THE EXIT PLANNING REVIEW™

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The Importance of Financial Statements in the Exit Planning Process

Whether you plan to transfer your business to an insider or sell to a third party, demonstrating your company's financial stability through sound financial statements is a crucial step in successfully exiting your business. When you first meet with an Exit Planning Advisor, he or she will want to determine your company's current financial status, an assessment that involves reviewing:

- Business tax returns for the previous two to three years;
- Current financial statements of the business; and
- Your personal financial statements.

Does your Exit Planning Advisor need your company's financial statements at your initial meeting?

Yes. He or she needs a clear and comprehensive understanding of your financial picture for several reasons.

First, the company's financial statements not only allow your advisor to understand your current financial position, but enable him or her to effectively gauge what you have already accomplished and what remains to be accomplished to create a successful exit plan. As your advisor identifies areas in your business that need strengthening, he or she can suggest and help you implement strategies to create a positive cash flow trend or increase profits. The goal: to achieve your overall exit objectives.

Second, your financial statements provide much-needed insight into what makes your business tick and what criteria you use to base all of your financial decisions.

Third, and most importantly, financial statements provide cash flow information which we can use to determine both the value of your company and its possible sale price. Financial statements show you and your advisor the historic earnings, cash flow results and past years' trends.

Historic results and trends can be indicators of your company's future performance. In short, we need this information to estimate what you can reasonably expect to receive for your company.

Finally, reviewing your financial statements with your advisors will help to dispel any misconceptions you may have about your company's value and the likelihood of growing value quickly. For instance, you may believe that recent improvements will double cash flow and company profits over the next couple of years. Your advisors, however, will also look at your company's historical trends to determine whether past cash flow activity supports your belief.

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In short, the starting point for sound Exit Planning begins with reviewing well-prepared financial statements.

If you have any questions about the importance of financial statements in the Exit Planning Process, please contact us to discuss your particular situation.

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.