

### **Exit Strategy Options**

1. **Package and Sell to a Third Party** – This option is the most common true exit. To maximize value and enhance the ability to close a deal, cash-out and walk away, this option requires careful planning and preparation. Maximizing strategic value brings in “strategic buyers” as opposed to only “financial buyers” and forces a forward-looking valuation perspective [*see separate white paper on Maximizing Strategic Value*]. Having depth of management, lack of key people dependencies (including you) and a realistic valuation expectation are critical. Being prepared to go through due diligence and utilizing strong negotiating skills will increase your likelihood of a successful close. Where to find the buyer is often closer to your contact database than you might think. Understand and explore – up front – what is really important to you in terms of cash, price, agreement terms, treatment of business/employees and other factors. Watch out for contingent and deferred payments – often unavoidable but tricky. Avoid “Main Street” brokers, dual agents and inexperienced advisors. A transaction team includes your own deal advisor, lawyer and CPA.
2. **Sell to Your Management Team** – This option is tricky because you will typically be giving up control before you cash out. However, your management team may be the best equipped to carry the business forward. The terms of the cash-out and giving up control are critical. Granting equity to management over time, with vesting and restrictions, is a good way to test this water. The use of stock options can be effective if coupled with a mechanism to provide management with the cash to do the exercise (either via bonuses or deferred compensation programs).
3. **Set up an ESOP** – An ESOP has its place in the equation, but is complicated and limited to certain ideal situations. There must be sufficient taxable income to warrant this path. In most cases, ESOPs are a contribution to the employee, not really an employee purchase. The ESOP acquires stock of the existing owners and the company contributions to fund this stock acquisition are tax deductible. Highly regulated, this option must be set up with qualified ESOP experts.
4. **Bring in an Equity Partner** – This can effectively be a partial sale and/or a means to creating a stronger path to Options 2 or 6. Adding an equity partner can be a preferred solution with the restriction that the partner must be a very good fit with you and the business and the terms must be equitability structured to protect you in case it doesn’t work out. We have used a 6 month period to allow the owner to back out if it turns out not to be a good fit.
5. **Run it Out and Shut it Down** - Too often this is a forced option caused by lack of forward planning.
6. **Keep it and Generate Ongoing Cash Flow as an Inactive Shareholder** - Truly, this option is too often overlooked. In my view, unless you can get more money via the other options, this path may bring you the most cash and preserve the principal, so to speak, as well as still allow you to sell to a third party (Option #1) when that opportunity arises. Setting things up to allow you to be confident the Company is running properly without you in it every day is certainly critical – but it can be achieved with strong controls and a solid management team.

### **Questions or Contact Information**

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