitors for their company as soon as they put it on the market; (b) get several quick offers worth many times their company's EBITDA; and (c) walk away rich and happy without having done any serious exit planning in advance.

Maybe it's a fascination with Wall Street stock offerings or an emotional attachment to the thing they've built that makes millions of entrepreneurs behave so irrationally. But the reason doesn't matter. If you want to achieve your goal of successfully selling your company on *your* terms, for *your* price, according to *your* timetable, you can't think like they do. If you want to defy the odds, there's an essential strategy you must follow that will dramatically improve your chances of a successful sale:

Put a strong exit plan in place.

Exit planning should be an integral part of your business plan. In fact, if possible, it should be part of your startup plan. Building with your eventual exit in mind will lead you to make decisions that increase the long-term value of your company: hiring and training top-flight managers, streamlining systems and processes, broadening your client base, protecting your

intellectual property, and putting together a team of experienced financial professionals.

By keeping your exit in your sights, you'll be encouraged to make your company more efficient, better able to run without your hands-on involvement, and more profitable. That's what buyers are looking for. Buyers of small businesses (broadly defined here as companies with \$5 million or less in gross annual revenues) and midmarket companies (\$5 million-plus in gross annual revenues) are hunting for well-run, sustainable businesses that either fill a niche in their portfolios or can be grown and sold at a profit. If your company doesn't fit that description, they'll buy somebody else's.

So, would you rather be one of the 80 percent who don't succeed in selling their business—or the 20 percent who do?

MY EXPERTISE

In *Walk Away Wealthy*, I'm going to give you a crash course in exit planning and financial planning that's specific to entrepreneurs—one that you can finish in the time it takes to fly nonstop from Los Angeles to New York. I'm going to share the secrets I've discovered after spending years helping the owners of closely held businesses set up first-rate exit plans and execute successful sales, employee buyouts, and family transfers.

For the last several years, I've been a member of Entrepreneurs' Organization (EO) and enjoyed the opportunity to serve

INTRODUCTION

on the board of my local chapter. EO is a network of more than eight thousand business owners worldwide that enables and inspires entrepreneurs to learn from one another, leading to greater success in business and in personal life. In my discussions with my fellow entrepreneurs within EO, I have found the topic of exit planning to be of the utmost importance. Based on my observations, however, many entrepreneurs are neglecting their own exit planning, in part because there appears to be a dearth of quality information on the subject.

That is what inspired me to put together *Walk Away Wealthy*. The intention of this book is to provide you with enough information on exit planning that you can take the right steps with the right people on your team, ensuring that you make the most of what will be the most significant financial event of your lifetime—your exit from your business.

As a CERTIFIED FINANCIAL PLANNER™ professional (also known as a CFP® professional), I specialize in creating personal financial strategies for entrepreneurs—strategies that center on the successful transfer of their most valuable asset. I work closely with the other key exit-planning professionals—certified public accountants, investment bankers, and mergers and acquisitions (M&A) attorneys—to develop strategies that maximize both a company’s sellability and its owner’s potential financial reward, including tax planning, estate planning, and a plan for establishing a steady, growing cash flow.

WALK AWAY WEALTHY

The most successful exits require proactive, advance planning. A well-constructed exit plan addresses the following areas:

1. *Determining exit objectives.* What constitutes, in your mind, a successful exit? When do you want to walk away from the business? What kind of annual income do you need in your post-work life to enjoy the lifestyle you want? Who is your choice to run the business after you're gone? Do you have secondary objectives, such as taking care of valuable employees?
2. *Assessing your current financial condition.* How much is your business worth? What kind of income can you expect from sources unrelated to the sale of your business, such as funds in retirement accounts? Will your combined sources of income be enough to sustain the lifestyle you want?
3. *Determining the best ways to increase the sellable value of your business.* Once you know the market value of your business, what are the best ways to increase the value of your equity? How can you mitigate risks and make your company more attractive to a prospective buyer? What can you do to ensure that your business does not lose value between now and your exit?
4. *Implementing tax minimization strategies.* Taxes can dramatically impact the size of your "liquidity event" (as the pros call it) and even leave you with insufficient income to fund your retirement. Is your company incorporated in a way that

INTRODUCTION

allows for optimal tax reduction? What kind of deal should you be looking for to reduce your tax burden?

5. *Considering options for transferring your business.* Are you considering transferring your business to family members, co-owners, or employees? Do you know how to do it without losing control of the business until you have all of your cash and while paying the least possible taxes?
6. *Considering options for selling.* Do you know how to sell your business to a third party? How will you find your buyer? What represents a good deal? Who should handle due diligence and negotiations? How can you maximize your cash while reducing your tax liability?
7. *Preparing for the unexpected.* Do you have a business continuity plan? What have you done to ensure that the business continues if you die, become disabled, or simply decide to walk away? Have you provided for your family's financial well-being should you die or become incapacitated before *or* after your exit?

