YOUR OFF-RAMP TO SUCCESS

HOW TO BUILD YOUR BUSINESS'S ULTIMATE EXIT PLAN

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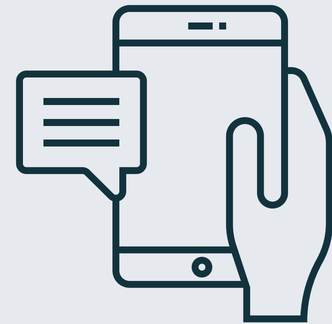
Chapter 1

The Problem: 80% of Businesses Don't Sell

Every day, millions of Americans log into social media to see much of the same kind of content. Here are but a few examples:



- A celebrity was arrested.
- Someone famous cheated on their spouse or insulted another celebrity.
- There's a controversial play from whatever sport is in season.
- Funny videos of cats and dogs.

Now, most of us are too busy running our businesses to pay much attention to these developments, but there is another kind of post that does spring up constantly that you *should* pay attention to. Why? It could impact the future of your business and even your legacy if you aren't careful.

I'm talking about those social media posts that spread like wildfire through communities whenever a longstanding, much-loved business seems to vanish into thin air. This happens daily. And customers who built a relationship with the company do what they do anytime they're faced with uncertainty: They turn to platforms like Facebook to learn what's going on.

Let's look at a recent example from a midsize city in the Midwest. The firestorm kicked off with a simple post to Nextdoor by a woman named Jennifer A. She wrote, "Has anyone been able to get their spring cleanup scheduled with Smythe & Sons? My landscaping is dying for their magic touch. I can't get someone on the line, and their voicemail is full. What's going on?"

Within minutes, she had 50 replies to her post. John Y. commented, "OMG, my trees need their TLC. Where has Smythe & Sons gone?????" Other posts provided factual information. Yvette G. posted: "I drove by their yard yesterday. I was surprised the lot was empty, none of their trucks were there. I'm worried they've shut down."

The discussion quickly spread to other platforms. As the community learned Smythe & Sons had in fact shut down, long-term customers posted their memories of the company, eulogizing their experiences. Sheila R. posted to Facebook, “When I was 14, Mr. Smythe told me the tree in front of our house was the ‘neighborhood showpiece’ and suggested I give it a name. I named the tree Amelia. Now I’m 35, and my kids know Amelia almost as well as I do.”

As a business owner myself, especially one dedicated to helping small and medium businesses know their value and prepare for the future, these posts are tough to read. It’s especially tough because this type of thing happens so often all around the country.

Let’s take a moment to unpack what really happened to Smythe & Sons before we consider how this applies to your business.

Kyle Smythe founded Smythe & Sons in the 1980s. Possessing a love of the outdoors, and especially trees, from a young age, he skipped college to jump right into work as an arborist. Although he didn’t pursue a formal education, Kyle was a smart fellow. Over the years, he gained multiple certifications from the International Society of Arboriculture. Through his hard work, he built a thriving, multimillion-dollar business.

Smythe & Sons soon became known throughout the town for its green trucks and the impeccable care Kyle’s teams took to satisfy each client. The company worked all four seasons, offering everything from tree trimming and storm cleanup in the spring to Christmas decorating and snow removal in the winter. Throughout the city and suburbs he serviced, Kyle gained a strong reputation, enjoying word of mouth marketing worth its weight in gold.

Yet this pillar of the community suddenly disappeared overnight. What happened? Kyle Smythe had a thriving business, but he didn’t have a plan for the future. His company name, Smythe & Sons, was also a bit of a misnomer. His children were not involved in the business. (He named the company when his sons were small, hoping one or both would inherit his love of the outdoors and plant life, but it just didn’t happen. One wanted to become a lawyer, and the other is studying art history at a private school.)

The void left Kyle to handle everything on his own. Only Kyle was nearing retirement age and had spent 40 years working outside with crews in every weather condition imaginable. For health reasons, his doctor suggested it was time for him to slow down and move to a warmer climate. This set off a chain of events resulting in his truck fleet being sold off along with other company assets. It also left his customers wondering where the legendary Smythe & Sons had disappeared to.

Kyle's story is fictionalized but it is *not unique*. In fact, he followed the No. 1 exit strategy of small- and medium-business owners. Read on to learn what that strategy is, and how you can avoid it.

NOT PLANNING IS MAKING A (REALLY BAD) PLAN

I left you with a cliffhanger above. Luckily you don't have to wait until next season to learn the answer. As sad as it may be, the No. 1 exit strategy for business owners in America is no strategy at all. As I often tell clients, "Failing to plan is planning to fail." This lack of planning results in 80% of businesses disappearing and leaving customers with an email bounceback or a closed sign on the door. These companies aren't handed down within the family or taken over by an entrepreneur. No, they just fade away. Simply put, lack of planning leads directly to business attrition. If you don't want your business to die, it's (past) time to plan.

There's another reason this is so critical for business owners. According to the Exit Planning Institute's 2023 National State of Owner Readiness Report, the typical small business owner has 80% or more of their net worth tied up in their business. This raises the stakes for owners, especially when their business is their best performing asset.

Financial expert Greg Crabtree, author of the excellent *Simple Numbers, Straight Talk, Big Profits* and *Simple Numbers 2.0* books, explains why owners have so much tied up in their businesses during an appearance on the Change the Game podcast. "Our belief is no business in a developed first-world economy should have less than a 50% return. Just think about that. Why would you? Why would you ever think about messing up a business, an investment that gives you a 50%, year after year after year after year return? You want to reinvest in that as much as possible."

So, if their business is such a great investment, why do so many owners "mess it up," to use Crabtree's words? Multiple problems contribute to that disastrous 80% attrition figure.

Let's cover the most glaring.

Inertia

The law of inertia states an object in motion stays in motion. In the business world, this translates to doing the same activities day after day trying to keep our head above water instead of thinking strategically.

They Don't Know What They Don't Know

Business owners are often experts in their own niche. Kyle Smythe wowed his customers by seemingly knowing every tree in the county. But being an expert in one area doesn't make someone an expert in *all* areas. Many business owners simply fail to consider an exit strategy because they've never been in this situation before.

Lack of Education

Kyle Smythe didn't go to college. But no matter, most business owners get their *real* educations from the school of hard knocks we call the American economy. Even a business owner with an engineering Ph.D. from MIT faces a lack of education in specialized financial topics like business valuation and exit planning.

Feeling Stuck in the Business

Many business owners feel that they are such an integral component of their companies that they can never leave it. It's hard to imagine passing on "your baby" to family members or strangers when you feel the very heartbeat of the organization is tied to you.

No Successor in Sight

When a business owner doesn't have a clear heir, exit planning can seem impossible. This was the case for Kyle Smythe, who knew there was no chance of his sons taking over the business even though they were included in its name.

These problems may not seem overwhelming individually, but when combined and added to the daily grind of successfully running a business, they become a serious threat. In fact, I've spoken to many current and potential clients to better understand the top reasons owners don't prepare for the future, and I see each of these problems in many of their answers.

THE TOP 10 REASONS BUSINESS OWNERS DON'T PREPARE FOR THE FUTURE

#1: They Don't Want to Think About It

Planning an exit strategy is like contemplating death to business owners. For the same reason many people drag their feet securing appropriate life insurance coverage, this demographic is loathe to admit there is a time (fast approaching for many Boomer and early Gen X owners) when their business may need to carry on without them.

Just like the life insurance example, the best way to overcome this feeling is to concentrate on the importance of *planning*. We've already established how a business can be an owner's best performing investment representing a vast percentage of their net worth. It definitely deserves the best strategic thinking possible to secure its future.

#2: It's Painful

Business owners often report developing an exit strategy seems like an agonizing process, with some comparing it to estate planning. Or a root canal. Just as estate planning can turn into an exercise about which relative you are most concerned about angering, planning an exit strategy can involve confronting some hard truths about life and business.

Business valuation and exit planning often force us to look at our company *without* rose-colored glasses. Things we may assume to be true may end up being hot air. But in my experience, most business owners find it less painful than they expected and creating a factual basis for their future planning to be more than worth it.

#3: They're Too Busy

Do you sometimes feel you're too busy to accomplish anything beyond the "hair on fire" tasks? You are not alone. Greg Crabtree explains this notion in *Simple Numbers 2.0,* writing, "If you are profitable at $3 million, you are usually functioning with your hair on fire because you have an unsustainable labor structure and not enough, or not the right, management to keep things together. Your only choices are to pull back to $2.5 million or less to maintain sanity and reduce stress or push through to $5 million and upgrade your management processes and people."

#4: Ego

Outsized egos can complicate any situation. Exit strategy planning is no different. Some owners feel they are never going to retire because *they are the business*. There's a flipside to this—these owners often fear retirement because they wonder, "Who am I without my business?" Finding a resolution to these dual concerns usually is not only profitable for their company, but also for the owner's mental and emotional health.

#5: It's All Too Complicated

It's not uncommon for business owners to report feeling daunted by the very concept of exit strategy planning. It's all too complicated and specialized—far beyond the typical person's understanding of business and finance. They also tend to have little to no education in this area because we are not taught about this topic in our society. The focus is on starting a business and the entrepreneurial spirit—not how to move on from that business.

