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ENTERPRISE

From the December 10, 2004 print edition

Capital

Exit strategy means more than just cashing in

Hutch Ashoo

The biggest payday for most successful CEOs and entrepreneurs is the day they sell their businesses and retire. But millions of dollars may be left on the table if the business owner doesn't have his or her house in order.



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CEOs can, in a relatively short period of time, dodge the potential pitfalls and be on track to get maximum benefit from the exit transaction.

Over the years, our firm has worked with many owners on the sales of their private companies. Although no two situations are the same, we have concluded that there are two common gaps in exit strategies and outcomes that center around the exit planning process itself.

Revenue planning mistake

First, there seems to be a big disconnect for founders and owners between what current business revenues mean to them and what they

Worse than not getting the full value for their companies, they may end up with a gap in their wealth management plans that cannot be filled later.

The good news is that with some effort, and by delegating tasks to good advisers, entrepreneurs and

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will need as a critical mass sum of money to retire and achieve all that is important to them with a high degree of probability.

All CEOs understand that \$18 million compared to \$15 million in sales means an incremental increase in the amount of income they will receive. But, a big disconnect comes when they want to retire at a certain income level.

One client, whom we'll call Bill Edwards, had projected his net sales proceeds after taxes at \$13.4 million. He assumed a growth rate of 8 percent and an inflation rate of 3 percent to determine if he and his wife could meet their retirement income goals and needs as well as hang onto \$3.8 million in assets they wished to leave as an inheritance to their children.

A financial dreams flaw

Being a sharp businessman, Edwards did what many financial planners usually do, and he figured he was home free. The truth, though, is that even if the couple had made 8 percent over their lifetime, it is unlikely the markets would have gone up at a rate of 8 percent every year. This is a flaw in the majority of financial plans and could have ruined the couple's plan and their financial dreams.

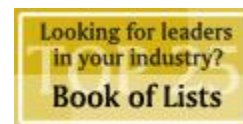
We stress-tested the Edwards' wealth management plan, using nearly a century of historical data, including bull markets and valleys, such as the Great Depression and the 2000-2002 stock market downturn. We discovered that the Edwards' plan would have succeeded 820 out of 1,000 times, which meant the Edwards had roughly an 82 percent chance of achieving all of their goals.

Only after the analysis did the Edwards feel comfortable with the probability of success of their plan. They also understood their plan would have to be monitored and adjusted to ensure that it stayed on track.

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Money Center

Options not out yet

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