

An Introduction to Exit Planning for Roofing and Waterproofing Consultants

By Kevin Kennedy



A business owner leaves a company either on his or her own terms, or involuntarily. This article takes a simple view of a consultant's business exit options with an emphasis on "internal transfers."

Only one in three privately owned businesses will successfully exit into a new second-generation ownership. The success of protecting such a business's wealth could depend on a written and well-executed plan. A written exit plan supports a well-timed and orderly transition instead of liquidation.

An informal Internet survey of RCI members in 2004 obtained results from 145 business owner members. It revealed that 84% of the member companies surveyed had five or fewer consultants, and that approximately 60% had annual revenues under one million dollars. The smaller-sized companies have fewer exit options but owners should still have formal plans for exiting their business and for retirement. The larger companies have more options and are not as likely to be limited to internal transfers as smaller companies.

Smaller companies should focus on maximizing all of the qualified retirement programs and savings plans available outside of the business. Consistent with all

companies, no matter their size, training, and succession are critical in order to grow the associates and the business to be in a selling position that maximizes value to provide the owner with eventual exit options.

EXTERNAL OPTIONS

Most owners believe that an external sale of their business is their only option because their associates cannot afford to pay them the value of the company. External sales usually focus on bigger companies with larger revenues and profitability and consequently are probably not relevant to most firms in the building envelope consulting industry. But those that are have options:

- Profitable growth companies with revenues above \$100 million whose owners want to sell and leave the business could consider an initial public offering (IPO).
- Larger companies whose owners want to sell and stay with the company could consider a private equity group.
- Multiple smaller companies could consolidate or "roll up" to create a larger company and synergistic value and then could consider both of the above options.

INTERNAL OPTIONS

The external options are unlikely choices for the roofing and waterproofing consultant industry, so we shall focus on internal options, which include:

- Management buyouts - (transfer to management)
- Employee Stock Ownership Programs - ESOPs - (transfer to employees)
- Gifting programs - (transfer to family)

Management Buyout

A management buyout requires using the existing assets of the company to construct a leveraged buyout of the owner's interest. A profitable company can do this through cash flow or by taking on debt. This is a structured deal that takes from 6-12 years to complete, requiring strong management succession and the owner's willingness to assume risk.

Companies with more than one owner should have a shareholders' agreement. This agreement dictates the terms by which one owner may purchase the interest(s) of the other owner(s). These interests have a predetermined value. A co-owner transfer makes for a clear-cut transaction as long as the predetermined value meets the existing owner's goals.

Employee Stock Ownership Program

An owner can transfer shares to employees through an ESOP, with the employees never contributing any money to the owner's exit strategy, for a gradual sale of the company. This is worth considering for a larger consulting group for the potential tax benefits that will subsidize this transaction while the original owner maintains control of the company for a period of time. This "qualified" retirement program has a built-in financial and legal burden to consider.

Gifting Program

If an owner has provided for his or her financial needs outside of the business, he or she can gift shares of the company to family members. Over a long enough period of time, these gifting programs may coordinate with an estate plan to manage estate taxation.

Since 1986, I have been involved, as an coowner, with the buying and selling of our 62-year-old roofing company. Our company went through the selling process and experienced each of the options discussed above.

- In the late 1990s, we joined and subsequently dropped out of a consolidated roofing roll-up that was positioned to become an IPO.
- We were approached and evaluated by a private equity firm for acquisition.
- We investigated and seriously considered an ESOP.
- The three owners finally decided to proceed with a management buyout structured over several years.

The purpose of this article is to give an introduction to the various exit options available for consultants. There is not enough room here to explore motives for

choosing any given best-exit vehicle or the complexity of the legal, financial, and tax benefits and obstacles of the exit planning and succession processes.

For those interested in this subject, the author will go into much greater detail at the RCI International Convention on March 15, 2009, in Dallas, Texas. Sign up now!



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Kevin Kennedy has been involved in succession planning and the internal sale of his business since 1986. In 2008, he retired after selling his portion of 62-year-old Evans Roofing Company to the leadership of its third succession team. He is now the president of Beacon Exit Planning and advises owners in developing effective exit plans and succession strategies.