#6: Lack of Confidence

Many entrepreneurs and small business owners consider themselves to be little fish in a big pond, not worth the time and resource commitment to plan for the future. They have no clue just how special they are by running a successful business—and most surprisingly of all, this attitude even extends to businesses with revenues in the multimillions.

#7 No Obvious Successor

Exit strategy planning as a concept is much easier to swallow when the business owner knows who is going to take over their organization. Whether it's a grown child, another relative, or a long-time second in command, planning makes sense to them because they know who is taking over. When they *don't* know who is taking over, as was the case for Kyle Smythe, effective planning can be thwarted.

#8 No Clarity on the Future

Some business owners can tell you the exact beach they want to be on 10 years after they exit their business. Those people need no encouragement to develop an effective exit strategy. They have achieved an internal peace that allows them to carry on despite the noise around them. But many others do not at all know what the next phase of their life will entail. They have spent so much time and energy growing their business they now struggle to imagine life without it. From a psychological perspective, pushing aside planning is the path of least resistance for them.

#9 Enjoying the Easy Money

I often talk to owners who have moved from an active role in running their businesses to a more passive role. They view it as "easy money," and don't feel any urge to change how things are going by planning an exit. Of course, the question for them is if it will always be easy money—this is a condition that can change in a heartbeat.

#10 Everything Is Going Well Right Now

Some business owners feel like everything is going well right now, so why worry about the future? For one thing, circumstances can change in a heartbeat, like a family medical emergency that shifts life's priorities. For all the advantages of "living in the moment," assuming that exit planning isn't necessary because everything is good now is another failing strategy.

WHY YOU SHOULD CARE

Not long ago, Atlanta-based pastor Andy Stanley gave a sermon presenting our congregation with a question: “What breaks your heart?” Focusing on this external question can elicit internal growth. In my case, I took Rev. Stanley’s question as an opportunity to reflect on what breaks my heart in both a personal sense and in professional life.

From a personal point of view, the lack of resources to help children in America breaks my heart. I attended a meeting in 2017 where the organizers explained that in my stomping grounds of Gwinnett County, Georgia, only 60 homes were certified as foster parents. To put that in perspective, there were more than 700 kids in the foster system at the time in Gwinnett. Because there weren’t enough homes, these vulnerable children would be shuffled around to group homes or even exported to other counties. Who knows what would happen to these vulnerable kids? This broke my heart, and I knew I had to help make things better.

As a result of this fateful meeting, my wife and I became foster parents. Since then, we’ve had 17 wonderful kids pass through our home. These are our “bonus babies” beyond our three biological children.

What breaks my heart professionally? Seeing so few businesses successfully transition to continue life in a new form. It hurts me every time I read about a business shutting down, causing so much loss for stakeholders and damage to the community with the void they leave behind.

Just like I was determined to contribute to the solution of housing foster kids in Gwinnett County, I feel the same determination to help small and medium businesses. What I care about professionally is enabling legacy—that is why I am writing this book.

WHAT YOUR LEGACY CAN LOOK LIKE

We began this chapter with a cautionary tale of what happens when a business owner fails to properly plan an exit strategy. Kyle Smythe's company shut down completely, leaving his workers to seek other employment and his baffled customers suffering a sense of loss for what had become an important fixture of their community.

No one wants to experience what Kyle (and his customers) went through, so let's consider a very different story in which exit strategy planning sets up a business owner to enjoy his legacy in the community as well as a financial windfall from his business.

A client we'll call Sam was referred to me years ago because he was interested in planning to exit his business. The company he built from the ground up in Tennessee specializes in landscaping and irrigation work. Due to his tremendous reputation, anytime a golf course or significant development is being built within several nearby counties, the general contractor will inevitably say, "Get me Sam."

His business was humming, but Sam knew he was getting too long in the tooth to spend all day laboring under the sun with his work crews. A hands-on guy, Sam wisely realized it was time to slow down and exit his business in three to five years, *but he didn't know how.*

We worked with Sam to answer many important questions about his hopes and his aspirations. We immediately learned Sam desired for his company to continue long past his lifetime—legacy was important to him. We also determined he would like to retire, but still serve as a consultant as needed. The Sofer Advisors team further documented that Sam didn't feel the need to keep the business in the family as his kids were pursuing their own professional careers.

Over the course of several months, we worked with Sam to complete a valuation of his business. This provided detailed insights into its current state, and also helped Sam gain clarity about what he could do to increase his company's value before exiting. More, we helped him find a likely successor, his first hire and long-time crew chief, Jeff.

With these pieces firmly in place, Sam approached every day with additional positivity. He wasn't flying blind. He had a plan to achieve his goal. Less than two years later, he exited the business slightly ahead of schedule because all the pieces fell into place easier than he could have hoped.

Jeff bought this business from his mentor at a price that was fair to both of them, and Sam helped him get past the initial hectic bump of changeover. Sam retired to his dream home, yet still works with Jeff weekly over Zoom, answering questions, aiding with vendor relationships, and reviewing operations.

From Sam's perspective, he got everything he had hoped for from this arrangement and more. His finances are secure, his legacy in the community will live on, and he can look forward to never digging another irrigation trench on a boiling 95-degree day again.

If you contrast the stories of Kyle and Sam, the difference effective planning makes is resoundingly clear. The good news is that *every* business owner can enjoy the type of successful exit that Sam did if they are willing to engage in effective exit strategy planning. It's not difficult to join the 20% of owners who successfully transition their businesses. It just takes work. And I've never met a small business owner who is afraid of work.

I'm as passionate about your success as I am about my own. It's what gets me out of bed in the morning. To learn how you can secure your legacy, I encourage you to keep reading. In the next chapter, we'll look at the role of market conditions in planning your exit strategy.

Chapter 2

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What's Going on in the Market

We'll start this chapter by taking a time machine back to the business world of the past. Specifically, we're going to the Wall Street of the mid-to-late 1980s. It might not seem all that long ago—especially since most people reading this book were already alive and might even have been in business then—but think how much our world has changed during the past 40 years.

We must be careful with even the language we use in our space/time excursion since so much of the investment chatter of 2024 is steeped in Silicon Valley jargon. Remember, in 1988, Microsoft and Apple were the only two of today's "Magnificent 7" tech companies that had been founded. Asking a Wall Street analyst what they think about Facebook or Tesla would lead them to ask if you need to take a break from the martini-fueled power lunches that were so indicative of business culture back then.

Time traveling also takes us back to an era when cryptocurrency wasn't a glimmer in anyone's mind, and the first wave of dot-com companies had yet to be born. Still, for all these differences, there *were* similarities to today's business world. One of the most striking is an obsession with mergers and acquisitions (M&A), both then and now. Back when the Go-Go's and Mr. Big ruled the pop charts, M&A work was seen as the ultimate way to strike it rich.

The story of RJR Nabisco may be the most notorious example of this in action. As it existed in 1988, RJR Nabisco was already the product of M&A activity. It combined the R.J. Reynolds Tobacco Co. with Nabisco Brands, the snack food giant that makes Oreos as well as other consumer favorites. R.J. Reynolds snatched up Nabisco for $4.9 billion in 1986 after an earlier $1.9 billion stock swap. But what no one knew at the time of that transaction is how the stage had been set for the largest, most notorious buyout in U.S. history.

In 1988, investment firm Kohlberg Kravis Roberts & Co. (KKR) had an audacious plan to take RJR Nabisco private. It offered $17 billion as part of a leveraged buyout offer, which suddenly made "LBO" a household term decades before social media helped new vocabulary spread virally. But this is where it gets interesting—not everyone was on board with KKR's takeover.

Other investors contested the bid, most notably a group led by RJR Nabisco CEO F. Ross Johnson. Despite the competition, KKR eventually won its prize with an offer of $25 billion, an amount representing the largest ever corporate takeover, astounding the business world. The deal's legacy is especially controversial due to aggressive tactics utilized by all sides to stave off the massive debt load carried by the company after acquisition.

The LBO of RJR Nabisco is such an interesting tale that it resulted in one of the classic business books of all time, *Barbarians at the Gate* by Bryan Burrough and John Helyar. A film of the same name was also made, starring James Garner as Johnson. It's not every day you get a movie centered on accountants, lawyers, and CEOs. That tells you something about how big of a deal this really was back then!

If we hop back into our time machine bound for the present, we find M&A mania is still alive and kicking today. That's right. A recent example showing the Wall Street spirit that engineered the massive RJR Nabisco LBO can be found in the megamerger of WarnerMedia and Discovery, Inc.

The $43 billion juggernaut closed in 2022, with analysts bullish on the combined company. Barrington Research analyst Jim Goss wrote in a report that Warner Bros. Discovery "will have substantial content production and distribution capabilities that can be utilized for a compelling direct-to-consumer offering targeting a variety of demos."

So, giant companies are still hungry to snap up competitors or diversify their offerings across industry. What does that have to do with you?

In short, *everything*.

WHY M&A MANIA MATTERS SO MUCH TO SMALL AND MEDIUM BUSINESSES

When the typical owner thinks about mergers and acquisitions, they may contemplate those megadeals making front page headlines in *The Wall Street Journal*. Deals like RJR Nabisco or Warner Bros. Discovery. While these massive transactions were the entire focus of industry in the past, these days M&A fever has made its way *downstream*—to the realm of small and medium business like yours.

