THEDMLOREPORT

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# Close to Retirement?
## *Then You Need an Exit Strategy*

If you own a business, your most valuable asset is likely your closely held interest in that company. And if you're nearing retirement, you need an exit strategy. The good news is that there are many options for you to consider. Here are just a few.

**Find a strategic buyer**

Owners nearing retirement often possess one singularly attractive trait — vast experience running the company in question. Such experience may help entice competitors, suppliers, customers or other investors to consider buying your business. In this scenario, the owner of the established business assumes a consulting role and then gradually transfers management to his or her strategic partner.

Some retiring owners eventually sell their interests. Others retain their interests in the combined entity but become silent partners or board members.

Careful selection of a strategic partner promotes business continuity and maximizes return. A strategic buyer might be willing to pay a premium over fair market value if the business interest contributes value-added synergies.

**Look in-house for buyers**

Before soliciting outside investors, business owners should look at existing managers and co-owners. These are potential buyers who already know how the business runs, thus easing the transition to new ownership and minimizing the hassle of due diligence performed by an outside party.

Some management buyouts are financed via an employee stock option (ESO) program, which in some companies supplements management compensation packages. Other buyouts occur through buy-sell agreements, whereby other shareholders buy out a departing owner's interest under a formal contract.

Yet another approach is an employee stock ownership plan (ESOP) — a form of defined-contribution retirement plan in which employees become owners over time. To qualify for favorable tax treatment, ESOPs can't discriminate in favor of highly compensated employees or owners. Most ESOPs allow all full-time employees with at least one year of service to participate.

How does an ESOP work? You set up an employee benefit trust, which it funds with company stock or with cash to buy the stock. Sometimes the trust borrows money to buy it. The trust can buy stock from shareholders, thereby creating a market for their shares and thus providing them liquidity. Because qualifying contributions are a tax-deductible expense for the company, ESOPs offer many tax advantages. But they're complex and highly regulated.

**Keep it in the family**

If family members are qualified and willing to assume ownership of the business, they're an option, too. But good succession and estate planning is critical. So be sure to work with a qualified estate planner.

Estate planning vehicles — such as grantor retained annuity trusts (GRATs) and family limited partnerships (FLPs) — can enable owners to gift business interests at substantial discounts from the net asset values of the entity's underlying assets. These discounts arise because recipients lack control over decision-making, as well as a ready market for selling their gifted interests. The size of lack of control and marketability discounts varies depending on factors such as transfer restrictions, trust or partnership agreements, the nature of the underlying assets, and state law.

**Get and stay "sale ready"**

Not all business exits are planned. Owners may die, shareholders may part ways or financial failure may necessitate liquidation. Operating in a "sale-ready" state will help maximize returns should the unexpected strike.

"Sale-ready" refers to clean, transparent business operations with assets in good working condition and minimal reliance on key people. So, put yourself in a potential buyer's shoes and evaluate what could make your business a more attractive acquisition candidate.

**Gather your team**

There are many ways to structure an exit strategy. To get the most bang for your buck, you'll need the right team. It's critical to involve your financial and legal advisors, as well as a qualified appraiser. They can help you get a fair price for your business. •