Finding the EXIT when You're Speeding Past 65

By Clay Hartman

Here are a few things you might consider when the next generation of family isn't part of the business plan going forward.

As throngs of Boomer Business Owners across the land begin pushing into retirement, many are facing a new set of challenges, pondering strategies to exit the businesses they've spent a lifetime building. And for those who have no offspring destined to take the baton, decisions impacting the ideal sunset can be difficult to make, and easy to put off.

Start now. For Boomers, especially those who have reached their mid-60s and lack children in the on-deck circle of life, the clock is ticking to craft your ideal departure. Given the state of affairs in Washington, capital gains taxes are likely to be as low as they will in this lifetime, so it is healthy to evaluate taking money off the table. Generally, though, focusing on the exit will force you to think more strategically about the effects of everything you do with a medium- to long-term perspective. With that in mind, here are some general points to ponder:

Discover the right type of buyer by establishing what is important to you. Presumably, achieving financial security is high on your list of exit goals, but what else is important? Are you committed to keeping the company independent, or do you wish to sell to a competitor? Do you want to give current employees an ownership opportunity? Do you want to cash out today or get paid over time and take multiple "bites of the apple?"

There are no right or wrong answers, but framing what is important will help narrow down which road to take to an exit.

Transition your business to existing management. If you have a strong team in place, the logical buyer for your company is the group that helped shape it. Let them know of the opportunity now. I recently had a conversation with a Boomer Business Owner client and he couldn't emphasize more the importance of letting senior management know early on that his children would not be taking over the business. Taking the "Do I have a future here?" anxiety out of the equation is critical if you want to keep top talent.

Pricing the transaction to management can certainly be challenging, as competitive bidding is off the table. That said, you can control the process along with your financial, legal and tax advisers, and can add both protective and incentive provisions to the buyout agreement to create a fair, yet attractive, situation for all. Typically, management buyouts take place over time, so you can continue taking bites of the apple if you are confident the company will continue to grow.

If a management buyout isn't an option and the buyer isn't obvious, consider hiring a banker or broker. Contact all of your professional advisers (financial adviser, banker, CPA, attorney) for guidance. These people will have varying degrees of experience with the sales and valuation process, but most should be able to direct you to the key advisers for a sale process: business brokers, middle-market mergers and acquisitions (M&A) specialists and investment bankers.

The decision as to which intermediary to use will typically depend on the size of the deal and who the likely buyer might be. While there is often crossover, brokers typically sell smaller companies to individuals, while investment bankers often sell larger companies to other companies or private equity groups.

Fees are definitely a consideration when hiring an adviser. Fees are typically a derivation of the Lehman Formula (easily found online) and are either fixed or tiered relative to the size of the deal. Regardless of whom you choose, focus on finding one with strong references and a history of doing deals of similar size in your industry. Make sure you speak to CEOs of at least one or two businesses they have worked with that didn't sell, as well as those that were big wins.

And if you don't think your company is attractive to any buyer? Again, talk to your advisers. Get your house in order and start thinking about a mid- to long-term strategic plan. Clean up your financials and key operating metrics. Even if you determine that you have to play Edward Lewis from Pretty Woman and break your company apart and sell off the pieces, at least you've found the EXIT.

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