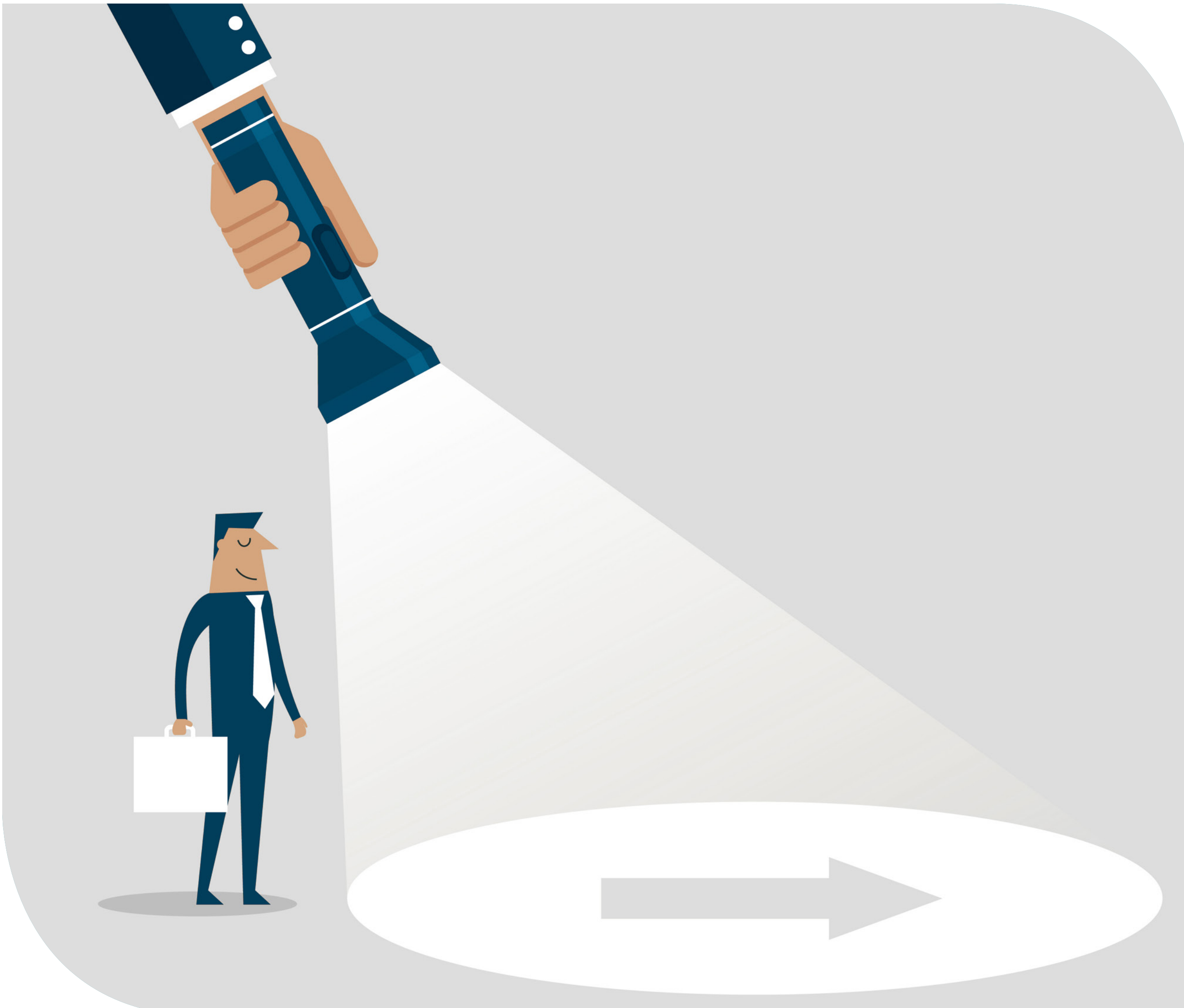
