

The Exit Strategies Newsletter

TOP TEN REASONS TO PLAN YOUR EXIT IN 2012

A New Year often is accompanied by promises that we make to ourselves for personal and professional improvement. Given that business owners who run their own companies typically have the majority of their personal net worth tied to their illiquid business, this newsletter is written to promote the idea that business owners should resolve to plan for their own [eventual] exit in this New Year. Therefore, below are listed the ten (10) reasons why you should consider planning your exit in 2012.

1. Uncertainty Continues to Dominate Our Business Lives

The weight of economic uncertainty has plagued business owners for many years now. Our forecasts cannot predict when we will return to 'normal' times and it is clear now that unlike prior recessions, this one did not bounce back. Doubts have crept into our decisions and we are left paralyzed, unable to make solid decisions to move ahead. Despite this external turbulence, we can control our own planning by being well informed and prepared with contingencies for a variety of foreseeable economic climates.

2. Your "Lifestyle Business" May Not be Providing the Same Lifestyle

You may be like many owners of private businesses who needed to return to working

harder, longer hours as a result of head-count

reductions through this Great Recession. In turn, the hope that your business could be used to provide you with the lifestyle you had worked so hard for and had planned on enjoying is most likely not a short term option. An exit plan puts your post-exit lifestyle back in focus and assesses your current ability to define and meet your lifestyle objectives.

3. Your Business Likely Showed Improved Performance in 2011 – Hence A Trend Towards a Higher Value

The future owner of your business will ultimately care about two (2) financial components related to your company's performance: (i) the future cash flows and (ii) the [perceived] risk of receiving those cash flows into the future. Therefore, each additional year that you can show a trend towards improved performance is one more arrow in your 'negotiation quiver' to argue for – and defend - a higher value for your business exit. This is particularly important if you need that additional value to meet your personal, financial goals. And, since uncertainty continues, perhaps now is the time to cash in with an exit.

4. Interest Rates Continue to Be Low – Increasing Buyer's Ability to Purchase

The U.S. Federal Reserve is intent on printing money to prop up our economy. As a result, interest rates have remained low, making money cheap to borrow. Therefore buyers, at least those who qualify for loans, can borrow at historically low rates. And, similar to home prices, when money/debt is cheap, values tend to rise. Therefore, you may find that your exit value in a low interest rate environment is higher than in a good economy where interest rates have risen.

5. Political Winds are Blowing Harder than Ever

Whatever your political persuasion, it's hard to deny that change is coming. Over the past year we've seen Tea Parties, Occupy movements, debt downgrades and bare knuckle brawls in Congress. Heading into a heated Presidential election, 2012, and the resulting 2013, could see a flurry of political change ranging in every scenario from new leadership in the White House and Congress to another few years with the current leaders. Either way, it is easy to predict that each party is motivated to make some changes.

6. The Entire Tax Code is Set for an Overhaul After the Next Election

This prediction goes beyond just the political stumping of today. In fact, the last major re-write of the tax code was in 1986 under President Reagan. These overhauls occur approximately every twenty-five (25) years or so, with prognosticators forecasting 2013 as the year for a tax code overhaul. It is difficult to predict what will be included in this tax overhaul. However, it is likely that President Obama's concept of 'fairness', coupled with the U.S. debt, is likely to result in new sources of revenue for the government, i.e., higher taxes.

7. Tax Benefits Expiring and Warren Buffet Giving his Blessing to Increase Taxes on the Successful

At the end of 2012, if no further action is taken, federal capital gains taxes will rise from 15% to 20% and the Bush Tax Cuts that President Obama extended at the end of 2010, will expire. Warren Buffet (and a few others such as Alan Greenspan) said publicly that our government should simply go ahead and let those benefits expire, creating the politically easy way to increase taxes. Well, if the largest financial transaction of your life is pending, it may make sense to heed this warning that you may keep substantially less of what you realize in your exit if tax rates do increase. An exit plan will help you take action on these issues.

8. Europe and The United States Seem Functionally Insolvent

Currently the United States is more than \$15 trillion in debt and increasing daily. Add to our economic situation the fact that Europe is now part of our financial lives and the overall financial picture looks less than promising. In fact, it is not hard to imagine just a few factors occurring (such as rapidly increasing interest rates resulting from so much cheap money in the U.S. system) that drive the U.S. back into recession. Or perhaps our foreign creditors will simply stop purchasing our debt or give up on the dollar. Business is about managing risks. Since there are storm winds blowing in the global economic system, an exit plan that articulates the impact on your business value and transfer is a valuable navigational tool.

9. Maybe, Just Maybe, the Mayans May Have Been Right about 2012

The Mayan calendar measured cycles, or baktuns, in approximately 5,000 year increments. 2012 marks the end of a 5,000 year cycle and, hence, the beginning of another. While some speculate that the Mayan temples were warnings to future generations, there is no way to be certain. However, it is compelling to consider that with such a fast-changing world, perhaps there was something that these Mayans did know about rapid change and its impact on our now global, interconnected business world. No matter how you interpret the Mayan message, one thing is certain - as long as your money remains illiquid, your options in a fast-changing world continue to be limited.

10. Ending on a Positive Note – Buyers Are Still Buying Good Companies

The final reason to plan your exit in 2012 is that there are still a lot of companies and investors with a substantial amount of money sitting in cash and looking for good investments. If your company has prospects for the future, solid managers, and a recognizable brand in your market, it is possible that you are a candidate for acquisition. Given the importance of this financial transaction on your entire financial life, it is more important than ever to plan for your exit in 2012.

We hope that this newsletter encourages you to take action on being proactive with planning for the largest financial transaction of your life – your business exit.

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