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Our mission is to devote our best skills, efforts and resources to advise our clients enthusiastically and creatively to accomplish their business, tax, family and estate planning goals and objectives, and we offer superior personalized attention with the utmost regard for privacy and confidentiality.

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Business Successions and Exit Planning Strategies



David Lukinovich

Over the years many of our clients have been willing to recognize their mortality by executing Wills and Trusts, and engaging in lifetime Wealth Conservation Planning to reduce their potential estate tax liability. However, even though many of these same clients have the majority of their assets trapped in their businesses (many of which are illiquid), we have found that less than ten percent (10%) of our clients have a business succession plan and even fewer have a business exit strategy plan.

Business Succession Planning versus Exit Planning

A business succession plan focuses on the survival of the business, including (a) the development of business continuation strategies, (b) marketing to attain a solid customer base, (c) analysis of regulatory environment, (d) building and developing bench strength in employees and management, and (e) developing and protecting intellectual property, know-how and competitive advantages that help the business survive and hopefully thrive.

On the other hand, business exit planning focuses on the needs of the business owner (not the business itself) and examines whether the business owner has positioned himself or herself or his or her family to utilize the business as a resource to attain financial freedom, defined by Robert Kiyosaki in *Rich Dad Poor Dad*, as the ability to enjoy a lifestyle without earned income. In addition to being concerned about their own personal welfare, business owners often times are interested in creating financial freedom for their employees who have devoted many years and possibly decades to the development and success of the owner's business.

Beginning with the End in Mind

Regardless of whether a business owner ever sees himself or herself as retiring or exiting the business, it is inevitable that the owner's business tenure has a shelf-life, just like the business' inventory or products. *All good things, no matter how enjoyable,*

will come to an end. Even if you enjoy owning and working in your business, you will not live forever and will need an exit plan. Therefore, as Steven Covey encouraged, ***you should begin with the end in mind*** and plan for your life and the lives of your family beyond the business.

Realistically, you may not be able to control when you sell or exit your business. Most business advisors suggest that a business exit strategy should have 3 to 5 years to develop. They may or may not be right, because this depends on whether certain important factors line up to your advantage at the time you desire to exit, such as whether interest rates are low enough; capital is available; there is an active mergers and acquisitions market; buyers in your industry segment are willing to purchase your business; you are operating in the appropriate taxable entity structure; your business is experiencing strong cash flow; and/or whether you have been faced with catastrophic challenges such as a business interruption, loss of key management, personal or family illness or disability, death, and/or declining health issues, and/or any other matter that may be out of your immediate control.

Whether you exit or not, it is beneficial to prepare for an exit because such an exercise will help you focus on what you need to make your business attractive to a buyer and, as a result, very likely will enhance the success and profitability of your business on a going-forward basis and help you see ways to improve your business for your own benefit, not just the benefit of a future buyer.

Exit Options

Some time ago, I read an excellent book entitled *Dance in the End Zone: The Business Owner's Exit Planning Playbook* by Patrick A. Ungashick, which is used by White Horse Advisors to coach business owners on exiting their business. *Dance in the End Zone* uses Elmo Wright's famous first time dance in the end zone and other football imagery to address exit planning issues.

Using *Dance in the End Zone's* terminology, whether you are (1) a "Passer" passing the business down to your descendants or other family members; (2) an "Outie" selling or transferring your business to a third-party unrelated buyer through a sale, merger or other strategy; (3) an "Innie" selling or transferring your business to key employees or lieutenants as a financial reward or to fulfill a commitment for their loyalty (either through an outright sale, an ESOP, a deferred buy-out arrangement, etc.); or (4) a "Squeezer" squeezing out profits without a belief that you can build significant residual business value, planning with the end in mind will enhance your chances of successfully exiting your business and achieving your goals and objectives, which may include:

- (a) Gaining financial freedom or fulfilling personal or family dreams;
- (b) Leaving a legacy for yourself, your family or your loyal employees;
- (c) Passing your business to family members or employees;
- (d) Achieving success and relevance in your community;
- (e) Generating funds to support your charitable goals and endeavors;
- (f) Gaining a personal sense of achievement, self-esteem, or relevance, or avoiding financial disappointment or loss of self-esteem; and
- (g) Risk management and avoiding an unintended failure to your ongoing business.

Preparing for Exit

In order to accomplish your exit successfully and without needless anxiety, you should consider taking the following steps:

- (1) Preparing a written succession plan for the operation of the business;
- (2) Selecting and meeting with qualified advisors, including tax attorneys, CPAs, financial and insurance consultants and specialty lawyers, consultants or advisors (e.g., specialists to address environmental issues, protecting and preserving intellectual property, reviewing deferred compensation plans that may need to be transferred to the buyer or terminated, etc.);
- (3) Preparing an assessment of your family's financial goals for retirement;
- (4) Mitigating business risks by removing excess capital from the risk of the operating business;
- (5) Ascertaining proper entity/tax structures for your business to exit with tax efficiency;
- (6) Establishing compensation plans and non-competition and/or non-solicitation agreements to retain key employees and to protect intellectual property;
- (7) Developing a clear vision for the timing and alternatives of your exit;
- (8) Communicating exiting goals to family members and employees to align your vision with theirs and to prepare your family for your retirement and the next phase of your life and theirs;
- (9) Beginning to shift ownership (not necessarily control) to family members or family trusts to mitigate future estate taxes if your business is experiencing exceptional growth or potential;
- (10) Developing and grooming successor managers;
- (11) Branding the business and preventing a situation where the business is overly identified with you as owner to reduce the amount of time you may need to remain involved with the business after you exit and to avoid having to take too large of a portion of your sales price in the form of a non-guaranteed earn out; and
- (12) Posturing the business for the proper exiting time either to meet an optimum environment for the marketing of your business, availability of capital to potential buyers, taking advantage of a low interest rate environment or simply being prepared for an industry roll-up or strategic buyer who may knock on your door unexpectedly.

Conclusion

As much as you work *in* your business on a daily basis to navigate through competition, regulatory and tax laws, maintaining profit margins and profitability, and defending against other unexpected challenges, you should work *on* your business and begin with the end in mind by developing your successor management team for the welfare and perpetuation of your business, while identifying your ultimate exit strategy and taking steps to ensure that your exit strategy leads you to financial freedom and the fulfillment of your legacy.



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