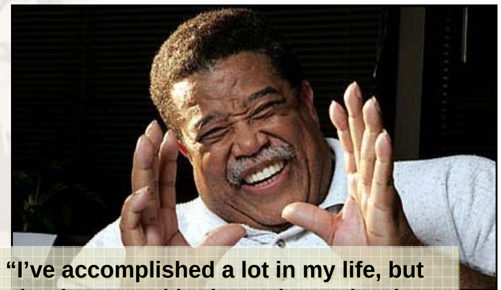
Turning Exits Into Opportunities:

Growing Your Business by Helping Business Owners Plan for Exiting Theirs

WHITE HORSE



"I've accomplished a lot in my life, but what happened in the end zone is what defines my career."

Agenda

- Share results from a proprietary study of nearly 450 successful owners' objectives, concerns and level of preparedness for their exit planning
- Identify common exit planning errors and suggested better practices
- Discuss your role with closely-held business owner clients in planning for the inevitable exit

The Research Study

Background

- Closely-held companies constitute one of the most important and growing segments of the US economy.
- An owner's exit impacts not only his/her personal life but also the surrounding economy and community.
- The aging Baby Boomer population—America's "entrepreneurialist" generation—likely accelerates the number of owners seeking to exit.
- Little empirical data exists on how owners think about, prepare for and accomplish their exit.

The Research Objectives

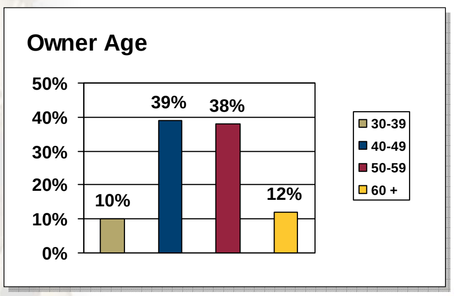
- Understand owner attitudes/awareness of the need to plan for their exit
- Determine owner preparedness for the eventual exit
- Identify the objectives/triggers that start the exit planning process
- Examine the resources owners use/ would consider using to increase their level of preparedness

Methodology

- The research was conducted with a random selection of business owners from across the country between October 2007 and February 2008.
- 444 owners completed a paper-based questionnaire.
- Significance testing is conducted at the 95% confidence level. At this confidence level, the data from 444 surveys has a precision level of +/-4.65%.

Profile of the Owners

The Owners



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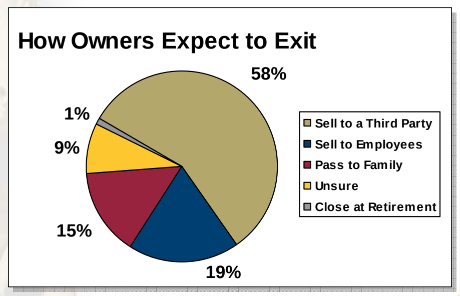

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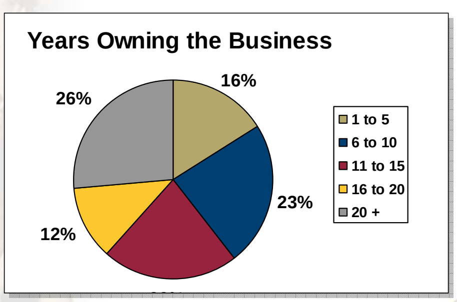

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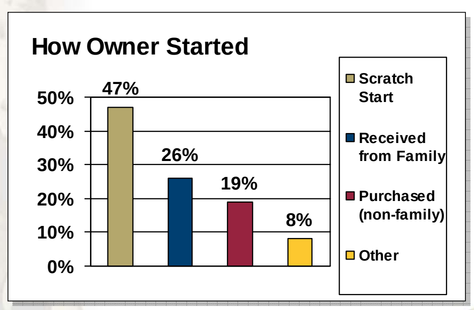
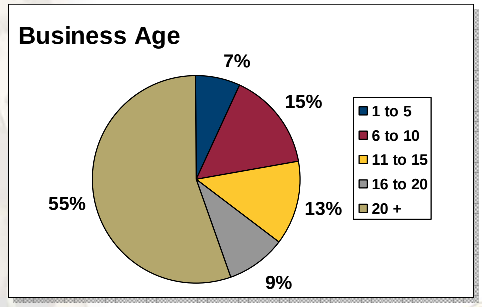
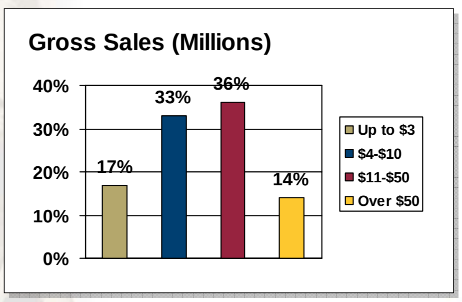


Profile of the Businesses

The Businesses



The Businesses



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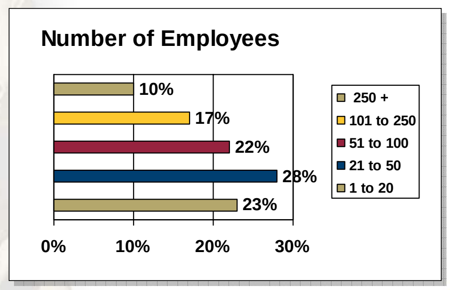