Doing all this takes time, which is another reason that I counsel my clients to begin exit planning as early as they can. Implementing the many changes that make a company worth more money to a prospective buyer takes years; you can't wake up one morning, slap your hand to your forehead, and cry, "Good grief, I need to sell my company in six months!" and expect to

WALK AWAY WEALTHY

get good results. Hiring the best people and putting in place sustainable, profit-generating processes are often a matter of trial and error, and you can't do them overnight.

Walk Away Wealthy is intended for privately held small business and midmarket company owners who

- » are considering an exit from their companies within the next five years, whether that means selling to an outside buyer or pursuing such options as transferring the company to their family members or selling it to employees;
- » know they should be doing some exit planning but haven't done much to prepare for their liquidity event; and
- » realize that it's time to stop procrastinating and start putting people and systems in place to ensure a smooth, profitable exit.

Don't be embarrassed if you haven't done any real exit planning up to now; you're not alone. From this point on, however, your mission is to make your eventual exit your most important business objective. Selling your business will more than likely be the most significant financial event of your lifetime. It only happens once, and if you screw it up, you don't get a do-over. Properly planning for this event will help you hire smarter. It will help you reduce your personal work hours by building a sustainable company that's able to operate independently of you. It will help you be more efficient in your business practices and operations, which will improve profitability. And it will prepare you for when an

offer comes out of the blue. Simply put, focusing on your future will also improve your present.

WHAT'S INSIDE

I've broken down exit planning into twelve secrets that most business owners don't know or refuse to believe, divided into three areas:

1. *Building value*—Secrets for increasing what your business is worth
2. *Monetizing value*—Secrets that help you find the right buyer and get the best offer
3. *Preserving value*—Secrets that help you keep more of the amount you make in your sale

Each of these three areas is further divided into four distinct secrets that will help you plan your exit from your business so you can walk away wealthy. In each section, I'll debunk some of the common misconceptions about exiting a business, such as the *I don't need experts—I can sell my company myself* myth. (Note: Trying to sell your company on your own is generally a terrible idea.) Next, I'll bring you up to speed on sound exit planning, by sharing the secret strategies that smart entrepreneurs (and their advisory teams) use to sell their companies for more money and walk away satisfied with the transaction. Finally, I'll tell you

exactly what to do next, step by step, to move forward with your own exit strategy.

But suppose you *did* wake up this morning, slap your hand to your forehead, and cry, “Good grief, I need to sell my company in six months!” Not to worry. You can’t make up for the lost years during which you could have been developing your exit plan, but you can take steps to capitalize on your opportunities and get the best financial return possible. Each of the twelve secrets includes a sidebar called “Exit 911” featuring a critical, do-or-die tip for the owner who hopes to exit his or her business in twelve months or less. If you follow my Exit 911 tips and do nothing else, you’ll still increase your chances of selling successfully and walking away wealthier.

YOUR SELLABILITY SCORE

Finally, before we dig into the secrets of a successful exit, I want to invite you to visit walkawaywealthy.com and get your Sellability Score. If you’re wondering how viable your business could be in the mergers and acquisitions market *right now*, the Sellability Score is a great tool to help you find out.

Start by completing a free online questionnaire that weighs dozens of variables to gauge your business’s value on the open market using a score between 1 and 100. Answering the questions

INTRODUCTION

takes only fifteen to twenty minutes. The report I'll send to your email inbox will tell you how sellable your company is today, based on eight key areas that determine value. Not to mention that the report is like an MBA course in selling a business! For instance, did you know that when buyers value your business, many will “discount” your projected future profits by their desired rate of return—say, 15 percent? The higher that rate, the riskier your business . . . and the lower the purchase price. That's insider information most entrepreneurs don't have a clue about. It comes with your Sellability Score.

We have another tool on walkawaywealthy.com called Wealthalyze. This tool provides a similar assessment—but for overall financial affairs. It analyzes investment management, tax mitigation, legal planning, etc. In order for us to successfully arrive at our destination, we need to know where we are currently. These two tools will help to navigate you.

Okay, enough preamble. You have a business to run, and I have secrets to share. I'll leave you with this thought: No matter how little attention you've paid to exit planning up to this point, it's never too late to take positive, meaningful steps. Doing so will only improve your business—and your future. Best of luck!

PART I

BUILDING VALUE

SECRET #1

CREATE YOUR EXIT PLAN BEFORE YOU NEED IT

Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas.

