Tips for Exit Planning in a Challenging Economic Climate

As a business owner, you should start planning your business exit at least five years before you plan to exit. That timeline gives you enough time to increase the value of your business, if needed, before you exit. Sometimes that timeline doesn't work for your specific needs. Planning is vital whenever you start and no matter how short or long your timeframe is.

Every exit plan should be designed with the flexibility to accommodate changing business challenges.

Coming out of the pandemic with inflation on the rise, and lingering staff and supply shortages, make exit planning even more critical.

Here are 6 quick tips to help you create your exit plan.

1. **Get a Valuation Now**

The first step in the exit planning process is to get a company valuation. A professional valuation will give you the benchmark of where you are and allow time to strategize ways to increase the value if needed.

2. **Understand the Impact of Your Multiple**

The sales price of your business is based on multiples of EBITDA. EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, and Amortization and reflects the short-term operational efficiency of your business. A simple valuation calculation equals EBITDA times your multiple.

For example, if your industry multiple is 3.5 and your EBITDA is $800,000, your company value is $2.8 million. The impact of a multiple can be significant. If it drops to 3.0, then your business value drops to $2.4 million. Likewise, if the multiple rises, the value increases.

Right now, we are still seeing strong multiples which are used to calculate the value of a business. Those multiples can be negatively impacted by what's happening in the economy. Rising interest rates and the fear of a recession can cause multiples to be reduced, thus impacting the value of a business sale.

3. **Know the Impact of Inflation on the Buyer Pool**

Interest rates are rising, which means buyers are impacted financially by the cost of borrowed funds needed to purchase the business. Financing challenges will be an obstacle if interest rates continue to rise. At the end of the day, the cash flow that your business will generate will be the same, so the increased interest rate equates to less return on investment for the prospective buyer.

4. **Keep in Mind the Potential of a Recession**

So far, the fear of recession hasn't impacted business transitions, but there is undoubtedly an unknown factor to ponder. If you want to exit your business soon, this might be the time to move your timeline up. Of course, nobody has a crystal ball to know exactly what will happen. As you plan, build in contingencies and flexibility.

5. **Know the Supply Chain Issues That Affect Your Revenue**

As buyers go through the due diligence process, they will look at the impact of reduced sales, price increases, and other fluctuations affecting the net revenue. This is where painting a clear picture of your financials, and how you are handling these fluctuations, matters. Show how you are addressing any supply chain issues that are affecting your inventory and service product lines.

6. **Understand the Impact of Staffing**

The value of a business can be impacted by your key employees and their commitment to stay with the company. With high staff turnover rates and the competitive hiring environment, you should focus on maintaining your key staff. You may consider implementing retention bonus programs or other incentives to avoid losing team members.

Planning Matters

These tips should all be part of your exit plan. It is never too early or too late to create a defined exit planning strategy that is tailored to your unique business. Our valuation and exit planning team can help you when the time is right.

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