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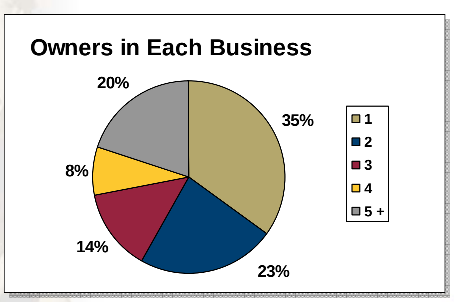


Top Findings

Owners widely recognize the importance of exit planning, yet few have taken action.

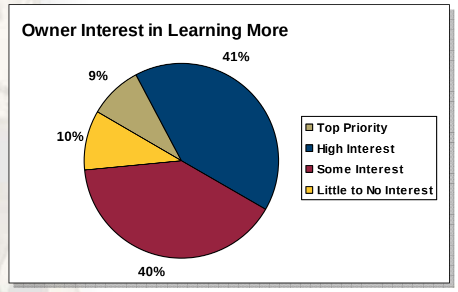
Nearly 9 of 10 owners agreed that an exit strategy is "important for my future as well as the future of my business."

Contrast this with one 1 of 10 owners has a written exit plan.

Of those without a plan, 80% have given this issue some to no attention.

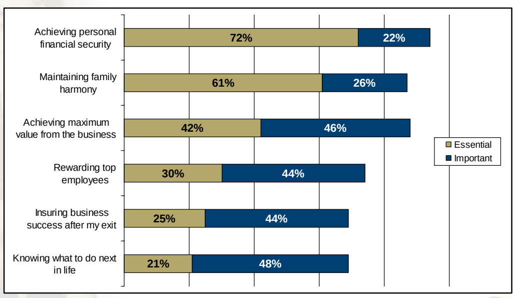
Q.1 How much do you agree or disagree with the following statement: "Having an exit strategy is important for my future as well as the future of my business"
Q.2 Do you have a written, up-to-date exit plan?
Q.3 How would you describe the attention you have given to your exit from the business up to this point?

Owners want to know more.



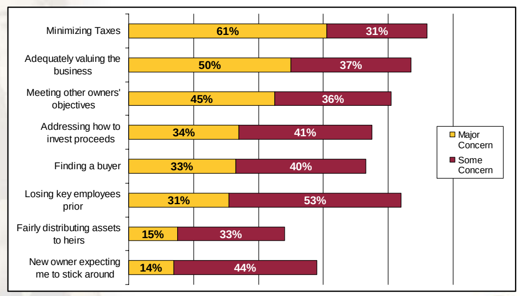
Q. 18 Overall, considering your current situation in your business, how interested are you in learning more about exit planning?

Owners have clear exit planning objectives.



Q.12 Please indicate how important each objective is to you as a motivation for considering an exit plan from your business.

They also share common concerns.



Q.12 Please indicate how important each objective is to you as a motivation for considering an exit plan from your business.

Owners are highly unprepared.

Area of Preparedness	"I have completely addressed this"
I have a team of advisors who are qualified to meet my entire exit planning needs.	29%
I have identified in writing the net value I need from the business to afford retirement or other financial goals.	27%
I have fully shared with my loved ones my exit plans, goals and strategy and have their support.	20%
I have a written, up-to-date contingency plan should I become disabled or prematurely die.	18%
I have a written analysis of my exit strategy's tax impact and have implemented tactics to minimize these taxes.	9%
My team of advisors meets as a group, has a clearly defined leader and works from a written exit plan.	5%

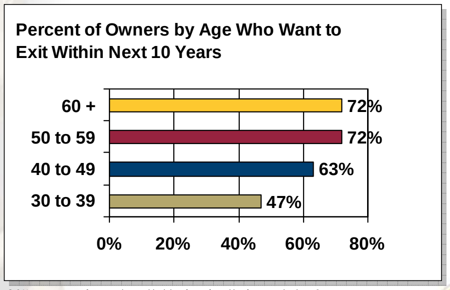
Q.11 To help gauge your level of preparedness for exiting your business, please rank the following statements.

Owners who have not planned seem focused on growing their businesses.

Primary reason owners have given this little to no attention:	
I am too busy growing my business to focus on this	48%
I have wanted to give this more attention but don't know how to start	15%
My business is too young and/or fragile to focus on this	12%
Family business (pass to next generation, son will succeed, part-owner in family business)	3%
New job/Still young/Have some time (Important, not urgent)	3%
Partners don't agree/part-owner, out of my control	2%
All Other	12%

Q.4 What is the primary reason you have given only little or some attention to your exit from the business?

Despite this, a large number of owners hope to exit their businesses within the next ten years.



Q.6 How many years from now is your ideal time frame for exiting from your business?

Owners need their CPAs to help.

