

How to Exit Your Business Feet First

By Joe McCaul, CBI, MBA

Joseph Associates International, Inc., Naperville, Illinois



Here are ten simple rules to follow if you'd like to work until you drop. It is important that you follow them carefully or you might inadvertently become rich and idle in retirement.

Rule #1. Avoid Planning of Any Kind

Everyone knows how unpleasant it is to meet with financial, estate and succession planners. They ask too many questions and make you think about your own mortality. Don't go there! Business plans – who needs them anyway? Don't you know what needs to happen next? No one else needs to know. Keep all employees guessing about your eventual exit strategy.

Rule #2. No Business Valuations by Accredited Professionals

Your cousin sold his business a few years ago. Rely on his expertise and save yourself the expense. The guy who does your taxes might know something. Ask him. Your attorney talks to a lot of people too. Between all these sources, you'll find someone who will agree with your inflated expectations.

Rule #3. Now that Your Business is Successful, Take It Easy

Your business has reached a manageable size now. If you decide to grow it further, you would have to work harder. A stable business that is easy for the owner to run must surely be worth more than a rapidly growing one that puts demands on your time. Relax.

Rule #4. No One You Know Could Buy You Out or Run Your Business

If you followed Rule #1, you don't have to worry about your employees or children taking over the business from you. They don't have any money and aren't trained to replace you in any case.

Rule #5. Do Not Hire a Business Broker

Any reputable broker would immediately want to break all the preceding rules. You can do this yourself. Your neighbor has said for years that he'd like to buy your company. Brokers will tell you that one buyer is no buyer. They will explain to you how they can help get you the best deal while maintaining confidentiality. Do not believe them.

Rule #6. Wait Until a Serious Buyer Appears Before Assembling Your Team of Advisors

Attorneys and accountants are generic commodities readily available on demand. Bring them up to speed when you need them. They do not need transaction or deal making experience. Don't let them meet or communicate directly until closing. They're probably just running up their billable hours. Remember Rule #5 – no brokers!

Rule #7. Time is Not of the Essence

Real buyers always pretend they are in a big hurry. This is an act. They have some story like "I'm unemployed and living off my savings." A corporate buyer or private equity group might say they are considering a different opportunity. Their lawyers will put in "time is of the essence" to reinforce that deadlines

are meaningful. Ignore all such arbitrary demands. Be sure to surround yourself with like-minded advisors.

Rule #8. Some Skeletons are Best Left in The Closet

Disclosing negative information about your business will only lower its value. If it surfaces before closing, you'll be able to dance around it.

Rule #9. Push All Risk onto the Buyer

Demand all payment in cash at closing. No escrows, no earn-outs, no seller notes. Resist any requests for representations and warranties. Demand to sell stock instead of assets but reject any thought of indemnifying the buyer for issues that arose on your watch.

Rule #10. The Deal Can Always be Sweeter

You let your guard down and signed a Letter of Intent. All is not lost! There will be four to six weeks for you to renegotiate the deal on a daily basis. The hook is already set in the buyer's mouth. Be creative now. Demand payment for unreported revenue. Come up with new add-backs to improve your apparent cash flow. Alright – just say you want more money than any of the figures will support. After all, yours is a very special business.

Congratulations, by carefully following these simple rules no one will ever buy your business. Your role is secure as long as you remain physically able to perform unless of course your business goes belly up in the interim. ■

IBBA. News