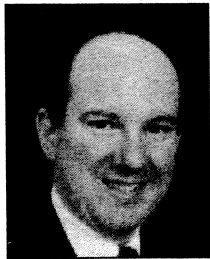


► STRATEGIES

Owners Selling Property, Business Must Plan Carefully for the Future

By Bob O'Hara



A recent nationwide survey of construction owners indicates that an estimated 24 percent of all construction-company owners intend to opt out of their

businesses within the next five years, either through an internal transfer or an outright sale. Of that number, 50 percent of those responding were unsure or unaware of techniques for transferring or selling ownership. Not surprisingly, a transfer or sale can take a long period of time to transpire and requires a comprehensive action plan.

But before we get into the hows and the whys of an exit plan, understand that when it comes right down to it, there are but five ways to exit a business: Sell to a third party, sell to a family member, sell to key employees, die owning the business or liquidate the company.

BOB O'HARA is president and chief executive officer of Chelmsford-based O'Hara & Co. (www.oharaco.com, www.exit-planning-edu.com). The company helps business owners identify and achieve their financial and personal goals by creating and integrating their exit plans and personal financial plans into a single cohesive strategy.

The owner's goals are always the basis for any exit-planning process and those goals are always the benchmark for the process. There should be a very logical and well thought-out process that a business owner should use to plan from the exit of their business. Every business owner needs to understand that there is no right or wrong answer in how you exit your business; it is all driven by what is important to you, the individual owner.

Let's get this important bit of information right out in the open. For those in the beginning stages of an exit plan, consider that leaving your company is a process that, if it is to be successful, requires an exit-planning advisor to guide you through the process, a team of advisors working together and a written plan. The plan should set your exit objectives – financial and otherwise – and document how you will achieve those goals.

Your written plan will greatly benefit from a checklist that assigns responsibility for all tasks that must be completed throughout the exit-planning process. This vital checklist should also set a date for task completion and designate parties responsible for completing each task.

It Takes Teamwork

No matter how skilled or experienced a business person you are, executing an exit plan is not something that should be done solo. This planning requires a team of advisors with an exit-planning advisor

coordinating the plan. If you opt to go it alone, chances are you will leave a lot on the table – in terms of money, time and perhaps even your emotional well-being. A successful exit plan involves a number of elements – legal, financial planning and tax, to name a few. It is in your best interest to hire an experienced team of professionals, including an exit-planning advisor, an attorney, a CPA and financial advisor, who can assist you through the planning process. In many cases, one professional can wear more than one of these hats.

In order to select an exit path, you must identify your most important objectives, both financial and non-financial. Internal and external considerations impact an owner's choice of exit. Exterior considerations that may impact the choice of exit path include business, market or financial conditions. If selling right now is not necessary, a business owner may opt to wait it out for a couple years to avoid dealing with an anemic market.

For many business owners, the answer to the following key question determines if and when they will transfer or sell: How much is my business worth and what is its marketability? An experienced appraiser active in the merger and acquisition marketplace can give you an accurate answer, largely based on your company's financial statements.

The importance of financial statements cannot be overstated when going through the exit-planning process. Whether you intend to transfer your business to someone within the company or sell to a third party, demonstrating financial stability is a crucial step in establishing a successful exit. What really matters is how much your business is worth and whether it will provide you with the money to live your lifestyle after you no longer own the company. The cash flow

of the business is crucial in determining whether the strategy can be executed without financially harming the company's operations, but it also has to be enough to fund the former owner's lifestyle. It also should be pointed out that a company that does not have cash flow does not have a lot a value to a buyer.

Evaluating various tax consequences is also important – it needs to be considered, and any strategy should be tax efficient to your choice of exit plans. This assessment will include several factors, such as the form of business entity as well as any changes that must be made. This is another area where that team of professionals can help in making a decision.

For construction company owners seeking to outright sell, there are advantages and disadvantages to dealing with a third party. On the plus side, if the business is properly prepared for sale, you can get cashed out – in other words, you can get the majority of your money at closing. Immediate cash translates into less risk down the road. The bottom line is that you want to receive the bulk of the purchase price in cash at closing. Another advantage: If the market is hot for your business, you may be pleasantly surprised with receiving more cash than anticipated. As with most things, timing is everything when selling a business. That is why you should have an investment banker or business broker (transaction specialist) on your team if you plan on selling to a third party.

Ultimately, your exit plan must integrate your exit desires – when you want to leave, how much money you want for the business and who you want to own the business. With the proper guidance and a firm grasp on realistic expectations, your exit plan could be the start of something very good – for your future. ■