Buyers will purchase any company in the eternal chase for greater value. They're forever seeking the chance to buy low and sell high, whether we're talking about a multibillion-dollar deal or a million-dollar steal. Here's the interesting part. What was once the exclusive province of Wall Street fat cats and corporate tycoons is now the reality for business owners of all sizes.

If you aren't considering your own company from this widened perspective, you are missing out. Among other risks, you're hurting your chances to make the right deal at the right time. Doing so could empower you to move to your next life stage—whether that's retirement or planting seeds for your newest entrepreneurial venture.

To appreciate just how M&A fever will impact your company, you must first understand the big movers driving our current climate.

MACRO TRENDS THAT WILL IMPACT YOUR COMPANY'S VALUE

Owners of small and medium businesses tend to focus on the little stuff, the microeconomic aspects. That's a reasonable approach to run your company. If you serve your customers better than others and run a tight ship, your organization's value will tend to increase. But in today's environment it's vital to also be cognizant of outside forces—macroeconomic aspects—that can play just as big a role in your future as the loyalty of your customer base.

Let's now consider several critical factors that will impact your business, whether you plan to exit in two years or a decade from now.

Trend 1: Our Aging Population

Benjamin Franklin wrote in 1789 that, "In this world nothing can be said to be certain, except death and taxes." After all these years, Father Time remains undefeated. America is facing what many refer to as a "the new silver tsunami" as the population ages and baby boomers approach retirement. This considering an exit in the upcoming years. It's only certain to increase.

The Exit Planning Institute's 2023 owner readiness report explains baby boomers span the ages of 59 to 77, with the average being 68 years old. Seventy-seven percent of the baby boomer business owners surveyed plan to exit in the next 10 years, with 57% narrowing that range down to the next five. Most tellingly, only 14% consider developing a strong exit strategy their top priority.

This is where they are making a mistake, one I hope this book helps you avoid. Business owners who choose not to prepare their exit are still making a choice. Example: Instead of building a team and planning for the future, they tend to wind down revenue—bad for stakeholders, both internal and external.

Sure, the owner may eventually enjoy a nice retirement. But what about the loyal employees? What about the suppliers that saved their skin over the years? What about the customers who relied on them for products and services that are key to their own success? Ultimately, when you exit a business without a plan, others are forced to exit with you—like it or not.

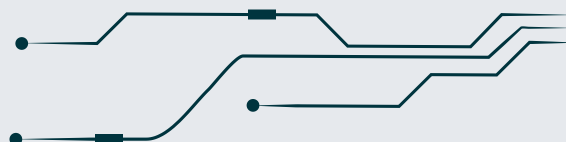
For those considering exit planning, it's critical to know it's potentially a buyer's market due to the wave of baby boomers looking to exit in the coming years. Imagine a 59-year-old owner of a painting business who plans to depart within the decade. He's thinking about his own business when he really needs to be thinking externally as well. There may be a dozen nearby painting companies whose owners also plan to exit during this time frame.

The winner in this arrangement will be the owner who plans ahead, the person who strategically works to make their company the best value proposition for investors. In this respect, exiting is similar to the real estate market. Real estate is perhaps the most familiar way Americans understand the concept of buyer's and seller's markets as the pressures are so clear.

If you're holding real estate in downtown Chicago as commercial vacancies skyrocket and residents flee for the suburbs, you clearly know what a buyer's market resembles. Beating the competition to present the best value is paramount to achieving success in a buyer's market. This runs contrary to the seller's market enjoyed by Chicago's "collar counties." Here bidding wars for fresh listings break out as soon as a property hits the market. Your business is no different. Aging owners means competition to sell, resulting in the need to present the best value to buyers.

Trend 2: AI and Automation

It seems impossible to go a day without the business press flooding us with news about the near-term future of AI and the economy. Roughly half of these types of articles are positive about artificial intelligence and its market impact. The other half are negative, filled with scary implications. Which half is right? They both are, especially when it comes to your value.



On the pro side, tech is the great democratizing force of modern business. It drives innovation at companies large and small and has an even more important effect for small and medium businesses—it drives efficiency. AI helps you knock out routine tasks faster, which makes you more productive. The Magnificent 7 are all focused on AI for good reason. The emerging technologies and productivity boom it will inspire has the potential to add multiple zeroes at the end of their already massive market cap figures.

From the positive perspective, AI is like the World Wide Web. Companies that did not adapt to the internet age withered and died. Likewise, today's companies that adapt to AI will improve their EBITDA. If their product can be completed in half the time, the chance to boost revenues, margins, and profits often follows.

But there is also a con side to AI. Imagine a video business that charged $10,000 to $100,000 for a project just a few short years ago. These days? You can make very convincing content with no equipment or expertise at all. Simply turn to a text-to-video app and let AI do its magic. Clearly, this represents a competition danger. Only so many businesses will survive to be bought up. That video company must innovate new ways to provide value and stay relevant or all of a sudden it will no longer be the pretty girl at the dance. The goal is to have your company's engine as the one that stands out no matter what economic, industry or political cycle we are in.

Beyond this, AI brings unpredictability into the mix. AI is a cultural juggernaut with the potential to change reality as we know it. That means what worked in your business in the past, and even today, may not be applicable in the market in just two or three years. Planning for a decade from now can be daunting when you see just how much AI has impacted things in a single year.

Trend 3: The Cash Superstorm

Record levels of cash dominate corporate balance sheets and private equity firms that must be deployed. Why? Investors aren't impressed by (or willing to pay fat commissions for) low returns for cash held by investment firms. There is a major disconnect between demand for investable businesses and the supply of companies that can transform cash holdings into big wins.

Whether we're talking about Home Depot or an exclusive private equity fund, there are almost incomprehensible levels of cash sitting on the sidelines. No matter what kind of liquid investment this cash is held in, there is only so much return on cash itself—not enough to inspire investors to pour more money into generating fees and commissions. That's not wealth building, and *wealth building via value creation is the name of the game*.

So, how do these companies and investors sitting on giant piles of cash build more wealth? The best way to accomplish their goals is in the private capital markets. Here returns on invested capital regularly reach 50% to 75%. I call this the *cash superstorm*. Just as a weather superstorm involves multiple fronts coming together, the cash superstorm combines this huge need for investable businesses with the coming wave of owner retirements. This superstorm makes the purchase of salable companies quite enticing to private equity and corporate investors. But they won't be buying any old business. To capitalize on this superstorm, your business must be presented correctly.

Yes, buyers will be motivated to make offers, but only if your business comes across in the right light. It is your responsibility to be in the best possible position to enjoy the fruits of any cash superstorm—probably the only major storm you actually want to hit you dead center.

Trend 4: Interest Rate Trends

Stories speculating on what the Federal Reserve will do with interest rates are almost as common as AI fare in today's business press. Since 2008, we have enjoyed extremely low interest rates, but they have shot up over the past several years. This has a direct impact on your company's value.

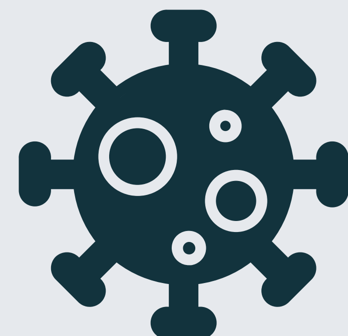
One of my clients had a good friend who sold his business in 2019, when interest rates were still very low. The valuation of that company would be significantly different today. The only major change? Increased interest rates. In case it isn't clear, rising interest rates hurt business valuation. The trickle-down effect of rate changes can end up making so many facets of business operations much more expensive.

Now, if rates stay the same or decrease, it is good for M&A activity. But it isn't hard to imagine a scenario when two years from now, inflation isn't under control and interest rates have shot through the roof. This would seriously and adversely impact the M&A market as financing costs exploded. At the same time, company valuations will also shrink, and fewer transactions will occur.

What does this mean for you, the small-business owner? You may not be able to sell your business and exit when you want to.

Trend 5: The COVID Phenomenon

2020 seems like a lifetime ago, but think about what happened when many states entered COVID lockdowns. Many baby boomers retired. They seized the moment to cash out earlier than many of them wanted to. It may make sense post-COVID for others to follow in their footsteps, cashing out instead of waiting for more money that might not materialize.



Of course, COVID didn't occur in a vacuum. There seems to be a major event every decade that turns the business world on its head, much like the dot-com bust, the 2008 financial crisis, and the coronavirus outbreak and disastrous lockdowns that followed.

Owning a business can be likened to a game of musical chairs. You need to recognize when the music has stopped and act immediately, or you'll be the one left with nowhere to sit down. As the COVID situation unfolded, those that were wise and prepared recognized the necessity of getting out early to retire or move on to their next challenge. In retrospect, many of these sales were enabled by low interest rates, which is certainly no longer the case.

CONCLUSION: THERE IS NO PERFECT TIME

Young couples almost universally talk about having children at "the perfect time." That usually means they don't want to start their families until their lives feel "stable" due to having good jobs, a nest egg saved up, and/or a secure living situation. Despite an intense desire to wait for the perfect time, many (if not most) parents have their kids at a time they wouldn't consider perfect. In fact, learning about a pregnancy can be extremely difficult in the midst of trying circumstances. And yet every parent will tell you their children are the best things in our lives.

Selling a business can feel the same way. It makes sense, doesn't it? Most business owners feel like their company is their baby, just like flesh and blood children. This leads owners to stall a sale, waiting for a "perfect time" that may be little more than wishful thinking.

