



## Building Business Value Through Exit Planning

Business owners seldom seek to exit their businesses without attaining financial security. They understand that one requirement of financial security is to grow business value, but many struggle to achieve this goal. Fortunately for these owners, Exit Planning can directly address their need to build business value and serve as an unexpected solution for owners who want to increase their businesses' value, but don't know how.

One of the pillars of Exit Planning is a timeline that plots the value-building actions that owners should consider in order to position themselves to exit their businesses on their chosen exit date. This timeline incorporates how much the business needs to grow in value to meet the owner's financial target by the owner's departure or exit date. The timeline is created after the business owner's professional advisors assess the owner's current resources (especially business value and cash flow) relative to the owner's financial needs post-departure.

For example, a business owner may want to exit in five years with \$250,000 of post-exit annual income. Her Advisor Team may determine that the value of her business must grow from \$3 million to \$4.5 million for her combined ownership and other assets to provide what she needs to achieve her goals. They may also determine that growing cash flow (or EBITDA) by \$100,000 per year would likely create that value. Action items and anticipated benchmarks are added to the overall Exit Planning timeline to keep everyone focused on what needs to be achieved and when.

Following the creation of the timeline, the next Exit Planning step is to assess the strength of the company's *Value Drivers*. Value Drivers are activities that create value in a company. Third-party buyers, private-equity firms, and even key employees often require businesses to have strong Value Drivers before they consider purchasing the business. That's because Value Drivers often create sustainable, recurring, scalable, and ever-increasing cash flow.



**Peter Racen, CLU®, ChFC®, CASL®,  
CFP®, AEP®**  
[peter.racen@nm.com](mailto:peter.racen@nm.com)

**Northwestern Mutual Wealth  
Management Co., LLC**  
[www.peterracen.com](http://www.peterracen.com)  
424 S. Woods Mill Road  
Suite 110  
Chesterfield, MO 63017  
[314-744-5270](tel:314-744-5270)

Some of the Value Drivers that you may install in your business include:

1. A stable, motivated management team that stays after you leave the business.
2. Operating systems that improve the sustainability of cash flows.
3. A solid, diversified customer base.
4. Recurring and sustainable revenue resistant to commoditization.
5. Good and improving cash flow.

Because installing strong Value Drivers is a foundational element of proper Exit Planning, and strong Value Drivers typically increase a company's value and curb appeal to buyers, using Exit Planning to build company value can help business owners begin to solve the value-building question while positioning themselves for their future business exits.

A common mistake that business owners make when thinking about Exit Planning is that they focus more on the term "Exit" than "Planning." They worry that if they commit to Exit Planning, then they will have to aim all of their energy at leaving their businesses, whether they want to or not. However, Exit Planning goes far beyond the concept of leaving the business in that the Exit Planning process addresses various issues that can positively affect the business' value, cash flow, and overall operational performance.

If you'd like to learn more about installing Value Drivers in your company or simply want to talk about whether using Exit Planning to build business value is a viable option for you, contact us today.

*The information contained in this article is general in nature and is not legal, tax or financial advice. For information regarding your particular situation, contact an attorney or a tax or financial advisor. The information in this newsletter is provided with the understanding that it does not render legal, accounting, tax or financial advice. In specific cases, clients should consult their legal, accounting, tax or financial advisor. This article is not intended to give advice or to represent our firm as being qualified to give advice in all areas of professional services. Exit Planning is a discipline that typically requires the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need.*

*This is an opt-in newsletter published by Business Enterprise Institute, Inc., and presented to you by our firm. We appreciate your interest.*

*Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity.*

---

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) (life and disability insurance, annuities, and life insurance with long-term care benefits) and its subsidiaries. Peter Andrew Racen is a Representative of Northwestern Mutual Wealth Management Company® (NMWMC), Milwaukee, WI (fiduciary and fee-based financial planning services), a subsidiary of NM, and federal savings bank. All NMWMC products and services are offered only by properly credentialed Representatives who operate from agency offices of NMWMC. Representative is an Insurance Agent of NM and Northwestern Long Term Care Insurance Company, Milwaukee, WI, (long-term care insurance) a subsidiary of NM, and a Registered Representative of Northwestern Mutual Investment Services, LLC (NMIS) (securities), a subsidiary of NM, broker-dealer, registered investment adviser and member FINRA ([www.finra.org](http://www.finra.org)) and SIPC ([www.sipc.org](http://www.sipc.org)).

The products and services referenced are offered and sold only by appropriately appointed and licensed entities and Financial Representatives. Financial Representatives and their staff might not represent all entities shown or provide all the services discussed on this Web site. Not all products and services are available in all states.

Peter Andrew Racen is primarily licensed in Missouri and may be licensed in other states.

CA License: #0D29950

AR License: #3201464

Certified Financial Planner Board of Standards Inc. owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™ CFP® (with plaque design) and CFP® (with flame design) in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

The Chartered Advisor for Senior Living (CASL®) designation is conferred by The American College of Financial Services.

©2018 Business Enterprise Institute, Inc. All rights reserved.