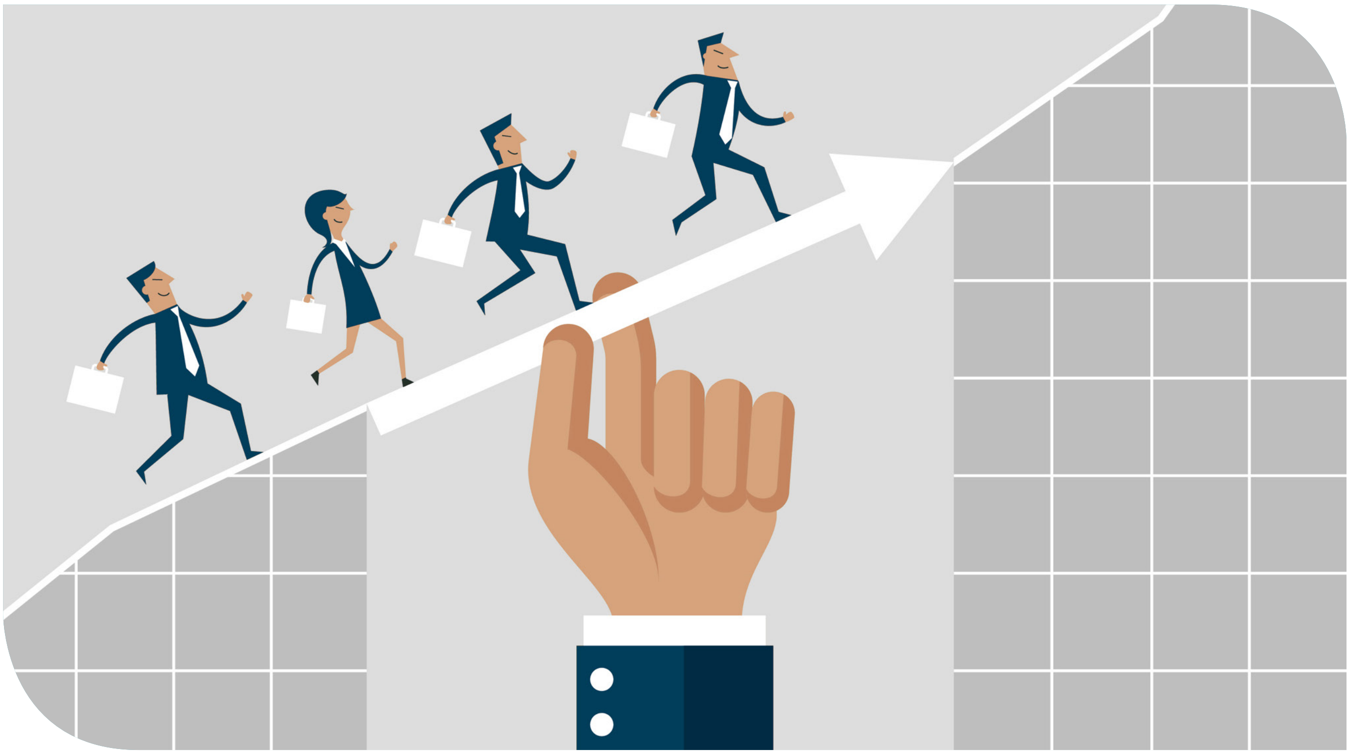