Owners can often delay a sale thinking they can achieve a higher sales price if conditions shift slightly in the future. Or they simply want to be that pretty girl at the dance that has suitors falling over themselves. The problem with this attitude is that the trends we've just discussed complicate everything about selling your business.

Whether it's the emergence of AI or other factors we can't accurately predict, there is no perfect time to sell. Actually, I take that back—the perfect time to sell your business is when it's absolutely humming. This is also when owners are least interested in selling. Somehow, the adage "buy low, sell high" slips their mind during exit planning!

The best course of action for business owners in light of today's market and the macroeconomic trends impacting M&A is to get over the inertia and begin planning with the Sofer Advisors team of experts. Anyone who regularly hits the gym can tell you the heaviest weight is the front door. Exit planning is no different. Once you get going with the results of your initial valuation, everything becomes easier. Plus, the future isn't so murky. Like getting on the treadmill, that first step is the most difficult. After a while, you wonder what took you so long to start.

Likewise, a valuation and a plan to achieve the exit that works best for you, your family, and other stakeholders will make you wonder why you didn't begin planning years, if not decades, ago. (If only you really did have that time machine.) In our next chapter, we'll explore what a road map for success looks like for small- and medium-business owners ready to heed this chapter's warning.

Chapter 3

SOFER ADVISORS
M&A | STRATEGY | VALUATION

Valuation As a Road Map to Success

This chapter is about the various tiers of valuation services you should consider in order to reach your goals. But before we get into that, here's the story of a recent Sofer Advisors client that will drive home the information you need. I changed details for privacy concerns—what matters most is that it shows a typical case of a business owner who *already* performed light exit planning.

But then life threw her a curve ball she hadn't predicted. As a result, this person, whom I'll call Carole, had to drastically change her plans.

Let's begin our story.

One day Carole was wrapping up another busy, yet satisfying, day at the animal hospital she owned and ran. She had loved animals from an early age, so it was natural she became a veterinarian. After learning the ropes at another practice, she established an animal hospital in a wealthy Atlanta suburb, treating everything from exotic birds and small mammals up to horses, an attractive feature in an area rich with equestrian clubs.

Carole's business grew to $4 million in revenue because she built her business around her clients—wealthy suburbanites who treat their pets like family and will spare no expense to maintain their health. Dr. Carole, as she was known to her clients, always took time to explain pet health options in a compassionate way using the bedside manner we expect for human patients. She also handpicked her team based on their ability to deliver the same level of service.

On an unremarkable Wednesday in the fall of 2023, Carole was reviewing patient notes and emails before heading home. It had been a packed day for her—she performed a surgery in the morning to repair a broken leg for a dog named Scout, went back into the operating room to remove a cyst from Snuggles the cat, and had a first visit with a puppy adopted by a client whose parents had been bringing animals to Dr. Carole for 20 years. Finally, she diagnosed Momo the guinea pig with vitamin deficiency, taking the time to explain to Momo's 6-year-old owner and her parents how to use the vitamin C drops she prescribed for the furry little animal.

Before leaving, Carole reviewed the company email box. She found her office management team—people who loved animals as much as the vets and nurses they worked with—had done their usual excellent jobs answering client inquiries and routing questions to the appropriate staff member.

Then she flipped to her direct work email.

The top message came from another vet named Bill who operated six animal hospitals in the greater Atlanta region. Bill's subject line read: "Let's talk! I have a great offer for your hospital to join our family."

Unimpressed, Carole didn't bother opening the message. She moved on to scan her inbox for things she considered "important." Carole had grown accustomed to seeing emails from Bill, along with several other large competitors as well as financial buyers like private equity firms, interested in buying out her animal hospital.

The reason she didn't bother to open Bill's message is that selling now didn't fit her timeframe. Carole and her husband, Dan, were both in their early 50s. She expected to retire in 10 to 15 years. Then they'd move abroad to live in Italy, a country they both loved dearly after having spent time there in college.

For now? Carole was secure in the stability of her busy, profitable facilities. She had no desire to sell anytime soon. But Carole had no clue how quickly life can change —especially for a vulnerable business owner.

When she got home that night, Dan greeted her. He wore a very serious expression on his face. Uncharacteristic of her happy-go-lucky husband, Carole knew something was definitely amiss.

"I have bad news," was the first thing out of his mouth.

Carole's thoughts went to the recent appointment he had with his doctor. For weeks, Dan complained of indigestion and nausea he couldn't attribute to diet. His thought it might be an ulcer from work stress.

The truth was far more serious. Dan asked Carole to sit down. Then he dropped the bomb: He had been diagnosed with stomach cancer.

“But don’t worry,” he quickly added. “The ball is already rolling. My doctor arranged for surgery next week.”

“Already?” Carole asked, still in shock.

“Yes, it’ll likely be followed with chemotherapy and radiation treatments.”

Carole later told me this conversation felt surreal—after all, *she* was usually the one on the other side of this kind of discussion, laying out treatment plans to clients whose pets were suffering from cancer.

After she got over her shock, Carole’s mind turned to how Dan’s diagnosis would transform everything, beginning with her schedule. For one thing, helping Dan through surgery and recovery would take up a lot of time. So would chemotherapy and radiation treatments.

Somehow, she managed to complete her work that week. Distracted and depressed, it was very hard to focus, much less be her competent, compassionate self. By the time the next weekend rolled around, Carole had made a profound decision, one that would change the course of her life.

In short, Carole realized she needed to devote her time to being Dan’s champion and chief supporter in his cancer fight. She also wanted to maximize quality time with her husband both during treatment sessions and in between.

She couldn’t do all this while still running her busy animal hospital.

Therefore, she made a pivotal decision. Based on unforeseen circumstances, she had to sell her business a full 10 years ahead of her original schedule. Though she loved what she did, it was much less important to her than a future with her beloved husband.

The decision to sell was made clearer by the fact Carole didn’t have anyone within the business who could take over. Her partners were younger vets without the experience necessary to run the hospital. Even if they had the ability, they lacked the funds to become a viable alternative to selling the business.

Right after coming to this conclusion, Carole turned to her long-time business lawyer, Albert, for advice on how to quickly sell her business. She knew her competitor Bill was the most likely choice to buy her out due to the interest he had steadily expressed over the years.

Carole called up Albert, *“How can I fast track the sale of my business?”* she asked her attorney. *“I’m sure Bill will be fair with his offer. Should I just bite the bullet and ask him for his number?”* (From Bill’s frequent emails, it was obvious the man did have an offer in mind—it seemed he just wanted Carole to reply before showing his cards.)

“Carole,” said Albert. *“It’s crucial you understand your company value before entering any negotiation.”*

“It is?”

“Absolutely. You’ll only get one shot at this. You therefore want to maximize your sale price to support your life with your husband and, of course, all the unknowns that could spring up. My advice? Complete a business valuation to get the insights you need to negotiate with Bob on equal footing.”

Honestly, Carole wasn’t thrilled with Albert’s words. She felt a valuation would be too costly and also too time-consuming to provide any real benefit. After all, isn’t a buyout offer *in itself* a form of valuation?

Albert soon shifted her thinking by referring to her own business. “Carole, think about it like this. Would you ever operate on an animal without X-rays and every other appropriate test to fully know what’s going on with your patient? Think of a valuation the same way. You need a deep understanding of your business and its value. This can only come from an expert and an individual independent from the parties and situation. Because a buyer always wants to buy low, a valuation will help you avoid leaving money on the table.”

To her credit, Carole took Albert’s message to heart.

Just because she decided to sell quickly didn’t mean she should act *rashly*. A valuation did make sense based on how Albert framed it: As a tool to grok whether an offer is fair or not, offering solid ground to make a potential counteroffer. She next asked her legal adviser, “So how do I get the most professional valuation quickly?”

She could hear Albert smiling through the phone, "There's only one valuation firm I would point you toward: Sofer Advisors. Let's make the call together to get you introduced."

Based on that initial call, my team and I began working closely with Carole. Together we supported her revised exit plan. Looking back, Carole now reports the valuation work we completed for her was "the best thing I could do to ensure I didn't end up selling my business for much less than it was worth."

SOFER ADVISORS' OFFERINGS: 3 TIERS TO SUIT ANY BUSINESS AND/OR SITUATION

Whether you are in desperate circumstances like Carole or have room to mull your options, Sofer Advisors assists clients with three tiers of valuation services. In the balance of this chapter we'll cover them, discussing the respective strengths, exploring what type of business is an appropriate fit at each level. We'll also explain what tier Carole eventually chose, and why the particulars of her situation made choosing the right tier so very crucial.

Tier 1: Limited Scope Valuation

This is specifically aimed at businesses worth less than $1 million. The typical cost for this tier runs between $1,500 and $2,500, sometimes leading people to ask why it is so budget friendly.

Firstly, it considers the small revenue size of applicable organizations. Secondly, the cost is kept down through the use of valuation software we license to complete this work. There is a tradeoff of quality for speed and low price, though. Our team will only be involved in two to three hours of work for a tier 1 valuation.

So, what's the value of a limited scope valuation? Consider it a finger in the air or an ear to the rails, depending on your preferred metaphor. We view a limited scope valuation as a conversation starter—i.e., what is the value of your business according to the software—is it higher or lower than you imagined?

