Exit Planning

Neglecting it can be a costly mistake.

BY WILLIAM J. LYNOTT

As a busy podiatrist, you have more than enough daily challenges competing for your attention. That's one reason why so many of your peers fail to plan adequately for the inevitable day when they will part company with their practice. While there is no way for you to know for sure when that day will come, you can be certain that it will come. That leaves only the question of how you will take your leave.

"An exit plan is as important as a living will or your budget," says management consultant Skip Evans, Centennial Colorado. "It's critical to have a game plan for how you want to disengage from your practice at some point in the future."

Writing in his newsletter, *Exit Planning Review,* professional exit planner and author John H. Brown, Golden, Colorado, said he knows of only eight ways to leave a business:

- Transfer the business to a family member;
- Sell the business to one or more key employees;
- Sell to key employees using an Employee Stock Ownership Plan (ESOP);
- Sell the business to one or more co-owners;
- Sell to an outside third party;
- Engage in an Initial Public Offering;
- Retain ownership but become a passive owner;
- Liquidate.

"An exit plan is as important as a living will or your budget." —Evans

While an initial public offering (IPO) is the least likely possibility for most podiatrists, chances are that one of the other seven paths is best for you—but which one? And which one would be disastrous for you or your heirs? Whether your retirement is just around the corner or years away, you owe it to yourself to begin considering these questions right now.

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"A well-designed exit plan has many advantages," says business intermediary Richard H. Marsh, Jenkintown, Pennsylvania. "Among other things, a good plan will help the owner to maximize the value of the practice. It will also make it possible for the owner to leave the practice under his or her own terms at the time of their own choosing."

"My partner and I believe that professionals in practice should plan for their exit at least two years prior to leaving, if not longer," says Fred Hageman, Hageman, Stansberry & Associates, Cameron Park, CA. "And you should have a clear understanding of what it means to exit the practice. Will your departure be merely a function of training your children or heirs to run and manage the practice? If so, do you plan to have any passive involvement, like being a minority owner? If you have such a plan, do you have a written agreement in place outlining compensation or other benefits?"

Many professionals plan to stay on in a part-time role after they retire in order to help a son or other family member, a common arrangement in family-owned practices.

In some ways, it's understandable why a podiatrist will neglect planning for the future. "With so much time spent running the practice, dealing with human resource issues, ensuring that there's enough cash to pay the bills, and still trying to eke out some semblance of a family life, most professionals neglect planning for their eventual exit," says exit planning professional and CPA, Greg Austin, Saint Louis, MO. "That's unfortunate because one thing is certain; eventually every owner must eventually exit the practice."

"One thing is certain; eventually every owner must exit the practice."—Austin

What Is an Exit Plan?

According to Austin, many professionals already have one or more of the following:

• A will to direct how their assets should be handled when the practice owner dies.

• An estate plan which is usually created to assist in minimizing the estate and gift taxes paid on transfers of the practice owner's assets.

• A verbal or written succession plan with their children, co-owners, or key employees about who should run the practice in the future.

"While these items are key ingredients in a formal exit plan, no single item is a plan in itself," says Austin. "A well-prepared plan will use a team of professional advisors—an attorney, CPA, financial planner/insurance professional—all focused on meeting the practice owner's exit goals."

"At a minimum, your exit plan should answer the following questions," says Evans.

• To whom do I expect to sell the practice—partners, outside buyer, family, etc.?

• What formula should be used to determine the value of the practice for a buy/sell agreement with co-owners or in the case of the owner's death?

• At what age do I want to retire?

• What do I want my surviving spouse or family to do with the practice? Sell it or continue to operate it?

"If you own the real property from which your practice operates," says Evans, "make sure it is owned by an entity separate from the practice. Also, you should re-assess your corporate entity type. Consult with a knowledgeable accountant or attorney to determine what is best for you and the future of the practice."

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Your Exit Plan Will Affect Your Practice Plan

In his book, *How to Run Your Business So You Can Leave It in Style,* Brown says that owner-based goals for exit planning fall into three broad categories:

• To create and preserve the value of the company.

• To provide a means to exchange that value for money with the least tax consequences possible.

• To meet personal and family needs by providing security and continuity to your business and for your family either upon your planned departure or if disaster strikes, upon your death or disability.

Let's say that your retirement plan includes the hope that you will be able sell your practice to an outsider or competitor for a tidy sum. In that case, you will want to do everything possible to build the market value of the practice. That may include such tactics as making significant capital investments in facilities or equipment, and marketing plans designed to assure steady growth.