The Entrepreneur's Guide to Exit Options

Fifth Third Bank

The early days of a business can so often be a bustling, exciting cavalcade of refining products, building a customer base, and establishing a market presence. Amidst this heady rush to grow and sustain your venture, it can be tempting to let any thought of a future exit take a backseat.



The truth is, if you have a sense of your ultimate goal, you can more effectively plan for it and operate the business accordingly—even if your horizon is decades away.

From keeping the business in the family to selling to employees to going public, digging into the nuances of each opportunity ensures you pursue the right path for you and your company—and increases your chances of a successful transition.

Here’s how to get started.

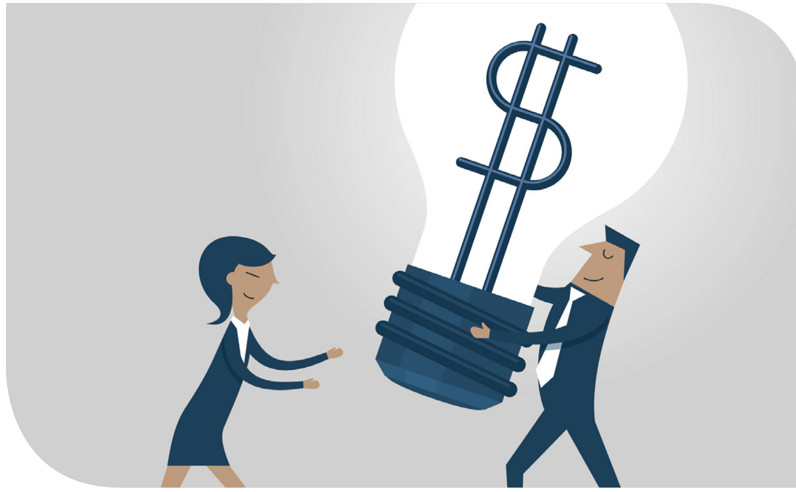
What Exit Works Best? It Depends on Your Goals

There's no one defined exit strategy for business owners. Determining your own exit plan depends on a variety of factors, from financial needs to your desire for the future of the business to the aims of other investors or family members involved—and beyond.

Understand All Your Exit Options

Part of creating an exit strategy is cultivating an awareness of the choices you have for financially exiting your company. For example, selling a business outright may not be an option if you can't find a buyer or receive the valuation you'd like. Understand the available options and you may discover there are more avenues for realizing the value of the time and money you've invested into your company than originally thought.

Selling to a Family Member



According to SCORE, nearly 20% of U.S. small businesses are family owned.

These family partnerships can include spouses, grown children, or a combination of extended family leadership and employees. For many business owners, maintaining family control is the priority when contemplating an exit strategy. In these cases, creating a succession plan is one of the most important tasks a business owner can undertake.

After all, a sudden or ill-planned exit may leave a family-owned business without a sense of direction. A lack of plan, even while you're still with the company, can also enable the current generation of leaders to maintain the status quo, even if it's at the expense of innovation and growth that would benefit the up-and-coming family members.

Key Considerations:

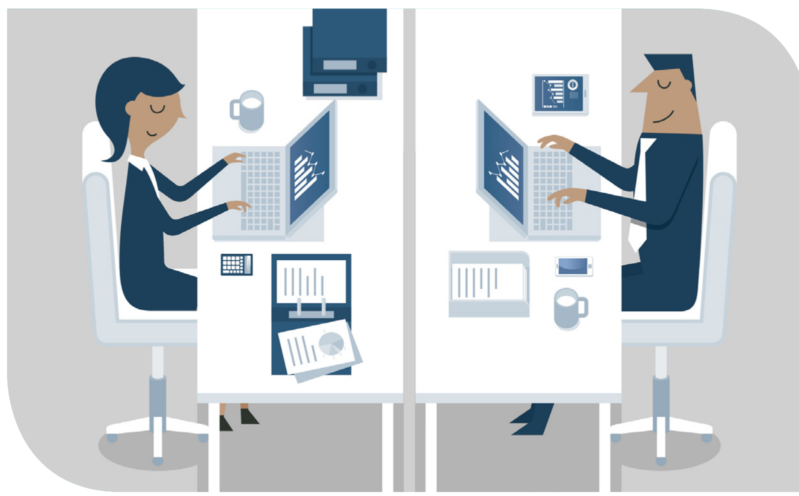
Selling the business to another member of the family requires careful deliberation. If this is the route you plan to take, here are a few important questions you'll need to ask yourself:

1. **Do you want to sell or gift the business?**
   As with any exit, you'll want to begin with a fair valuation of your business based on its current financials and assets, future potential, and valuation multiples. Of course, if you choose to transfer the business to a family member, the actual transaction could look different than if you sold it outright to a third party. You may, for example, end up gifting shares of the company for less than current value or transferring them for nothing to your relatives. In 2018, the IRS permits individuals to gift $11.18 million tax-free over their lifetime. In the past, the exemption has been closer to $5 million.