This first step often results in further questions requiring the more advanced work of a tier 2 or tier 3 valuation to accurately answer. Because we believe in helping clients achieve ongoing success, whenever a tier 1 client moves to a higher tier valuation, we credit them the cost of the tier 1 valuation already purchased.

This is our way of helping clients achieve the crucial data needed to make smart decisions in a cost-effective manner.

Even so, there are several important reasons for a tier 1 valuation. To begin with, it offers an important strategic planning tool. Every business owner wants to grow their business, but growth is more *strategic* when you know where you are today, in addition to where you want to be next year or in five years.

Next, it empowers small businesses to enter into accurate and fair buy/sell agreements. More, a limited scope valuation assists in situations in which a partner is being added to the firm or removed. Last, it is a useful tool for small companies in the earliest stages of an exit planning process.

Tier 2: Standard Scope Valuation

This option is appropriate for businesses more than $1 million in size. It is not really possible to compare tier 2 to tier 1's limited scope valuation as the difference is night and day. While tier 1 valuations rely on software to generate a valuation, tier 2 involves a thorough process based on a valuation built from scratch, specifically tailored to suit your company. The industry term that you'll hear me use during our consultation is "calculation of value report."

The cost for a calculation of value report ranges between $4,000 and $7,000. Our team typically spends 30+ hours compiling the data and producing the output report. One of the interesting features of a tier 2 valuation is that the output can result in a written or verbal report, depending on client preference.

This aspect is worth exploring so the two options become clearer.

Most clients choose to receive a written report. A standard scope valuation with a written report typically runs closer to the higher end of the range as preparing it this way requires extra time. A tier 2 valuation with *only* a verbal report will typically cost 30% less than the written version.

However, the real reason some clients choose this option isn't just pricing. Some clients worry our valuation will differ significantly from their own opinion or a report from another valuation firm.

In this case, not having a written record of the valuation may be of strategic importance.

Why? They won't have records that may need to be shared with other parties in the case of legal conflict or other similar situations.

The strengths of a tier 2 valuation should be clear by now. Tier 2 offers a true valuation based on a model customized to your organization and completed by a team of experts who spent a significant time developing a deep understanding of your operations and current business health.

Note: Many clients complete a tier 2 valuation on an annual or biannual basis as an ongoing *tracker* of company performance to assess if strategic initiatives are impacting the company in a positive—or negative—way.

Another use case for a tier 2 valuation is an M&A scenario in which the buyer isn't yet known. A standard scope valuation in this capacity can provide a wealth of information assisting you in understanding if offers are, in fact, lowballs, or reasonable in nature. Tier 2 valuations are also useful in cases of amicable partner separation or other business leadership changes—with an emphasis on the amicable part.

The reason I stress amicable is that a tier 2 valuation is *not* designed to stand up in court or to the highest levels of scrutiny (IRS, specific buyer, etc). To balance the usefulness and cost of a standard scope valuation, we typically cut hours used to vet assumptions and are selective on how we seek answers on assumptions and other issues.

This is perfectly valid for use in business, but not up to the standards of the courtroom. When you know you're headed to court or are tangling with the IRS, it's time for a tier 3 valuation.

Tier 3: Full Scope Valuation

Tier 3 is like the musclebound older brother of a tier 2 standard scope valuation. This is also referred to as an "opinion of value report." Certain scenarios make this tier the *only* choice for certain clients.

As mentioned, when you know you're headed to court with a partner over a business divorce, a soon to be ex-spouse in a divorce, estate and gift tax planning subject to IRS purview or any thousand different reasons business owners end up in litigation, you require the robustness of a tier 3 valuation.

Similarly, tier 3 supplies the necessary firepower to counter the IRS. In both lawsuit and IRS scenarios, Sofer Advisors offers expert testimony based on our work for an additional fee.

As you might expect, the price point for a tier 3 valuation is higher. It typically runs from $7,500 to $12,500 for a full written report. This is largely driven by the increased time involved—generally 50+ hours.

One mistaken assumption made by clients is that a tier 3 valuation is just a tier 2 valuation with more time spent vetting assumptions and finding answers to questions to ensure accuracy. The fact that we spend additional time to iron out questions and deeply vet our assumptions is certainly true, but it isn't the only difference between the tiers.

The full scope valuation written report includes a full narrative with far more than the math involved in the valuation. It offers the *thought process* behind our work, as well as a wealth of information useful for strategic planning, especially when creating a road map for your company's future.

A key use case for a tier 3 valuation is an M&A situation in which the buyer is known, and a deal expected in the short term. I coach my clients that the more we know of the buyer, the more important it is to perform a full scope valuation. A known buyer is likelier to attack the valuation—again, in order to buy low. This plays out daily in our current business climate of M&A mania. A robust valuation is the best defense against a known buyer running roughshod over your company's true value.

Along with IRS dealings, lawsuits, and known buyers, tier 3 valuations are appropriate for any other situations that are not likely to stay amicable, like a shareholder dispute in a family business. Even beyond these rocky situations, tier 3 valuations are extremely useful due to the vast amount of information they include compared with a tier 2 valuation. Many clients complete a tier 2 valuation annually, then add in a tier 3 valuation on milestone years to gain the most insight into their operations and performance as possible.

CAROLE'S VALUATION CHOICE

After learning the basics of Carole's situation, we presented tier 2 and tier 3 as the best options. Although she initially leaned towards the former based on its lower price and time commitment, we urged her instead to commission a tier 3 full scope valuation based on one crucial factor in her situation—she knew the most likely potential buyer was her competitor, Bill.

Based on this fact it was vital she received the most robust valuation possible. Why? As stated, the known buyer was likely to come in with a low offer and aggressively target the independent valuation. Thankfully, she followed our advice. We immediately began work on a full scope valuation to provide her the most insightful valuation possible.

Our report empowered Carole to effectively evaluate offers from both Bill and another animal hospital system that entered the mix. Negotiations are still ongoing as of this writing, but Carole feels more secure armed with the knowledge of what her business is truly worth. She also feels better equipped to secure a future for her family by making smart decisions in her business.

WHAT A SOFER ADVISORS VALUATION MEANS TO YOU

In the first chapter, we discussed a big problem faced by many business owners—lack of planning for the future. As you'll recall, not planning for the future is a plan in itself, a plan for *failure to exit the business*.

Sofer Advisors' tier 2 and tier 3 valuations offer the solution to this problem. Carole came to us because of a specific triggering event—her husband's cancer led her to exit much earlier than she expected. But that doesn't mean you should wait until your own triggering event to perform a valuation. In fact, many clients consider regular valuations a best practice.

The optimal first step for your company and your eventual exit is to start a cycle of assessment and reassessment measuring both where you are today and where you want to go tomorrow. This analysis is enabled by regular valuations by the Sofer Advisors' team, typically in the form of annual standard scope valuations and a tier 3 full scope valuation at less regular intervals.

Planning ahead in this way will enable you to form an exit plan much as you would form a financial plan for your private finances. But like everything worthwhile in life, preparing a robust exit plan requires significant training and teamwork. We'll cover that in the next chapter.

Chapter 4

Training to Get Prepared

Set aside your current career and athletic prowess—or lack thereof—and simply imagine for a moment you are a professional boxer. As a devotee of the pugilistic arts, you know most prizefighters will never reach the pinnacle of the sport. Now you may think I'm referring to winning a world championship belt, but I'm not talking about taking on the current heavyweight champion of the world.

No, reaching the *true* pinnacle of this sport would mean taking on one of the all-time greats. And you've just been given such a once-in-a-lifetime chance by signing a contract to fight Mike Tyson—the greatest to ever lace up boxing gloves in a generation.

A fight is scheduled for six months from now. The big question you must answer is: *How on earth will you prepare for the fight?* Now, if you plan the way many small- and medium-business owners approach exit planning—having no plan at all—you're headed for swift disaster. No boxer would ever dream of rolling out of bed to face off with Iron Mike in the ring.

A better approach would be to engage in half-hearted preparations like sparring with gym buddies and cutting fast food from your diet. You'd be in better shape than if you didn't prepare for the fight at all, but Tyson would still eat you for lunch in the ring—and he probably wouldn't stop at just your ear!

The *proper way* to prepare for a main event against Tyson would be to build a team of experts to help you perform at your very best. A personal trainer for fitness and a nutritionist would ensure sure you're eating the right things. An expert trainer would lead your sparring sessions, and a salty old cornerman who has seen everything would impart sagacious advice.

Your team would likely include other support staff, such as a sparring partner who has taken on Tyson before, maybe even a video analyst to glean details of Tyson's past fights. *When he ducks left, is he going to try to daze you with a right hook or land his devastating uppercut, which ended many bouts almost before they started?*

For context, boxing earned the nickname “the sweet science” from sportswriter Pierce Egan way back in 1813. The moniker stuck because boxing is truly strategic, often compared to chess in that regard. Contrary to popular thinking, it isn’t at all about wildly throwing punches. Assembling a team of experts and dedicating time to training and strategic preparation is the only way you’ll even make it to round two with a fighter of Tyson’s caliber.

Of course, not everyone can relate to boxing, so let’s consider another story with a similar theme. In early 2024, 26 teams competed in a unique driving event. The Road to Hanoi Marathon is a far cry from the spectacle of a NASCAR race. Instead of race cars thundering around an oval, this road rally event was only open to teams driving classic cars built before 1976. They navigated the jungles of Southeast Asia on a 4,000-mile trek through Vietnam, Cambodia, Thailand, and Laos.