—PAUL SAMUELSON, ECONOMIST

THE FACTS

Peter Alternative is an investment banker with Mirus Capital Advisors in Burlington, Massachusetts. One day, he polled a group of entrepreneurs working with the Massachusetts Institute of Technology Enterprise Forum and found that for every twenty entrepreneurs he surveyed, fifteen had received unsolicited offers for their businesses.

That's not surprising. In my experience, if you're running a successful business, you are very likely to receive an unsolicited offer at some point. What I do find surprising about Peter's account, however, is the fact that not a single one of the entrepreneurs he surveyed had a cohesive plan in place for responding appropriately to the offers they received.

You can chalk that up to a lack of exit planning, something that is a huge problem for most business owners. If you get an unsolicited offer for your company next Thursday and you don't have a comprehensive exit plan, what will you do? Will you know if the offer reflects an accurate open market value of your company? If you accept, will you soon find yourself improvising your legal strategy and tax planning? That's a recipe for financial disaster.

Unfortunately, not all entrepreneurs see the value in early exit planning. In fact, when it comes to exit planning, I've found that entrepreneurs fall into two basic camps:

1. Those who treat their businesses as investments and make decisions that build sustainable long-term value, including putting a solid exit plan in place
2. Those who operate their businesses as cash-generating engines to fund their lifestyles, with little or no thought or planning beyond the next quarter

If you are part of the first group, you're already doing many

of the things that will increase your company's long-term value. If you got an offer from a prospective buyer tomorrow, you'd be much better prepared to negotiate an attractive deal. If you're in the second group (which is much larger), then it's unlikely that you have even given more than a passing thought to your exit strategy. You're not thinking for the long term, so you haven't designed your company to grow sustainably over the years. You could be squandering millions of dollars in potential company value.

Sound exit planning will increase the value of your business in a buyer's eyes. Despite this, many entrepreneurs believe the myth that they can put off exit planning until they are "ready to sell," whenever that is. *Big mistake.* Procrastinating leaves them unprepared not just for an out-of-the-blue offer but for an orderly exit on their preferred terms. These entrepreneurs are not in a position to understand how an offer impacts their sale price, tax burden, or future wealth. And they lack the knowledge to negotiate effectively with a potential buyer. More than a few owners have been forced to turn away an offer because they didn't have their ducks in a row, only to find out the hard way that it was the *only* offer they would ever receive.

It's not difficult to understand why many entrepreneurs are reluctant to think about exit planning at the beginning of the business life cycle. When you launch your company, you spend most of your time in survival mode, doing whatever you can to generate income and keep the lights on. Planning for your exit

seems like a frivolous waste of time. Entrepreneurs also ignore exit planning because of other misconceptions:

- » They assume that when they are ready to sell, a buyer will appear.
- » They don't understand the complexity of selling a business.
- » They don't like thinking about retirement or mortality.
- » They assume they will just pass the company on to their kids or sell to a group of employees.

But the most common problem may be that entrepreneurs think about their exit as an isolated event—they accept an offer, get a check, and book their flight to Bermuda. But an exit is not an event; it's a process that can take at least two to three years—a process that should continually be subjected to revision and updating. Creating your exit plan should be a time-intensive process; this is a dynamic situation, not a static plan. You don't have to create the plan again and again into perpetuity, but it will need to be recalibrated and fine-tuned as the facts change. The most successful businesses are those whose owners view them as an investment—and thus begin the exit-planning process as soon as possible.

If you view your eventual exit not as an ongoing investment but as a disconnected moment in time, you won't take the long view of your company's development. You're more likely to neglect the strategies that build long-term value—and value is

what brings the life-changing payout, the pot of gold at the end of the rainbow.

Like it or not, exiting your business is inevitable. You'd better plan for it, because ignoring it will cost you. As a fictional example, let's say that in 2018, Jim Smith told his financial advisor he wanted to leave his company in five years by selling it for enough cash to live comfortably post-exit. The advisor saw that yearly cash flow was around \$1.5 million, while the company's value was estimated to be around \$6 million. Jim's salary—of \$600,000—came out of annual cash flow.

Jim and his advisor set about increasing the company's value, decreasing taxes, and maintaining the existing value, but they never got down to creating an actual exit strategy.

After five years, Jim's company had only changed for the worse. A recession had impeded cash flow, and Jim was getting discouraged about the prospect of selling. He hadn't done anything to improve cash flow through the difficult period, nor had he documented and updated his business systems. His leadership team hadn't been restructured, and this under-motivated group had little chance of keeping the company running after Jim was gone. It looked like Jim was looking at another five years.