2
Is everyone involved in agreement with the sale?
Family dynamics are often complicated. In the case of business transfer, you want to ensure everyone is in agreement on the parameters of the sale. Once you find common ground, legally document the agreement to ensure there's a record of what transpired.

3
How quickly do you need the money?
Sales between family members tend to take longer. Future owners often purchase shares from existing family members on a schedule, taking cash from the business to do so. The process may take years, but it makes sense if the successors don't have enough cash on hand to purchase the business outright and owners are intent on keeping the business within the family.

Selling to Your Employees



Sometimes the people who work for your company are the best option for its next owners. They're already personally vested in the company and may even be shareholders. They're committed to the mission of the business and likely possess a solid understanding of its inner workings. Still, selling a business to employees remains relatively uncommon—employees often either aren't interested in buying the company or don't have access to the capital necessary to make the purchase.

Key Considerations:

The good news is that if you have an employee—or group of employees—ready and willing to make the leap, your company can benefit from the continuity of keeping the sale with someone already familiar with the organization and a smoother transition overall.

Asking yourself the following questions can help you determine whether transferring to an employee(s) is the right move.

1. **Is the interested buyer a single employee or the entire staff?**
If you're selling the company to the entire staff you can use an ESOP (Employee Stock Option Plan). Employees fund an ESOP by contributing to a trust, which is then used to buy the business owner's shares. The purchase usually happens over the course of many years. The seller then receives the purchase price plus interest. An ESOP also provides some tax advantages—including a deferral of capital gains taxes, if the transaction is structured correctly. For a single employee or a small group, the financing may be a longer-term buyout of stock or an immediate transfer of cash. The latter is less likely given that most employees don't have the funds available to complete the transactions.

2. **Do you need the proceeds from the sale immediately?**
If so, selling to employees may not be the best choice: The owner is usually financing the sale via the purchase of shares over a longer period time, often years. If you're counting on the proceeds from the exit to fund your retirement or daily living expenses, other exit options likely make more sense.

Selling to a Third-Party Buyer

This is the most common path sought out by owners seeking to exit their business. Selling your business on the open market often helps business owners garner a higher price for the company than selling it to family members or employees. It also removes some of the unique complexities related to those transactions. Your list of potential acquirers depends on your business and industry, but could include larger companies, private equity firms, or an individual.

Key Considerations:

If a third-party sale is your plan, the earlier you prepare the better. An investment bank can often provide invaluable advice as you work to identify potential buyers and then negotiate a deal that meets all of your financial and business objectives.

Answer the following questions to help ensure a third-party acquirer is the best option for your exit:

1 Do you have goals that go beyond the financial aims of the business sale?

Selling to a third-party may raise some questions about the continuity of the current organization. For example, will employees stay on? What happens with the brand? Who will lead the company? If such questions are of concern to you, speak with your investment bank about finding a like-minded buyer who can address those and other issues in addition to financing a sale.

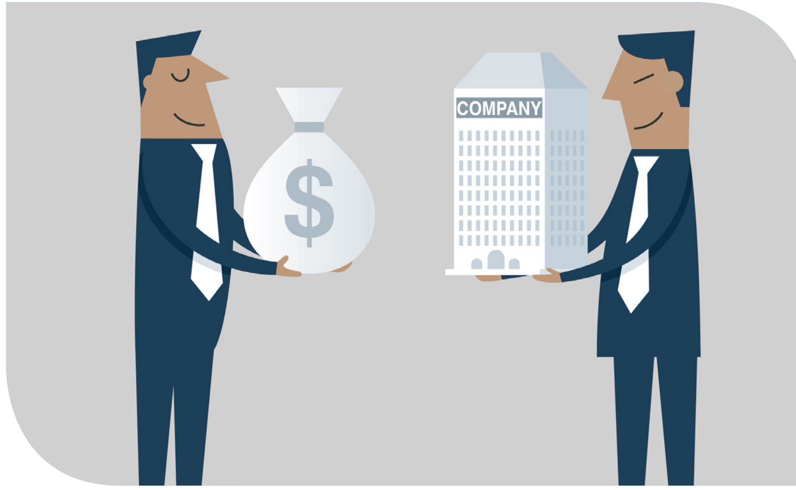
2 Are you prepared to share all the information about your business?