The journey lasted a full month. It involved many intricate tasks of navigation, including driving on the infamous Ho Chi Minh trail. During this time, teams also had to keep their classic cars running—that’s no mean feat when driving through the *jungle* instead of Interstate 75 through Georgia.

The teams that completed the grueling trek carefully planned ahead. They laid out each leg of the journey to not overly stress their vehicles or themselves and had strategic supplies and spare parts in place. More than that, they also made sure to enjoy the trip. For successful teams, the Road to Hanoi wasn’t about the destination. It was about the journey. As a friend once told me, “It’s all about the dash on the tombstone between the date of your birth and your demise.”

On a spiritual note, I’m reminded of pastor Andy Stanley’s message of “It’s not what you save, it’s what you gave.” He is, of course, talking about this at the individual level, similar to how people eulogizing at funerals discuss how much the deceased gave back to the world. On a professional level, my team and I are driven by the same conviction. Daily, business owners lose what they’ve built up by failing to plan for their exit.

It's my mission to prevent that from happening to you.

Just like the boxer facing Mike Tyson or the rally driver braving dirt jungle roads, small- and medium-business owners require a strategic plan and a team of experts to successfully exit their business—whether that’s in 12 months or 10 years.

Luckily, you don't have to figure this out by yourself.

I've developed a multistep plan that's worked consistently for owners no matter their industry and/or circumstances.

PRACTICAL STEPS TO PREPARING YOUR EXIT PLAN

Returning to sports, the best teams practice fundamentals before attempting more complicated plays. Even at the major league level, a second basemen will train fielding ground balls before trying any intricate double play combinations with the shortstop. Your exit plan should follow this same philosophy. There are steps you must take first so you can proceed with confidence, building a plan on solid bedrock instead of shaky assumptions.

Let's start by evaluating where your business is … today.

Step 1: Evaluation

Before anything else involved in creating the perfect exit plan, you must discern what the baseline is—the current value of your business. A valuation tells us what your business is worth in today's market and today's industry.

Since most exit plans are aimed five to 10 years in the future (if not longer), reassessment with some frequency is almost always part of any plan. (If you're in year eight of a 10-year plan, you don't want to be relying on a company valuation almost a decade old.)

Such ongoing company valuations are also performed by Sofer Advisors' team of experts, our most direct contribution to your successful exit plan.

Step 2: Holistic Financial Plan

If a client doesn't have a financial adviser of their own already, we introduce them to one we've had success with in the past. Sofer Advisors works in tandem with your adviser throughout the process using a strong collaborative approach.

Although we list this as a second step, it typically happens concurrently to step 1. (There is no reason to wait for a valuation to be completed to start planning your future!) We can use a temporary figure based on a rule of thumb in developing the holistic financial plan that can later be replaced to refresh the plan once the valuation is completed.

Initially, I was surprised by the number of small- and medium-business owners resistant to both performing a valuation and working with an adviser. As I've discussed the issue more with business owners, it's mostly a matter of worrying over the time commitment, financial costs and relying on someone else to evaluate financials. Owners with an entrepreneurial streak can find this uncomfortable.

Even so, the story of a Sofer Advisors' client we'll call Susan shows why this is so vital.

SUSAN'S STORY: DESPERATELY IN NEED OF EXPERT ADVICE

Susan ran a successful manufacturing firm. It had been in her family for generations. She wanted help developing an exit plan as there wasn't a family member interested in taking over from her. However, she didn't wish to see her company just vanish when she was ready to retire.

There was just one catch in Susan's request: She wanted to skip steps 1 and 2, marching straight to exit pathways.

As diplomatically as possible, I told Susan she had to slow down her approach. I explained the importance of having a business baseline value (step 1) as this would inform practically every aspect of her exit planning. Then I asked her to tell me about her team (step 2). Susan explained she had a financial planner, so I felt a little bit relieved.

This would be short-lived.

Digging deeper, I discovered Susan's financial planner was someone running the company's 401K plan, advising her which mutual funds she should invest her personal funds in. I felt incredulous, thinking to myself, *"That's it?"*

Turns out, Susan never had a financial planner perform a holistic financial plan for her family. Importantly, this type of planning goes far beyond determining some mutual fund selections!

Next, I explained to Susan how a holistic financial planner could collaborate with Sofer Advisors to accomplish modeling based on her personal goals, such as when she'd like to retire, among others. This, in turn, would inform the team about the assets needed to accomplish these objectives. (Without both sides of the coin—an accurate business valuation and a holistic financial plan—we'd be fumbling in the dark.) If the holistic plan's modeling tells us that probability of success is lower than comfortable, then we've got to roll up our sleeves to find ways to enhance value.

Thankfully, Susan grasped the importance of the valuation and the financial plan based on our discussion. She even agreed to stop the process until she could meet with the financial planner I suggested to her, an expert in creating holistic financial plans for business owners like her. What happened next is called "the triggering event." It empowered Susan and her team of advisers to create the ideal exit plan for her needs.

INTRODUCING THE TRIGGERING EVENT

When the average person hears the words "triggering event," they may think of a major life happening forcing a dramatic change of plans, like the cancer diagnosis Carole's husband received in Chapter 3.

Yet in the world of exit planning, it has a very *different* meaning.

According to the Exit Planning Institute, the triggering event is "an independent personal, financial, and business assessment correlated to the business range of value." (The triggering event derives its name from the fact this holistic valuation and planning exercise spurs a flurry of action to set up the ideal exit plan based on a foundation of strong data.)

The triggering event produces a vast amount of data, answering questions like, "If we sold at today's value, would we be able to retire at the age we desire or would we run out of money?" Perhaps the most important query answered by the triggering event is how many years in the future the ideal exit will occur. Without both the business valuation and the holistic financial plan in place, answering this is like playing pin the tail on the donkey.

We completed the triggering event in collaboration with Susan's new financial planner, using advanced techniques such as Monte Carlo simulations to determine the likelihood of the business supporting her desired retirement age. These simulations provide probabilities ranging from high to low. They also answer important questions, creating new ones and further choices.

For example, if the probability is quite high the business value will support the desired exit date, we needn't do much with the business value. Think about the real estate market. If you have the right house in the right location, you probably don't need to renovate to get a strong sale. You might not even need to stage with rented furniture to fetch an excellent price.

But what if the probability of the business supporting the exit plan is low? Sticking with the real estate analogy, we know we'll have to make improvements to sell at a good price in a timely manner. To accomplish this, we might fix up key areas of the home, perhaps working with an adviser who would tell us our kitchen is the first thing to upgrade.

After that, experts can stage the house so interested buyers feel at home as soon as they cross the threshold. In other words, the exit plan is *still* completely possible, but work must be done and questions must be addressed.

YOUR EXIT PLANNING CABINET

When a business value isn't in line with exit planning goals, more questions emerge: Should personal spending choices change? *Should we delay retirement dates?* Yet Sofer Advisors finds the most powerful question of all is: *Can we raise the business value to where it needs to be to support the plan?*

Creating a road map to get there can take many forms, one of which is bringing in another expert. Sofer Advisors often helps clients with value acceleration. If we cannot, we introduce clients to coaches or consultants specializing in value acceleration. These people hold clients accountable, keeping them on track for a successful exit.

You've read the word "collaboration" in this chapter several times. *This is the theme of everything we do.* Imagine having a cabinet of experts who each brings their specialty to your exit plan while simultaneously working with every other expert on your team. (After all, if the president benefits from a cabinet of advisers, why shouldn't you?) Although each team member has their own function, they all serve a *greater purpose*—pointing out blind spots and helping you adhere to the plan.

I sometimes compare this protocol to how doctors work. Healthwise, you may have a team of specialists in your (medical) corner: a podiatrist to treat your feet, a hepatologist to take care of your liver, a cardiologist for your heart, etc. Just as there is a general practitioner at the heart of your medical care team, your exit planning team must have an exit planner at its core. Sometimes, Sofer Advisors serves as that exit planner. If not, we support the exit planner's work. (This may be a CPA or even a family lawyer.)

You can call your group by any name you like—your exit planning cabinet, your dream team—heck—even your SWAT team. Either way, the end result should be a combination of experts working together to give you the best exit plan. This teamwork approach aligns the efforts of each member to stay laser-focused on the single overriding goal: your success.

Now, let's review key roles of your exit planning cabinet.

WHO COMPRISES YOUR DREAM TEAM

The ideal cadre includes experts in a variety of fields. Note: Some of these folks are not always necessary, joining the team only on an as-needed basis.

Financial Adviser

We've discussed this person's role at length so far. Their job is to maintain the most visibility into the personal side of the equation. They know not only your business, but also your dreams and desires. The key is to preserve an expansive view of your goals, assets, and weaknesses.

Legal Experts

Multiple lawyers may contribute to this process. The IP variety can review patents and trademarks, ensuring they are in good standing. Business counsel can help with a buy/sell or lease agreement. An M&A attorney may work on a letter of intent or purchase agreement. Trust experts can set up asset protection vehicles long before a sale. And employment advisers can review issues with contractors and staff.

Accountant/Bookkeeper

Accountants have an obvious role to play. It is critical in exit planning that we ensure compliance with all applicable federal, state, and local tax laws. Also, a bookkeeper can manage the financials of the business, such as the balance sheet.

