

Exit Planning Considerations For Business Owners

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Stats / Facts:

1. Business owners are too busy with the day-to-day to deal with exit planning.
2. Creating wealth – 65%-85% of an owner's net worth is in his business.
3. The more valuable you are to your business the less valuable the business is.
4. You will leave your business – dead or alive!!!

Purposes for Business Valuation:

Good:

1. Buying or selling business
2. Estate / gift
3. ESOPs

Bad:

1. Divorce
2. Bankruptcy
3. Litigation – fights between or within businesses

Start Thinking About Leaving Your Business (No Matter How Old It and You Are):

1. Co-Owners / Employees - \$ from the business pay for the business.
2. Family Members – 2/3 want to; 1 in 10 successfully do.
3. Liquidation (only option preferable to death) – business lacks sufficient income-producing capacity apart from the owner.

3 Standard Methods of Valuation:

1. Cost / Book – adjusted to fair market value.
2. Market – be careful utilizing industry standards/multiples.
3. Income – the future cash flow the business will provide, with normalizing adjustments.

Other Things To Consider:

1. The Team:
 - a. Attorney
 - b. CPA
 - c. Investment/insurance advisor
 - d. Business broker or investment banker
2. Finding/Keeping/Motivating Employees:
 - a. Profit-based incentives
 - b. Become potential owners
 - c. Increase value to a 3rd party buyer
3. Discourage against stock-based bonuses/incentives – leads to litigation.
4. Buy/Sell Agreements – too much litigation.
5. Contracts – for key employees to restrict competition, secrets, and compensation.
6. Riding the Wrong Horse – owners expected successor doesn't want it.

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