That's why it's so critical to begin the planning process as early as possible in the life cycle of your business. When you wait until there's an offer on the table, there's no way to put that time back on the clock.

THE SECRET

*If you want to sell your business for the highest possible value, begin looking at your business as an investment in your ideal future—not as a job that you’ve created for yourself—and start developing your exit strategy as soon as possible. If you can, start today. It’s never too late to put a smart exit plan in place, provided that you begin planning *now*.*

No buyer wants to purchase a job. Buyers want an investment that will increase in value while providing predictable, growing cash flow over the long term. Designing your business to do both makes it more likely that a buyer will see it as a valuable, sustainable source of profits that is worth paying a substantial amount to acquire.

Adopting this investment-based view will change the way you see your company. It will enable you to develop your business model in such a way that you can weave value-creating strategies into the business organically. These big-picture strategies become just a normal part of how you run things.

Here are some important steps you can take in planning for your exit:

- » *Find the heart of your exit team.* You’ll need a certified public accountant (CPA) and a CFP® professional who have managed multiple successful owner exits. (I’ll explain later

CREATE YOUR EXIT PLAN BEFORE YOU NEED IT

why a CFP® professional is likely your best choice.) Selling a business is extremely complex and will impact your tax burden and wealth for the rest of your life. While you may never have sold a business before, an experienced CPA or CFP® professional will have presided over numerous sales and transfers. With these advisors on your team—people who will become as familiar with your business as you are—you'll be better equipped to set sound goals, enact systems that will increase the company's value, and make business decisions based on facts, not emotions.

You may already have relationships with a CPA and a financial advisor. But if they don't have experience selling businesses, consider replacing them now with experienced people. You'll avoid having to replace them later in the process.

- » *Develop an operational model that keeps the company running smoothly with minimal daily involvement from you.* Some entrepreneurs fail to find buyers because they spend years working *in* their businesses while not working *on* them. They're neck-deep in every department and every transaction; nothing moves without their say-so. While this can be satisfying for the ego, it's poison for the bank account. From the outset, a smart owner puts in place people, technology, and processes that encourage the business to grow even when he or she is not part of everyday operations. This makes the

business more attractive to buyers who aren't interested in buying *you* along with your company.

- » *Balance today's need for comfort with tomorrow's demand for value.* Some businesses wind up becoming little more than an ATM designed to generate cash flow to fund their owner's lifestyle. Revenues go to cover payments for luxury cars, country club membership fees, family vacations, and the like. There's nothing wrong with any of those things; if you're going to work an entrepreneur's long hours, you deserve some R & R. But some decisions that increase cash flow in the present—such as taking on lucrative but resource-draining clients, giving away patents and trademarks, or going for cheap benefits packages that cripple your ability to attract the best people—can conflict with your real goal: building sellable value in the long term.
- » *Develop your personal exit plan, and build your company to serve that plan.* Do you know your “number”—the amount of money you'll need to fund your dream retirement? If you want to pass your company to your heirs, how will you ensure that they are ready to run it? What will you do with all that time you currently put into your business? Transferring your company brings up questions about investing, taxation, lifestyle, family, and even your life's purpose. Knowing your goals and asking critical questions early on allows you

to develop a business model that serves your financial, family, and personal goals.

HOW YOU'LL BENEFIT

There's no benefit to be had by delaying the exit-planning process until you are "ready," whereas there is nothing but benefit to be gained by starting now. By following a business model designed to grow sustainable value over a ten- or twenty-year time frame, you'll build a stronger, more profitable, more valuable company that demands less of your time today.

A perfect example of this is the company built by Tim Nguyen. Tim is a thirty-two-year-old wunderkind who founded InHouse Solutions, which provides real estate valuation services and software to mortgage lending services around the United States. In ten years, he has built a sixty-five-employee business with about \$20 million in annual revenues, but he's designed the company with such efficiency and such an eye toward his eventual exit that he works only about one hour per week.

This arrangement has let Tim do something that would turn most entrepreneurs green with envy: keep his company and enjoy the comfortable lifestyle and charitable work that it funds, without feeling as though he's chained to his office desk. He has planned his exit so well that now he doesn't *need* to exit—he is already realizing personal freedom and financial independence.

“When I started the company, I didn’t know anything,” Tim says. “Through the process of building it and planning to sell, I realized that I didn’t know how to run it. When you don’t know what you’re doing, you work a lot and you get very tired. You can’t wait to get out. Now that I know how to run the company, things are different.”