Exit Planner/Value Accelerator

This is your quarterback, managing efforts of your cabinet, focusing the full group on value acceleration if needed. Sofer Advisors usually fills this role for clients, shaping the overall team and its activities.

Bankers

Bankers contribute to the financing side of any future transaction. If a buyer needs financing, we involve a commercial banker to facilitate, much like a prospective home buyer needs a bank or mortgage broker to close the deal. Bankers are typically involved late in the game—fewer than 12 months before you are ready to sell. As with the real estate market, you don't need an agent to list your home until renovations are done. No one wants to walk into a construction zone when viewing a house!

IT/Cybersecurity

Even a wonderful business running like a well-oiled machine can be brought to the brink of disaster by clicking a single link in a phishing email. So many businesses have been hacked or suffered from ransomware attacks that we must ensure your business is properly protected. Buyers get spooked when they think your business is at risk of IT failure, ranging from hacking to improper backups; this expert plays a crucial role in such safeguarding.

Expense Consultant

Increasing the value of your business isn't only about raising the top line. You can also boost value by cutting expenses. The right expert can find you places to save money, such as reviewing vendors to see if you're overpaying.

Insurance

Insurance is about risk mitigation, a crucial subject. This expert will help with everything from worker's compensation to property/casualty insurance, E&O plans and life insurance, ensuring there are no coverage gaps that could leave your plan in tatters.

Fractional Chief Sales Officer

One of the best ways to raise your company's value is to increase revenues and profits. A sales and marketing expert tasked with boosting revenue can make huge contributions in this area. The "fractional" portion of the title indicates this person isn't working for you full time. They provide extremely impactful contributions on a limited, or as-needed basis.

Fractional Chief Operating Officer

An experienced COO can document processes, discerning everything that makes your business tick. This is especially key for companies in which all the systems are documented only in the owner's head. Moreover, a COO can coordinate with IT experts and other team members to streamline operations via automation, reducing expenses and heightening profits.

As with the chief sales officer, the "fractional" in the title indicates this isn't a full-time hire either, but rather, a part-time expert contributor.

HOW I LEARNED TO LOVE THE EXIT PLANNING CABINET

I recall the first time I was part of an exit planning cabinet in action. It changed my career's trajectory due to how powerful and effective the team was.

I was brought on by a business attorney to help a person we'll call Sam.

Sam was the owner of an architectural business worth about $11 million. He was in his late 50s at the time. The team also included Sam's financial adviser, accountant, and later, his personal attorney. We gathered to provide our points of view on Sam's situation; I doubt any of us knew the magic that was about to unfold.

We came into the meeting knowing Sam's original exit plan. He wanted to leave with an Employee Stock Ownership Plan (ESOP) in place for his staff of 35 to take over ownership. I assumed opinions of this plan were mixed. When it was my turn to speak, I laid out the reasons I was against an ESOP.

I felt an ESOP was not an ideal exit plan for Sam's business.

For starters, ESOP plans are expensive to set up and ongoing administration is also costly. They also work best with 50+ employees when you have a solid middle management structure, not the 35 employees with limited middle management as was the case in Sam's organization. Worse yet, an ESOP can undermine the employees' current culture. Sam was a huge Dave Ramsey fan and believed the debtor is slave to the lender. Why force the company to apply leverage through debt? Plus, the employees aren't owners today—why force them to be? The team discussed my points as well as other points made by members of the cabinet.

By the end of the discussion, they had swung around to my point of view.

Looking back, I remember how cathartic that meeting was for me as a professional. I recall thinking, "This is the right way to plan an exit," and nicknamed the meeting the "state of the union."

This event proved to me there is no substitute for bringing experts into one room (or Zoom meeting) so they can all contribute to each other's ideas in real time. Otherwise, the client receives disjointed advice from the various B2B advisers, and those advisers do not get to hear each other's points of view.

Sam followed the advice of his exit planning cabinet. He sold his company to a private equity firm, and most of his employees are still working for it under new ownership. Sam later started a new company to keep himself busy. He's also spending more time on philanthropy. Sam's doing exciting things and following his passions, thanks to all the work accomplished by his dream team of exit planning experts.

Now that's a knockout success story!

In our final chapter, I'll lay out a vision for success just like Sam's that you can enjoy using your own successful exit plan.

Chapter 5

A Vision for Success

Throughout this book we've discussed many do's and don'ts of exit planning. As you'll recall from the very beginning of Chapter 1, choosing not to plan for the future is *still* making a choice—for a difficult sale or more tragically, no sale at all. Businesses that fold and quietly disappear are a tragedy on multiple levels, from the family aspect all the way up to the health of our economy.

That's why it's so important for you, as a business owner, to get this right.

In this our final chapter, we'll review a real client example of how planning for the future and building an exit planning cabinet can fulfill your dreams and enable future success. As usual, I've changed names to protect privacy, but the story is real. More importantly, this wasn't a one-in-a-million client success—this is what we consider a *common* outcome for clients who prepare early and execute their road map to successfully exit.

Our tale begins with a man we'll call John. John spent his career building a successful property/casualty insurance firm in Georgia. When he first came to Sofer Advisors, he was nearing 50 and at a crossroads. He had devoted his entire adult life to his company but now felt it was time to plan an exit.

We began by exploring the reasoning behind his decision. Like most owners, John spent practically every waking moment working or worrying about his business. Such anxiety interfered with other important things in his life, like attending his children's sports competitions and school events.

He felt a keen sense of being unavailable to his family.

This finally came to a head during at his son's soccer tournament one chilly spring Saturday. John's son, Will, wasn't a starter, but played his heart out whenever he got the chance. His father was in the stands watching his team at the start of the second half when he got a call from a key client. They needed help ASAP due to an employee emergency.

Seeing Will wasn't in the game, John left the stands and went back to his car where (of course) he had his laptop available to work between games. He spent about 20 minutes solving his customer's problem, then rushed back.

Will's team had scored while John was gone and his son played the rest of the game, an uncommonly long amount of playing time.

Afterward, Will excitedly ran to his father. "Dad! Did you see my goal?"

John's heart sank. *The goal scored while he was in the car working?* It was his son's.

The boy recognized the look on John face. "It's okay, Dad, I know work comes first."

That hurt even worse.

John knew this wasn't okay. He didn't want work to come first any longer. At the same time, John wasn't getting the same satisfaction from his company's excellent performance as he once did. It felt lonely at the top. Even big client wins didn't bring the thrill they had in the early days. This led John to a period of soul searching as he tried to determine the right path forward.

John woke up the next day realizing he was at a pivotal moment. To grow his business he would need to take it to the next level, spending *even more* time away from his kids.

This is a common situation in small and medium businesses—we call it "owner dependency." The company relies on the owner's skills to keep operating at a high level, especially as the owner is typically the best salesperson in the company, making its revenue dependent on them, too.

The other option was to sell the company.

John had brought on a junior partner, but this person wasn't yet ready to take the reins via an internal sale. That left the path forward clear to John. It was time to prepare the company for sale and exit the insurance business in the next few years.

Though feeling deep relief, John had never sold a business before. He called his business lawyer to get advice on how to proceed. His counsel's immediate answer was, "Let's make an appointment with Sofer Advisors."

HOW SOFER ADVISORS HELPED JOHN START HIS JOURNEY

From our very first meeting, John impressed us.

He was a man on a mission and had the right mindset from the jump. He started early and was open to our help in reaching the goal he wished to manifest—the ability to gain the work/life balance he craved without fully retiring at a young age.

Sometimes, much of my early work with clients is convincing them of the necessity to take certain steps, like completing a full scope valuation of their business as a benchmarking tool to use throughout the exit planning process. That wasn't the case with John. He knew the importance of doing things right, perhaps due to his many years in the insurance field. In addition, he emphatically trusted his attorney's recommendation. Bottom line: He was receptive to my advice from the start.

Step 1 was to explain to John the two most important things to get an exit plan off on the right foot. The first, as detailed in Chapter 4, is a full scope valuation to create a comprehensive value overview of a company *as it stands today*. The goal isn't to set a price to sell in six months, but rather to have a solid foundation for all future planning and simulations.

My next point was to ask John about his financial planner. Turns out John already had one in Vincent, a man with a fantastic reputation for creating holistic plans based on his clients' goals and wishes. I'd actually worked with this financial professional in the past and referred clients to him, so I knew we were headed in the right direction.

The only issue John had not yet talked to Vincent about was his plan to exit. John and I called Vincent from my office to go over this. Quickly we got the latter up to speed on the situation, setting several activities in motion at the same time.

Meanwhile, my team swung into action with the preliminary stages of the full scope valuation as Vincent began working on a new holistic financial plan. This would be based on selling his business in three to five years, instead of the 10 to 15 the current plan was modeled on.

Next, John and I discussed the concept of the exit planning cabinet. Happily, key components of John's dream team were in place. Sofer Advisors would fulfill the cabinet position of exit planner and overall team leader, and we already had his business attorney, CPA, and financial adviser on board.

Over the next few years, other experts and consultants would join the team for different stages when their expertise mattered. But from the start, the core of his exit planning cabinet was locked in place, mission focused.

WHAT WE LEARNED BY VALUING JOHN'S COMPANY

A full scope valuation generates a tremendous amount of data and insights into a business and its inner workings. Our team of experts always uncovers both strengths and weaknesses. Depending on an owner's goals and timeline, this info gives us the ability to create a road map to success—whether the goal is to sell in a few years, as John planned, or to increase the value over 15 years before handing it off to the next generation.

