Exit Planning | Setting the Stage for Business, Financial, and Personal Success

Harold Kremer, CPA, CVA, ABV, CEPA
Dan Schlachter, CPA

Dan Schlachter:

Hi, welcome to our Barnes Denning Ask the Expert Series. I'm Dan Schlachter, a Manager here at Barnes Denning, and I'm here with Harold Kremer, leader of our exit planning team here at Barnes Denning. So Harold, what is exit planning?

Harold Kremer:

That's a good question, Dan. I just finished a course offered by the Exit Planning Institute. In that course, they use a three-legged stool as a way of describing exit planning. The three legs are business, personal, and financial. And if you think about it, a stool is even when all three legs are given equal attention. Sometimes what we see is business owners tend to focus on the business leg of the stool as opposed to all three legs equally, causing the stool to be lopsided. So exit planning allows us to help even out the stool, help them focus on all three legs at the same time.

It also allows us to add new perspectives for each of the legs. For instance, in the business leg of the stool, the business owner may be very focused on profits or tax savings. We can help them look at value and how they can accelerate value and maximize their exit.

Dan Schlachter:

That's great. And I saw you recently just passed your CEPA exam to become a certified Exit Planning Advisor. Congratulations.

Harold Kremer:

Well, thank you. Thank you, Dan. It was a good course. I learned a lot during the course, met a lot of good people, and what it really did was help me understand personal and business goals and what they can be and really see what business owners view as success. Well, as you know, I'm a business valuation expert. You're a great member of our valuation team, but I've been doing this for 25 years and love valuation. It's my passion. It's what I really enjoy doing. But for a lot of valuation projects, we prepare evaluation, we communicate the valuation, and then it ends. We're done with that project.

With exit planning, we prepare a valuation, communicate the valuation, and then build on that valuation, advise on that valuation. We use that as a base and then set goals based on that valuation. So it just allows us to do so much more in the valuation space that it's exciting.

Dan Schlachter:

Absolutely. So when should a business owner contact you to start the exit planning process?

Harold Kremer:

Really anytime. It'd be great if they did it early in their ownership spectrum, just so they could understand value and understand goals from both the personal side and the business side and the financial side, all three legs of the stool, so to speak. So the earlier, the better. That being said, the Exit Planning Institute suggests three to five years is the best timing. But on the flip side, if someone contacted me today and said, "Hey, I've got a health issue or whatever, a change in attitude or whatever, and I want out in a year," we'll do what we can to help them understand value and maximize their exit.

Dan Schlachter:

So how does a business owner go through this process and keep things confidential so employees might not know exactly everything that's going on?

Harold Kremer:

Confidentiality is very important to business owners, we have found. So we do everything we can to be discreet during the process. Anything a business owner shares with us is kept at the highest level of security and confidentiality, we can promise that. But as the business owner will find as we start working with them, we encourage communication to...especially at first, the key management group because they're going to be important in this whole process. As we're discussing building value and doing different things with the company than have done before, helping change their goals, they're going to need the support of that key management group. So we encourage communication, especially at that group pretty early on in the process.

Dan Schlachter:

Now, when you say exit, are you referring to the sale of a business to an outside investor?

Harold Kremer:

Really, exit transactions fall into two categories. One is an outside transaction. Outside transactions can be a sale to an outside investor, like you just mentioned. It might be to a private equity group. Private equity groups are sitting on a lot of money right now, and they're looking for good opportunities. So that becomes a good exit option. The other exit option that's an outside transaction is with other businesses. So maybe it's a complementary business to yours, or maybe it's even a competitor that would be interested in merging with you or acquiring you at some point, and that is an outside option.

Then the other type of exit transaction is an inside transaction. Inside transactions are things like selling to an ESOP, an employee stock ownership plan that's owned by all of your employees, usually leveraged with bank financing. That's becoming a more popular inside option. Another inside option is selling to a key manager or that management group that we talked about. And then a last option that we see a lot in family businesses is a sale to that next generation within the family.

Dan Schlachter:

So it sounds like there's a few different roles here. Do you specifically do all of that?

Harold Kremer:

I don't. I couldn't. It's a big job and it requires a lot of different skill sets. So that's why we built a team here that can help through this whole exit planning process. The first stage of the exit planning process is the discover phase. So during that phase is when we assess the three legs of the stool, the business, the personal, the financial. The business being first is what I'll talk about. That's when we bring in a business valuation team and assess what's the current value of this business, just to set a base value that we can build on and build goals off of. So that involves our valuation team.

Then at the same time, like I said, we're looking at the personal financial side, and for that, we will bring in our wealth management team and they can assess what resources or investments a business owner has outside of the business. So that's the first phase and involves two of the big groups here. Later in the process, we use other folks within Barnes Dennig, like our M&A or merger and acquisition specialists and our tax consulting specialists to help structure transactions or think about what an exit transaction might look like to benefit them.

And then outside of everyone within Barnes Dennig, we've also built a network of various providers like attorneys, bankers, business brokers, and other advisors who are part of the process and we trust them and we bring them in as they're needed.

Dan Schlachter:

So is there anything else you think we should know about exit planning?

Harold Kremer:

I would say every transaction is unique. There's no cookie cutter answer to exit planning. So what we can help provide is perspective on the business path, the personal path, we can help a business owner down those paths to a successful exit.

Dan Schlachter:

Great. Well, thanks for your time, Harold, and your insight. If you guys have any questions, please visit our website at barnesdennig.com. Thank you.