


## Cashing Out Study Group

*Cashing Out Step 3:*  
**Know The Six Exit Options**



*Presented by:* Brad Davidson, President  
SPAR DATA Value Advisors

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## Curriculum

1. The question nobody's asking
2. Know what they've got
3. Responding to concerns
4. Grow what they've got
5. **Know their exit options**
6. Starting the conversation
7. Centers of influence

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## What Is Owner's Goal?

- get the most money
- time and money freedom
- keep running the biz but diversify estate
- leave a legacy – maintain family harmony
- pay as little tax as possible
- keep control & diversify along the way
- pass on to employees

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### Value vs. Control

Control

Value

John M. Leonetti, *Exiting Your Business, Protecting Your Wealth*, 2008

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### Financially ready? Mentally ready?

High	Well off but chooses to work	Rich and ready to go
Low	Stay and grow	Get me out at highest price
	Low	High

Financial Readiness

Mental Readiness

John M. Leonetti, *Exiting Your Business, Protecting Your Wealth*, 2008

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### Six ways to cash out

1. Sale to outsider
2. Management buy-out
3. ESOP
4. Private equity recapitalization
5. Gift
6. Fire sale

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**Is The Business Even Sellable?**

50% - Could never be sold  
 10% - Could be sold today  
 40% - Could be sold after 'clean-up'

Source: Barbara Taylor, Synergy Business Services; author of New York Times Small Business Blog

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**Is Selling The Right Choice?**

*Good:*

- Highest price

*Bad:*

- Competitors learn your secrets.
- Takes time, effort.
- People get fired.
- You are history.

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**Due Diligence Burdens**

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    graph TD
      A[Construct a buyer list] --> B[Send out one-page confidential description]
      B --> C[Interested parties sign confidentiality agreement]
      C --> D[Send out information memorandum]
  
```

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### The Economic Cycle Matters

Deal Recession		U.S. Ten Year Transfer Cycle		Uncertainty	
		Prime Selling Time			
1980	1985		1985	1990	1990
1990	1995		1995	2000	2000
2000	2003		2003	2010	2010
2010	Buy		Sell	2020	2020

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### Brokerage Fees

1. business broker (\$2MM-\$5MM)
2. M&A professional (\$5MM-\$25MM)
3. investment banker (\$25MM-\$100MM)
4. mid/large firm (\$100MM+)

10% of the first \$ 1,000,000 = \$ 100,000
8% of the next \$ 1,000,000 = \$ 80,000
6% of the next \$ 1,000,000 = \$ 60,000
4% of the next \$ 1,000,000 = \$ 40,000
2% of the next \$ 1,000,000 = \$ 20,000
Plus 2% of each additional \$1,000,000

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### Taxes

Selling Stock  
vs.  
Selling Assets

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**Management buyout**

- Little cash at closing
- Risks of seller financing
- Can employee become entrepreneur?

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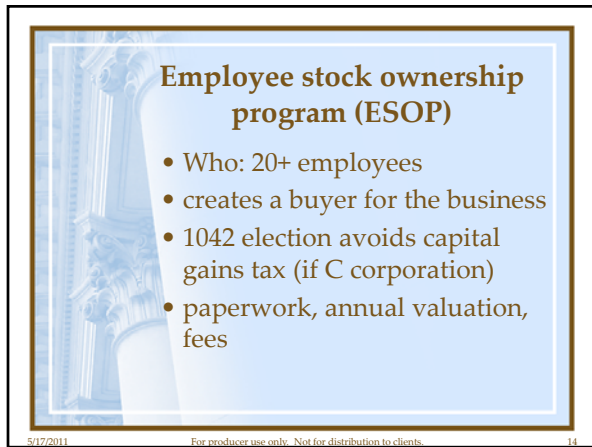
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**Employee stock ownership program (ESOP)**

- Who: 20+ employees
- creates a buyer for the business
- 1042 election avoids capital gains tax (if C corporation)
- paperwork, annual valuation, fees

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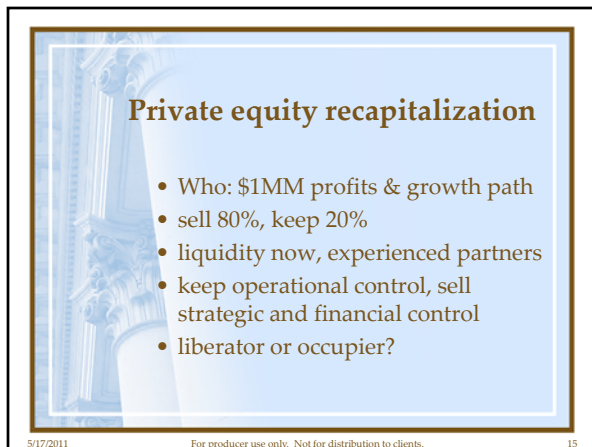
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**Private equity recapitalization**

- Who: \$1MM profits & growth path
- sell 80%, keep 20%
- liquidity now, experienced partners
- keep operational control, sell strategic and financial control
- liberator or occupier?

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**Gifting strategies  
(family, employees, charities)**

- no cash
- flexibility
- tax benefits

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**Choices for owners  
who plan ahead**

Financial Readiness ↑	Management buyout, gift, ESOP	Gift, charity, ESOP, sell
	Private equity group recap, ESOP, grow business, increase savings	Sell business for highest price
	Mental Readiness →	

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**Didn't plan ahead?  
*Fire Sale***

- most common outcome
- yields fraction of fair market value
- 'failing to plan is *planning to fail*'

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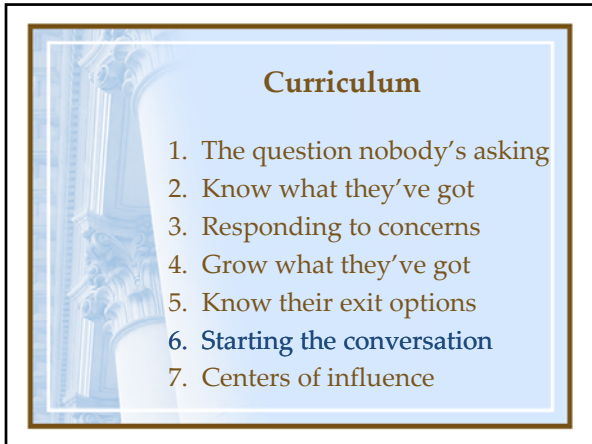
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