In John's case, we were laser-focused on strengthening weaknesses we uncovered so the company would be as attractive as possible to buyers. Going back to the real estate analogy in Chapter 4, our client had a great house needing some renovations and updates to make it pop to prospects.

One of the first things we brought to John's attention was how his business heavily relied on a small group of large customers. (John pivoted in the past away from large customers to focus on midsize organizations, but five large entities still accounted for almost half his revenue.)

The issue was John had diversified his customer base by adding many small and midsize clients, but he had not diversified his revenue base at the same time. All it would take is for one or two of these large clients to be lost for substantial revenue to disappear.

This led to one of the major pivots in John's exit planning road map—he refocused both his sales staff and his personal efforts on selling to large companies. Over the next two years, he gained five large new accounts, lessening the risk of being so dependent on specific revenue sources.

Another problem we uncovered? John's accounting was somewhat sloppy. If there's one thing a buyer wants to see from the outset, it's clean and tidy accounting. John fired his current person to bring in an expert his exit planning cabinet mutually recommended.

In short order, John's financials were as clean as a whistle. His firm now operated on an accrual basis and could withstand scrutiny from any buyer. The team also recommended a bookkeeper to ensure the firm's new accounting policies and procedures were followed to the letter. (Much later in the process, the exit planning cabinet recommended John hire a different accountant specializing in M&A work to complete a quality of earnings report.) This can be considered an "audit light."

The report gave prospective buyers greater comfort in what they were purchasing—the peace of mind of knowing a company's financials are rock solid is worth its weight in gold as a sale approaches. This is another example showing the power of having an exit planning cabinet—the ability to find the right expert to complete each puzzle piece, even as the picture itself changes.

As illustration, in the middle of the exit planning road map, one of John's competitors was hit with a catastrophic ransomware attack, crippling operations. We had reviewed John's IT infrastructure and didn't consider this a liability. However, due to the market being spooked by cybersecurity vulnerabilities, we worked with John to locate an expert who could perform an assessment and make recommendations. She reviewed John's policies and procedures then recommended several low-cost fixes to vastly improve his IT security.

The result? One less thing for potential buyers to worry about. And John!

JOHN ALSO WORKED ON HIMSELF

John came into the exit planning process with an excellent mindset, focused on goals beyond the workplace.

Over the course of working through his exit road map he identified further opportunities to improve his own management style—with the help of his exit planning cabinet.

Just as John's business was once customer dependent because a small number of large customers accounted for a high percentage of his revenue, the business was also *owner dependent*. John was both the rainmaker and the person customers would call in case of an issue.

To truly become independent, he had to get better at delegating authority to his staff. This is a common situation in small and medium businesses. John did work on delegating, empowering trusted staff members to be clients' go-to people instead of calls going directly to him. He also began bringing along his junior partner to prospect meetings to help him up his sales game.

Before long, John made the shift from working in his business to working *on* it. He enjoyed both personal and professional benefits based on the change. By delegating authority he once held close to his vest, he also gained the ability to think more strategically and spend time on self development.

One of John's big changes was joining a mastermind group. This brought him into regular contact with a diverse group of business owners and execs all interested in helping each other reach new levels of success. John always felt lonely as an owner—now he had a group offering very different perspectives, helping him learn new ways to approach challenges.

John will attest to the fact that two years into his exit road map, he was a very different owner than he had been in the recent past. He also had a new level of respect for the organization he built and was well on his way to putting his company on the best footing to sell at the best price possible.

JOHN SELLS

As John carefully followed his exit planning road map, making improvements over about 2 1/2 years, it became clear his business was in excellent shape. Meanwhile, the market was presenting an opportunity to sell his firm—the true goal of all his tremendous efforts.

Along with a flurry of work to put the final touches on his company, like the quality of earnings report I mentioned, John put out feelers to three insurance firms we suspected would be most interested in acquiring his business.

Immediately, a bidding war commenced.

One potential buyer presented an offer head and shoulders above the competitors, demonstrating a real desire to integrate John's business into their own practice. They were offering $10 million—much more than John hoped for—but there were deal terms worrying John.

The primary issue?

The buyer wanted part of the deal to include rollover equity and an earn out. In other words, John's payout would be partially tied to the continuing success of the business he built. From the buyer's perspective, this aligns the seller's interest with their own, a very attractive deal.

But John was worried—to make the deal work, he would need to keep working for the firm—so would his life really improve? And would he really get to spend more time with his family if he were still stuck in the same rat race?

The exit planning cabinet held a special state of the union meeting. We helped him understand that in deals like this, earn outs are almost inevitable. Furthermore, his company role would vastly change. Instead of being the lonely guy at the top, the larger firm *would* have multiple management layers running the show. His role would shift to doing what he does best—talking to customers and prospects and building trust that the organization would continue to provide them with top-notch service.

John completed the deal, earning enough from the sale to care for his family for the rest of his life. He also ended up loving his new arrangement. He was constantly engaging in what he considered the best parts of his old life as an owner, without all the stuff that gave him anxiety and kept him up at night. He earned a healthy salary and performance bonuses based on sales while having plenty of time to spend with his family and sharpen his golf game.

John got the ultimate happy ending for any business owner—a successful exit enabling him to lead the life he desired.

Talking to him now, he continually says the first meeting with his exit planning cabinet was the best thing that ever happened in his career.

Most importantly, John's success wasn't due to the business equivalent of hitting the lotto. It was the natural result of planning, hard work, financial discipline, and working with dedicated experts.

JOHN ACTED BY THE BOOK

The secret to John's success is he followed the main concepts outlined in each chapter of this book. Let's conclude our time together by reviewing how John's story fits in with everything you've just read.

Chapter 1:

In Chapter 1, we explored the big reason many businesses never sell—lack of planning. This is often caused by factors like fear, inertia, and ego. The very start of the exit planning process is the portion that no expert can help you with: the decision to make a plan and work with experts to see it through. Ironically, this is one of the most important decisions in the whole process, but we can't help you if we don't know you want to plan for the future!

In John's case, he had an epiphany that made it clear he couldn't keep following the same path. He couldn't dedicate even more time to reaching the next level of success and be with family. Much to his credit, his dedication to start exit planning was sharp and unwavering from the get-go.

Chapter 2:

In Chapter 2, we explained how macroeconomic conditions and trends can impact a business and its owner's ability to sell. Again, John demonstrated a keen understanding of the market, paying attention to what was happening within the insurance sector. This knowledge was a huge contributor to his realization it wouldn't be possible to grow his business without sacrificing more of his time.

Knowledge of the market also played a role in his exit plan road map.

For example, when the industry raised a collective fear of cyberattacks, John and the team quickly responded, ensuring his firm was not vulnerable to similar threats. This flexibility is vital for owners throughout the exit planning process. The road map is a guide to reach a goal, but just like a GPS will sometimes detour around a wreck or construction site, the road map may need to pivot to find the best way to reach that goal.

Chapter 3:

In Chapter 3, we developed a better understanding of company valuations and the important role they play in exit planning. In short, almost everything we do to plan a successful exit relies on the foundation of data created by a thorough Sofer Advisors' valuation of your business.

Although some clients balk at a valuation, considering it a waste of time and resources, John knew from the outset the important role it would play in his exit plan. Following the initial valuation of his firm, we reassessed his company after 18 months, providing ample evidence the road map was working and the company was becoming far more attractive to potential buyers.

Chapter 4:

In Chapter 4, we introduced the work necessary in the initial stages of exit planning to improve the odds of a successful exit. We also explained the concept of the exit planning cabinet—that dream team of experts who advise on your exit plan *and* help you achieve the best result possible.

John was fortunate enough to have most of his exit planning cabinet in place early on in his exit planning journey. Throughout the following three years, experts would come and go as their specific niche was addressed. Throughout the whole process, Sofer Advisors served as group leader, ensuring work was completed on time and focused on John's ultimate goals.

Conclusion

John is not unique or special.

He is one of countless small- and medium-business owners who are the lifeblood of our American economy. What made his exit successful was a dedication to achieving his goals, building a team of experts, and following through on his exit road map to make his company as appealing as possible to potential buyers.

You can enjoy the same success John did, whether you hope to exit your business in two years or two decades. You just need the same commitment to success and a team of experts to help you.

For a growing list of owners, the optimal exit plan begins by working with the Sofer Advisors' team of experts. Daily we dedicate our efforts to company valuation and owner exit planning because this work is far too critical for a generalist firm and we want to be the best at what we do.

I encourage you to contact our firm today so we can help you build the future life you want to lead, just as we have for John and many other clients.

At the beginning of this book, I referred to pastor Andy Stanley's question: "What breaks your heart?" and explained my professional answer: seeing owners fail to exit their businesses due to a lack of planning resulting in countless businesses closing their doors.

This *doesn't* have to happen to you.

Working with Sofer Advisors, you can instead build a road map to a level of success that's completely attainable. All it takes is the right help and lots of hard work. Are you ready to get started now and leave a lasting impact?

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As a skilled financial analyst, he effectively communicates analyses to executives and has been publicly recognized for determining enterprise and equity value in various situations.

His industry experience spans numerous sectors, including technology, health care, manufacturing and distribution, construction, transportation and logistics, retail, and hospitality.

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