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# Cultivating Value

A bi-monthly newsletter brought to you by The Vineyard Group, LLC

## Thoughts From Tom

***A business owner that expects to maximize value in a sale or merger must aggressively manage the process well in advance starting with obtaining a realistic current value of the business. If there is an "expectation gap" between today's fair market value and what the owner wants or expects, a strategic plan can be developed and implemented that can help to close the gap over a reasonable time. Owners that wait until they want to sell to get an objective determination of fair market value, often miss this opportunity and either take less in a transaction or waste an opportunity with a qualified buyer.***

## In this Issue:



## Our Managing Director

**THOMAS P. BENSON, CPA, CFFA, CVA**

is a Member and the Managing Director of the Vineyard Group, LLC. An experienced executive and advisor, business valuation specialist and litigation support expert, he has twenty years of consulting and public accounting experience along with ten years in senior management positions with manufacturing companies. As a result, Tom has the unique blend of experience, skill, vision and understanding required for handling the complex challenges that today's professionals and businesses are constantly faced with.

In addition to being a Certified Public Accountant and a Certified Valuation Analyst, Tom holds the exclusive designation of Certified Forensic Financial Analyst. He is a member of the New York State Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the National Association of Certified Valuation Analysts.

VINEYARD
GROUP, LLC

*Cultivating Value…Seedling to Harvest*

## Business Valuation as a Strategic Planning Tool

A business valuation is more than simply an estimate of value. Rather, it is a dynamic tool that can enhance, document and support many aspects of a company's strategic planning process. For instance, you can use the information a valuation contains when you are developing a succession plan; devising shareholder or partnership agreements; evaluating minority interests; merging, acquiring or spinning off divisions of the company; or contemplating any other major developments.

### What Can a Valuation Do?

Fundamentally, a business appraisal provides the value of a certain business interest on a specific date for a particular purpose, and must clearly and convincingly establish how the valuator reached that conclusion. To do so, an extensive business valuation contains many related components. Your valuator reviews the history, context and performance of your business to produce analysis, industry research, company data and financial data to support the value conclusion.

This information is invaluable for business owners and managers to use in developing both short- and long-term strategic plans. It can offer a basis for analyzing the status of your business, formulating your business goals and converting them into a plan for action.

By revealing the strengths of your company as well as what could be improved, the valuation gives you reliable information to build on.

This objective perspective on your business's performance provides a basis for making logical and well-considered changes to improve your company's operations while allowing you to keep and enhance what is already working.

To make optimal use of a business valuation:

- Analyze the strengths and weaknesses the valuation reveals;
- Communicate with managers and staff to build consensus on appropriate goals and objectives;
- Evaluate your organizational structure and remove unnecessary or redundant systems;
- Adopt formal action plans with measurable accountability and reasonable time frames.

### Understand the Potential Uses Of Business Valuations

Periodic valuations of your business can serve as benchmarks by which to evaluate the progress of the company and as tools to validate and support key steps in its growth.

# Bowing Out Gracefully

### Assess Your Needs

The first step in creating an exit strategy involves assessing your needs. Some important questions include the following:

Have you identified a family member or trusted manager to take over when you retire? If not, you may want to consider selling your business to maximize value and avoid a crisis.

Have you planned for estate taxes? If you don't have the liquidity necessary to cover your estate tax liabilities, consider buying life insurance or creating a gifting program.

Will other factors, such as relationships with other shareholders or changing market conditions, play a role in your business's future? Disagreements with other shareholders or risky market conditions may dictate the type of plan with which you feel most comfortable.

### How To Set Up an Effective Exit Strategy

For business owners who have spent their lives building a business, retiring may not be an easy prospect. Many lack company-sponsored pension plans and most of their money is tied up in the business. If you or your clients are facing this situation, now is the time to start developing an exit strategy.

### Cashing Out

Unlike people whose investment portfolios are diversified in many different stocks and bonds, business owners tend to have invested the majority of their funds in one thing -- their own businesses. This makes cashing out when they are ready to retire much more difficult.

An exit strategy involves developing a plan for passing on responsibility for running the company, transferring ownership and extracting the owner's money. Because a stable business is worth more than an unstable one, creating a seamless transition is essential to maximize the owner's investment.

Developing an effective exit strategy involves planning on several levels. These include consideration of corporate changes, personal lifestyle changes, family issues, and income and estate taxes.

The cornerstone to any exit strategy is knowing what your business is worth. The company's value isn't necessarily its book value. Many other elements play a role. A professional valuation will lay a solid foundation for creating your exit strategy.

### Look at Your Alternatives

Depending on the results of your needs assessment, you have several alternatives:

- **Sell your shares back to the company.** If you have other partners, you may be able to structure your buy-sell agreement so that the company or other shareholders buy back your shares when you are ready to retire.
- **Bring in a strategic partner.** If you still have some time before retirement, bringing in a strategic partner -- either through a merger or a joint venture project -- may provide you with the liquidity to diversify your investments now. It may also provide you with a future successor.
- **Make a private sale.** When planning a private sale, consider the logical buyer: current management, a customer, a competitor or a private investor. Determine if the sale is likely to be outright, a leveraged buyout or an installment sale. Plan now to ensure you have the liquidity you need when you are ready to retire.
- **Gift to family members.** If you plan to transfer ownership to a child or other family member, creating a gifting strategy early will allow you to reduce transfer taxes. We can help you transfer ownership in a way that will enable you to retain control.
- **Set up an employee stock ownership plan (ESOP).** An ESOP can effectively transfer all or part of your company's ownership to employees while providing you with liquidity.
- **Go public.** If your company has enough size and growth to warrant it, a public offering can raise capital and gain liquidity. Your company will receive the added benefit of the exposure and prestige of being a public company. But an initial public offering is costly, as is complying with the ongoing reporting requirements. And because the market will expect you to stay on as a significant shareholder for some time after the public offering, this is a long-term exit strategy.

### Now Is the Time

Once you have evaluated your alternatives, create a plan to achieve your retirement goals. Consider everything from the transfer of management to the transfer of ownership. Put the plan in writing and distribute it to those involved.

If you are facing retirement and own a business, now is the time to begin creating an exit strategy. The same amount of energy you have devoted to building the business now needs to be spent planning your exit so that you can fully realize the value that has taken a lifetime to build.