Any potential acquirer will want know to everything they can about your company finances, contracts, product, IP, culture, and more. Though some of these questions may pop up during the initial contact, most will come as the acquirer completes due diligence. If sharing company secrets isn't something you want to do then selling your business to a third-party may not be the easiest of tasks. Be aware: The longer due diligence takes the less likely a deal may survive. So be organized and ready to share if you're motivated to sell.

3 Do you want to keep working for the company after the sale?

An acquisition may require the founders or owners to stay on through a transition period. Evaluate whether that's something you're willing to do and, if so, how long you'd consider working for the company.

Initiating a Public Offering



Going public – that is becoming a publicly traded company via a stock offering – is an option reserved for a small percentage of companies. Businesses that explore an IPO are typically highly scalable companies that have already achieved a significant amount of growth and are looking for even more. Consider that in 2017, only 160 companies with a market capitalization of more than $50 million went public. IPOs have been on the rise over the past few years, and notably, the majority of companies that do go public aren't yet profitable. The public offering provides a way to raise a significant amount of cash, and pay out initial investors as well as the company's founders and owners.

Key Considerations:

An IPO requires a significant amount of strategic planning, expertise, and guidance to execute correctly. Before pursuing a public offering, answer the following questions:

1. **Do you have sufficient legal and financial resources to support the IPO process?**
   Taking a company public means undertaking a significant amount of financial and regulatory responsibility. You'll need a top-notch team of financial, compliance, and legal experts to help steer you through the process. If you don't already have a CFO, finding one should be your top priority. You'll also want to build out your IPO team, bringing in an experienced law firm, auditors, underwriters, and more.

2. **Do you want more than a financial exit?**
   An IPO can certainly pay off for business owners who've spent years building an investment-worthy company. But the exit opportunities that an IPO provides are primarily financial and you'll likely still be charged with leading the company after it's gone public.

Liquidating Your Assets

In the event that you're unable to find a buyer—or perhaps uninterested in selling—you may choose to wind your business down. While not necessarily the most profitable way to exit a business, in some cases it may be the only viable option. That said, owners may be able to realize a financial return via selling the company assets.

Key Considerations:

Closing a business is a big decision—and you'll want to cull as much value from what you've built as possible. Evaluate these questions to decipher whether winding down your company is the right choice.

1. **Have you fully explored your other exit options?**
Before you close a business, ensure that you've fully evaluated other options for selling the company. Explore whether employees or family members may be interested in buying the business. In addition, connect with an investment bank for a conversation about potential buyers you perhaps haven't considered.

2. **Does your business have any assets that can be sold?**
Take inventory of what the business owns. From technology such as phones and computers and remaining inventory to furniture, office décor, and even vehicles, you may be surprised at the assets your company has accumulated. Depending on the extent of any debt, the sale of these items offers the potential of an additional financial return.

Think Ahead from the Beginning

Launching your company requires a lot of hard work, courage, and financial resources. You'll need to put that same effort into setting your company up for success when it comes to an exit strategy.

Take the time to consider all of your options during the business planning phase so you can keep your goals in your line of vision. For example, if you plan to leave the business to your children, then incorporating them into the company early is critical. Similarly, if you're looking to sell to a larger industry player or PE firm, then you'll want to know what these potential acquirers look for in a purchase—and incorporate those into your own objectives.

One last tip: Continue to review—and, if necessary, revise—your exit options as the business grows and evolves. You can even use those reviews as an opportunity to figure out how to optimize your business today so it's a more attractive asset when you are ready to exit.

With the additional effort, you and your business will be set up for the best possible outcome.