However, if your long-range plan centers on passing the practice to a family member with less experience, you may be more interested in the creation and implementation of internal systems designed to run smoothly without benefit of your personal oversight.

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If you expect to divorce yourself entirely from the operation of the practice once you leave, you'll probably want to hire and train someone who has the sort of skills and interests that will be missing once you take your leave.

And don't forget your financial needs. If you expect to add to your retirement funding with a hefty chunk of money from the sale of your practice, that could be a problem in a sale to a family member, or even a partner or employee. Where will that money come from? If the buyer can't come up with it, an expensive loan could prove to be a roadblock to the sale.

Will You Disappear or Stick Around?

Perhaps you've had your fill of the pressures, stresses, and headaches that go along with carrying the entire load yourself, but can't stand the idea of retiring to the garden. In that case, you may find yourself looking for a buyer willing and anxious to take advantage of your irreplaceable experience and knowledge. This could mean a sales agreement that includes your continued participation as a paid consultant. If that sort of arrangement is on your mind, now is the time to crystallize your thoughts on how it can be arranged.

What Happens If You Die in the Saddle?

No matter your age now, there is always the possibility that you may depart this mortal world when you and those around you least expect it. Without proper planning, that unfortunate event could dump an awful mess in the laps of your heirs.

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"Although none of us likes to contemplate what would happen if we were to become disabled or die suddenly, a good exit plan will have those bases covered," says Austin. "This could include insurance, stay-bonus plans for employees, buy/sell agreements with co-owners or friendly competitors, or other contingency planning tools."

And, of course, your exit plan should include enough insurance to allow for continuation of the practice at least until your heirs or partners are able to sort everything out well enough to allow them to stay in practice or arrange for a profitable sale.

Don't Etch Your Exit Plan in Stone

"There is one characteristic common to every well-thought-out exit plan: flexibility," says Marsh. "No matter how certain you are now of just how you want your exit from the practice to play out, there's a good chance that you will change some part of your thinking before that time arrives. Nothing is static in either practice or personal life. That's why you must be ready and willing to adapt your plan to changing circumstances."

Will You Need Professional Help?

"Effective exit planning requires input and participation by a variety of professionals," says Austin. "Professionals formally trained in exit

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Good Exit Planning Involves Answering "Yes" to Seven Questions

1) Do you know your exact retirement goals and what it will take—in cash—to reach them?

2) Do you know how much your business is worth today, in cash?

3) Do you know the best way to maximize the income stream generated by your ownership interest?

4) Do you know how to sell your business to a third party and pay the least possible taxes?

5) Do you know how to transfer your business to family members, co-owners, or employees while paying the least possible taxes and enjoying maximum financial security?

6) Do you have a continuity plan for your business if the unexpected happens to you?

7) Do you have a plan to secure financial independence for your family if the unexpected happens to you? •

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planning recognize the importance of allowing a practice owner to determine the how and when of exiting, and they understand the power of a team of professional advisors working together to develop an optimum exit plan."

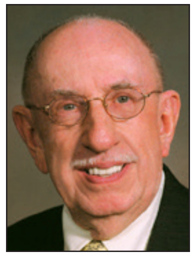
Austin says that a skilfully drawn exit plan will consider not only the financial and tax ramifications for the owner, but also for the practice and its new owners. "A good exit plan will also take the owner's family and personal situation into account," he says.

"Depending on the size of the practice, a transfer to insiders may involve tax considerations such as transferring at least part of the practice at a low value in order to save taxes," says Marsh. "That's where the help of professionals can be critical."

"Your plan should be written down and formalized so it can be analyzed, reviewed, and modified as circumstances change."—Hageman

"Just like a good practice plan is a smart move, so is a good exit plan," says, Hageman. "Know what makes sense for your departure. Discuss it with your trusted advisors. Listen to their input. Keep in mind that the better prepared you are, both mentally and organizationally, the better you will be able to execute your exit plan. And, your plan should be written down and formalized so it can be analyzed reviewed, and modified as circumstances change."

Whether you need a professional exit planner to help you put your plan together is a decision that only you can make. However, professional planners agree that the most important step you can take in exit planning is to get started early. "The day you start your practice," says Austin, "is not too early to begin planning for your exit." **PM**



Bill Lynott is a management consultant, author and lecturer who writes on business and financial topics for a number of publications. His latest book, Money: How to Make the Most of What You've Got is available in bookstores. You can reach Bill at lynott@verizon.net or through his website: www.blynott.com