His secret? “Most small businesses grow only to the size of their owners’ egos,” he says. “You have to let go of your ego. You have to realize that there are people in the world who are smarter than you, work harder than you, and can achieve more than you. My job is to attract the right people, provide the resources they need, remove obstacles, and get out of the way. I don’t get involved in strategy anymore.”³

Tim estimates that by 2025, InHouse Solutions could sell for \$500 million. His experience demonstrates a core principle of smart exit planning: The best way to build value in your company is to build something that operates so flawlessly, with so little effort on your part, that you don’t want to sell it. Those are the businesses that will command the highest multiple.

Whether or not you see yourself holding on to your business for the next few years, there are plenty of other good reasons to start exit planning today:

- » *You’ll know your business’s sellability.* Wanting to sell your company doesn’t mean an investor will be interested in

buying it. By planning in advance, you and your team will find out if your business has sellable value. If it doesn't, you can choose to make changes that increase value, or you can leave things as they are and make other plans to fund your retirement. Either way, you're not flying blind.

- » *You won't fear the ups and downs of the mergers and acquisitions market.* The M&A market (the market for buying and selling privately held companies) tends to run in three-to-five-year cycles, during which multiples and valuations expand and contract depending on the stage of the cycle. If the time comes to sell and the market is in a trough, you won't get the amount you want. Sometimes, a successful exit isn't about when *you're* ready; it's about when the *market* is ready. When you have an exit plan in place, you can entertain offers when the M&A market is hot and accept a great offer even if it comes a few years early.
- » *You'll hold the power when negotiating.* Some entrepreneurs jump at the first unsolicited offer that comes along, even if it's not very good, because they haven't done their homework. They don't know what the business should sell for, but they know they haven't optimized its value. They fear that nobody else will ask them to the prom, so they take the first offer—and wind up getting less than their business is worth. But having a realistic multiple supported by solid data puts

you in the driver's seat when an offer comes in. You can either decline a poor offer or negotiate a higher price from a position of strength.

- » *You'll have more exit options.* Maybe you don't want to cash out. Maybe your dream is to pass your company on to your children. That's great. But a successful transfer doesn't happen overnight. You need to plan for the tax implications. You need to set up the financing. You need to make sure your heirs possess the interest and skills required to run the company. It takes years to put those pieces in place. Start now.
- » *You'll be prepared for the unexpected.* I've talked about positioning your company to its full advantage to get the most from an unsolicited offer. But what if some hardship befalls you? What happens if you are disabled in an accident and can't work? Who has legal authority to manage your company? Who else knows how to keep it running profitably? Your exit blueprint should include a clear succession plan and an organizational strategy that leaves the company able to function smoothly without you.
- » *You'll get more money at closing.* I've seen cases where smart, proactive exit planning doubled—yes, *doubled*—the value of a company's liquidity event versus a comparable business that didn't do any planning. When the owner builds with

the exit in mind, the company becomes more stable, sustainable, and valuable to quality buyers.

WHAT TO DO

1. Determine what your endgame looks like, whether it's a sale to an outside buyer or a seller-financed transfer to a group of your employees. Then build your company and your exit plan in a way that will make your endgame a reality.
2. Begin assembling your exit team as soon as you can. I've already addressed the need for a CPA or a CFP® professional with exit-planning experience. You'll also need two more key people:
 - › A mergers and acquisitions attorney to handle contracts and stay on top of issues related to regulatory and antitrust law
 - › An investment banker or M&A advisor to handle issues related to financing, debt management, stock ownership programs, and other financial matters

Again, as with your CPA and your CFP® professional, you'll want people with plenty of exit experience. It's great if you already have a corporate counsel, but the attorney who sets up your articles of incorporation and advises you about intellectual property

protection shouldn't be managing the legal aspects of your exit, because that's likely not his or her area of expertise.

Find people who understand the complexity of the exit-planning process, give them time to learn about you and your business, and stick with them. Remember, you will probably sell a business once in your life, but the key members of your team may have been involved in the sale of dozens of companies. Trust their expertise.

EXIT 911

What do you do when you're less than a year away from your exit date—or you even have an unsolicited offer on the table—and you've done no planning? First, don't panic. Second, drop everything and find your one crucial team member: a CPA or a CFP® professional with extensive exit experience. He or she will advise you on other important first steps and on choosing other professionals for your team.

Did You Know . . . ?

According to the Family Wealth Advisors Council, 90 percent of owners of family-owned businesses want to transfer the business to a family member, but more than 70 percent of those businesses do not survive the transition to the next generation. Sometimes family members just aren't interested in running the company; others lack the skills to keep it profitable, so it fails. This often leads to the founder reassuming control of an ailing business and ultimately losing retirement income. If you want to pass your business to your heirs, start early by finding ways to get them involved in every aspect of the company's operations.