

# THE EXIT PLANNING REVIEW™

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## Quantify Your Resources: The Ultimate Exit Test

*This issue brought to you by:*

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In the first Step of The Seven Step Exit Planning Process™, you, as an owner, establish three primary exit objectives:

- The date you wish to exit;
- The amount of cash you want upon exit; and
- Your choice of successor.

Today, let's look carefully at that second objective: How much cash will you need from the sale of the company to enjoy a financially secure post-business life? For most owners this is a great starting point for determining when, or if, they can leave their businesses.

Peter Daniels was the 58-year old (fictional) owner of Daniels Food Processing, Inc. He had engaged his financial advisor to:

- Set a realistic assumption for a rate of return on Peter's investments;
- Research actuarial information to determine average life expectancies for both he and his wife; and
- Help him and his wife agree on and establish an acceptable post-exit annual income amount.

As part of this process, Peter and his advisor reached the critical question whose answer would determine Peter's ability to retire on his terms: What must the value of Peter's business be if Peter is to leave, as he desires, at age 63?

Like Peter, your resources are likely both in the business and outside of it. You need to know the value of both so you can determine if there is a gap between the amount of money you will need in the future and the amount you have today. This gap must be quantified and—to exit successfully—you must create and implement a plan to close that gap. Most owners retain an experienced financial planner to help with this project.

Peter and his advisor used the following process:

First: Peter and his wife (Pam) agreed on their future annual income needs. They believed that they could live on \$200,000 per year (95% of their current income) and would require that level of income for approximately 30 years (based on their life expectancies).

Second: Peter and his advisor, using their agreed-upon estimate of a projected rate of return, calculated that Peter's non-business investments assets would be worth approximately \$500,000 in five years (Peter's desired exit date).

Third: Peter's advisor calculated that the amount of investment capital needed to pay Peter and his wife \$200,000 per year for the duration of their lives (based upon current actuarial tables and assuming a seven percent

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investment return\*) beginning five years hence is approximately \$3,000,000. Thus the net (after tax) sale proceeds from the sale of the business must be \$2,500,000, or between \$3,000,000 and \$3,500,000 pre-tax.

Fourth: The business is today worth between \$1,000,000 and \$1,500,000.

**Bottom Line:** The gap between what Peter has today and what he needs to retire on his terms is about \$2,000,000. Therefore, Peter must increase the value of his company by at least \$2,000,000 if he is to exit on his terms.

This is why Peter needs at least five years to plan and why he must start today.

Many of you can identify with Peter's situation because you face the same challenges. Peter knows what he has to do and he's found the motivation to start the planning and preparation necessary to leave his business in style. Have you?

For Peter, and perhaps for you, five years is a tick away. It's time to get busy.

Contact me for a recommendation about who can help you to determine your business's current value and the gap (if any) between what you have today and what you'll need in order to exit on your terms. We can help you to understand your ultimate objectives and what you must do to reach them. Contact us today if you'd like help getting started.

*\*In today's market, few financial advisors are comfortable projecting a seven percent investment return and few owners can tolerate the risk involved in achieving that rate. If half that rate of return is a more realistic figure, then the owner's principal (in this case business sale price) must almost double to yield the same amount of income.*

*Subsequent issues of The Exit Planning Review™ provide balanced and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit Planning topics. If you have any questions or want additional Exit Planning information, please contact us.*

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