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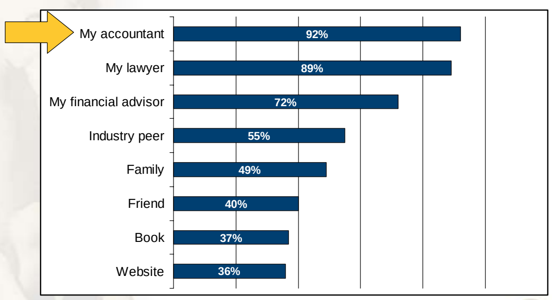
Owners want your help.



Q.14 Which resource would you use or have you used?

What is Exit Planning?

It is not simply a:

- Buy-sell agreement
- Tax analysis of the business sale
- Management succession plan
- Financial plan
- Estate plan
- Business valuation

êg-*sit* **plán**-ing *(v)*

The conscious effort
to efficiently convert
private business ownership into
financial independence and
sense of security.

***êg**-sit* **plán**-ing *(v)*

The *conscious effort*
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- 31 -

***êg**-sit* **plán**-ing *(v)*

The conscious effort
to *efficiently convert*
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- 32 -

***êg**-sit* **plán**-ing *(v)*

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- 33 -

Misconception #1:

Exit planning should start 3-5 years before the target exit date.

- 35 -

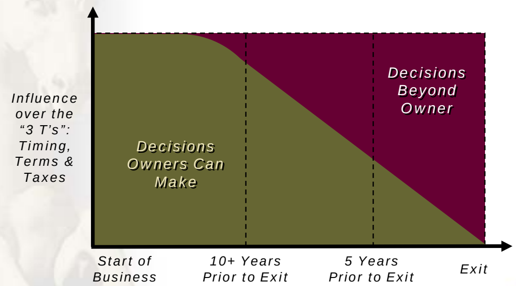
The "Five Years Fallacy"

- 36 -

Real World Story:
Jim, Age 62

- Wanted his daughter and only child to become 3rd generation owner
- Set up second business legal entity five years ago owned 50/50 with his daughter
- Second entity grew into $35 million value
- Problem: Jim (a Passer) faced about $6 million taxes to transfer his half to her

Passing Time Forfeits Decisions



Does the business *growth* plan support the business *exit* plan?

These may all require more than five years:

- Implementing the ideal entity(ies)
- Gifting business interests to family
- Accumulating cash/assets outside the business (e.g. profit sharing, asset lease-backs, etc.)
- Hiring/building successor management
- Timing market/industry conditions

A Better Way:

Begin with the end in mind—start exit planning now.

Misconception #2:

Focus on getting "maximum value" for the business.

Real World Story: Dan, Age 49

- Successful manufacturing business
- Received unsolicited offer to sell
  - $7.0 million price
  - $3.5 million net in bank after sale
- Problem: Dan needed $4.0 million to afford his desired post-exit lifestyle

Total Capital Required for Financial Freedom

Exit Magic Number™

Total capital required for financial freedom of $_______________

minus

Capital/income available at exit from outside the business of $_______________

= Exit Magic Number™

Timing
Terms
Taxes

The Owner's Dependency Dilemma

The more successful your business, the more you may want to reinvest in it. → **The more you reinvest, the more financially dependent you likely become to it.** → **The more financially dependent, the harder it may be to achieve a winning exit.**

Five Systematic Ways to Reduce the Exit Magic Number™

1. Fund a "tax leveraged" retirement plan
2. Follow a Receive/Reinvest Ratio
3. Adopt a Monthly Out of Sight Earning (M.O.O.S.E.)
4. Purchase and lease-back business assets
5. Manage to a "Strategic Asset Allocation"

A Better Way:

Achieve the Exit Magic Number™—treat any more like gravy.

Misconception #3:

Start with a business valuation for the maximum value.

Only Four Exit Strategies

1. Pass to family
2. Sell to an outside third party
3. Sell to inside key employees
4. Planned liquidation

Only Four Exit Strategies

1. Pass to family — Passers
2. Sell to an outside third party — Outies
3. Sell to inside key employees — Innies
4. Planned liquidation — Squeezers

Typical Ideal Valuation

Passers	Low
Outies	High
Innies	Depends
Squeezers	Low

A Better Way:

Clearly determine the exit strategy and then consider the valuation.

How do we work together?

Exit Planning is a team sport.

Tax and Accounting	Legal	Financial / Ownership
Tax planning and compliance	Documents and agreements	Financial freedom modeling
Financial statements	Asset protection	Employee retention strategies
Account practices	Corporate records	Post-exit investment strategies
Business valuation	Trusts and partnerships	Family and co-shareholder communications

Teams are not playing well together.

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The Business Development Opportunities

- Change the nature of the need
- Additional work: partnerships, trusts, valuation, financial statements, gift tax returns, tax modeling, compensation studies
- Market differentiation

Conclusions

- Owners overwhelmingly recognize the importance of an exit strategy but in nearly every important area they are not prepared for their inevitable exit.
- Superior exit planning cannot wait.
- The inevitable wave of Baby Boomer Business Owners exits likely accelerates this issue.
- Owners need their advisors to collaborate and pro-actively address this issue.