



## The Exit Strategies Newsletter From IRUS

### Top Ten Reasons to Plan Your Exit In 2015

The New Year is a time for resolutions and for looking ahead to the promise that 2015 holds. As the New Year approaches, we wanted to provide a bit of guidance on how you can begin to think about planning for your business exit. Listed below are the top ten (10) reasons why you should think about planning your business exit in 2015. We hope that this newsletter is helpful towards encouraging you to start planning for this critical transition for your company, whether the actual event will happen in the next year or in the next ten (10) years.

#### **#1. The Timing is Right to Begin Planning Today**

In real estate, the saying is ‘location, location, location’ - with business exits, it is ‘timing, timing, timing’. Just as timing was important as you built your business, it is critically important during your exit. If we look at the following transfer timing chart, it indicates that we are currently in the ‘prime selling time’ and should be for a few more years. Since it takes some time to properly plan and execute an exit, the advice is to act now, rather than head into the next recession with a majority of your wealth tied to your business.

U.S. Ten Year Private Transfer Cycle



#### **#2. Avoid Owning Your Business During the Next Recession**

The leading baby boomer owners are turning 69 years old in 2015. Since many privately held businesses are owned by boomers, the question that needs to be asked is how many more recessions do you want to go through? Most owners agree that the last recession was a painful reminder of the risk that exists in a privately-held business. They also do not want to go through another one, particularly if they are in their 70's. Unfortunately, we do not know the timing of the next recession but what you can control are your own actions and your ability to take action with your planning today.

#### **#3. A New Congress Could Bring New Changes**

On November 2<sup>nd</sup> of 2014, the Republican party took over as the majority in the US Senate (and reinforced their majority in the US House of Representatives). While the assumptions generally are that Republicans will promote ‘pro-growth’ initiatives for small businesses, we really don't know what form of compromised changes will come about. For example, the tax code is re-

written approximately every 25 years or so and it seems over-due for a re-write. A new Congress could bring new changes and those changes may or may not benefit your future plans for a business transition.

#### **#4. Your Business Likely Showed Improved Performance in 2014 – Hence a Trend Towards a Higher Value**

The future owner of your business will ultimately care about two (2) financial components related to your company's performance: (i) the future cash flows and (ii) the [perceived] risk of receiving those cash flows into the future. Therefore, each additional year that you can show a trend towards improved performance is one more arrow in your quiver to argue for – and defend - a higher value for your business exit. This is particularly important if you need that additional value to meet your personal, financial goals. You may be like many owners who have seen profitability restored for many years now and it may just be time to cash in while the value is high.

#### **#5. Interest Rates Are Low**

In today's financial environment, interest rates remain low, making money cheap to borrow. Therefore buyers can still borrow at historically low rates which makes it more attractive to execute transactions. And, similar to home prices, when money/debt is cheap, values tend to rise. Therefore, you may find that your exit value in a low interest rate environment is higher than in an environment where interest rates are rising.

#### **#6. Capital Is Available for Acquisitions**

According to online data-base PEI Services, there are currently 2,474 private equity groups that own 56,943 privately-held companies (*dtd 11.22.14*). The basic formula for many of these private equity groups is to

buy a 'platform' business and buy additional companies as a growth plan. With hundreds of billions of dollars in available capital for acquisitions (a.k.a 'dry powder') and a business model of growth through acquisition, there is a high demand for privately-held businesses.

#### **#7. Relatively Low Supply of Companies to Purchase**

There is an imbalance between the high demand from buyers for companies and the low supply of quality businesses available for acquisition. When an imbalance in the marketplace exists, you can take advantage of it if you understand the dynamics. If you have the right type of business, revenues, management team and growth trend (and future) then it is possible that there will be a line of buyers bidding up the price of your business. If you desire to cash in your business, you owe it to yourself to learn more about this marketplace dynamic.

#### **#8. The Supply / Demand Imbalance is Not Likely to Last**

With so many baby boomer owners marching towards retirement, it is likely that more and more companies will come on the market for sale over the next few years. Therefore, to take advantage of this current imbalance, you may need to stay ahead of this pending wave of sellers and offer your business to the market before others.

#### **#9. Tools and Resources Have Never Been Greater**

Exiting a business is a complex process. To fill the needs of exiting owners, the 'exit planning' industry is growing at a dynamic rate. "Exit Planners" are a new breed of consultants who are adapting and building their business models around servicing this

particular need to coordinate various planning issues, including:

- Taxes that you may owe for different transfers
- Legal agreements that you may need to sign
- Capital that you may need to attract
- Cash flow projections that you may need to provide to successor owners
- Insurances that you may need to purchase to protect your wealth
- Estate tax planning protections
- Reinvestment of the exit proceeds

More and more owners are seeing that their advisors now have access to tools and support to assist them with this critical planning area. Ask your advisors about how they are aligned to assist you in this area. You are likely to see that these valuable consultants now have the vision, creativity and tools to help you arrive at your desired destination.

### **#10. You May Simply be Tired**

The New Year is a time for reflection. Go back to the beginning of your business. Ask the important question, “why did I get into business to begin with?” The answer – if you are like most owners – is something akin to ‘controlling your own destiny’. The question today is, “do you really feel in control of your destiny?”. The answer is likely ‘no’ as you have committed most of your financial and time resources to your business, feeling anything but empowered and free. Although the business has provided for you for many years, it may be time to plan for the ultimate transaction, the liberation of your time and resources from the business and a personal transition into activities that are stimulating and satisfying outside of your privately-held company.

### **Conclusion**

There are an infinite amount of reasons to be proactive in protecting your most valuable asset, your privately-held business. The ones listed in this article hopefully have moved you towards further seeing that you need to take the first steps in planning your exit. Why not resolve to do it in the New Year?