KNOW YOUR EXIT OPTIONS | INSIDE

There are two Exit Option categories, **Inside** (Intergenerational Transfer, Management Buyout, Sale to Existing Partners, and Sales to Employees), and **Outside** (Sale to Third Party, Recapitalization, and Orderly Liquidation). **Below, consider the pros and cons of all inside options.**

Intergenerational Transfer:

Transfer of business stock to direct heirs, usually children. 50% of business owners want to exercise this option – in reality, only about 30% actually do so.

PROS	CONS
• Business legacy preservation • Planned • Lower cost • More control • Less disruption • Higher buyer/seller motivation	• Family dynamics • Lack of funds/Illiquid buyers • Lower sale price • Key employee flight risk • Tradition may outstrip good strategy • Path of least resistance – but not always a path to growth or success

Sale to Partners

Success is closely linked to the existence and quality of a buy-sell agreement. Not available to single-owner businesses.

PROS	CONS
• Less disruptive • Planned • Well-informed buyers • Controlled process, if buy/sell agreement in place and funded • Lower cost	• Lower sale price • Potential discord • Competency gaps? • Buy/sell may restrict selling options • Realization of proceeds is often slower

Management Buyout (MBO)

Owner sells all or part of the business to the company's management team. Management uses the assets of the business to finance a significant portion of the purchase price.

PROS	CONS
• Continuity • Highly motivated buyers • Preserves key human capital • Planned • Can be combined with private equity for additional growth resources	• Management "sand-bagging" • Distraction • Threat of flight (coercion of owner) • Illiquid buyers • Lower price and unattractive deal terms • Heavy seller financing • Managers are not always good entrepreneurs

Sale to Employees (ESOP)

Company uses borrowed funds to acquire shares from the owner and contributes the shares to a trust on behalf of the employees.

PROS	CONS
• Business stays in the "family" • Shares purchased with pre-tax dollars • Taxable gain on ESOP shares may be deferred • ESOP is an employee benefit • Often causes employees to think more like owners	• May be more complicated and expensive than other options • Requires securities registration exemption • Company compelled to buy-back shares from departing employees • Generally suited for a gradual exit

KNOW YOUR EXIT OPTIONS | OUTSIDE

There are two Exit Option categories, **Inside** (Intergenerational Transfer, Management Buyout, Sale to Existing Partners, and Sales to Employees), and **Outside** (Sale to Third Party, Recapitalization, and Orderly Liquidation). **Below, consider the pros and cons of all outside options.**

Sale to a Third Party

Owner sells the business to a strategic buyer, financial buyer, or private equity group through a negotiated sale, controlled auction, or unsolicited offer.

PROS	CONS
• Higher price (highest of the options) • More cash up front • Walk away faster • Stability of deal terms • Business refresh (growth, new energy) • Cost-effective • Breaks deadlock at management level with family	• Long process (9-12 months) • Distraction and loss of focus • Privacy concerns • Emotional for owner • Post sale tie-downs • Highest cost option (highest benefit) • Very complex – approx. 1,000 professional hours • Can be difficult to close

Recapitalization

Finding new ways to "fund the company's balance sheet." Essentially brings in a lender or equity investor to act as a partner in the business. Can sell minority or majority position.

PROS	CONS
• Allows partial exit • Reduces owner risk – diversifies assets • Provides growth capital • Second bite at the apple • Work well with other exit options	• Continuing accountability to partners • Loss of control • Culture shift • Slow transaction • Expensive relative to benefit

Orderly Liquidation

The business is shut down through a simple, quick process. Makes sense if asset values exceed the ability of the business to produce income required to support an investment.

PROS	CONS
• Good option when asset value exceeds value of going concern • Sum of the parts are greater than the whole • Efficient way to exit • May be less expensive than other exits	• Uncertain proceeds – no guarantee • No $ for goodwill • Emotional • Stigma? • Damage to employees and jobs • May be higher tax (C-corporations)

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