

## : : : : : UPSIZE STAGES :: EXITS : : : : :

mal rights. These situations are being driven by the large amount of undeployed capital currently available in the market.

One scenario under which a partial exit might provide easier circumstances for the departing owner to swallow would be a case where multiple partners are all in different career stages. An older partner might be looking to move on while a younger one might be looking for greater control. A partial sale would allow for a smooth transition in that direction.

### [CHECKLIST]

- » An abundance of capital has led some venture capitalists and equity funds to consider buying minority interests in companies.
- » Early preparation can provide a greater number of options.
- » Be prepared after a partial exit to have a lesser role in day-to-day business dealings.
- » Partial exits can be useful for recapitalizations as well as for business owners or partners looking to take on a lesser role.

can provide a second chance for firms that have been short on capital to achieve new performance goals. And it benefits the previous owner by monetizing part of the initial investment and moving forward with continued partial ownership.

However, giving up complete ownership also comes with strings attached. Many owners have a difficult time adjusting to playing second fiddle. In those cases it's not unusual for a business owner that signs a deal to continue working for some period of time to have that bought out early.

While they aren't common, a growing number of private equity funds or venture capitalists these days are showing some willingness to provide their expertise and capital while purchasing a minority business interest in exchange for a preferred stock offering or some greater-than-nor-

Another situation in which a gradual exit might make sense is transitioning the business to children or other family members. Under this situation it's difficult for a parent to pass the business on right away, especially if the family's entire net worth is wrapped up in the company. Under a partial exit the parent will still want to be involved in the day-to-day operations until they can find a way to cash out and step aside completely.

Most business brokers would say their approach to a partial sale doesn't change that much from how they would handle a full-scale exit. As with any other exit strategy the options are limitless if the owner has planned ahead and has a willingness to be creative.

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### LAW FIRM



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**Q** What are tax-planning strategies that can be used during a transition of ownership?

**A** There are many options to use and the choice depends on the specific situation. The business could be sold to the succession team or through an ESOP (Employee Stock Ownership Plan). You could have a gradual shift in ownership by gifts or compensation arrangements, stock options, or purchase of the ownership interests by the business (redemptions). If transfers are going entirely to family members, arrangements might be made to minimize the gift and estate tax cost, as well as the purchase price pressures on the family members. The business can be sold on an installment basis either to the children or to an irrevocable trust. Annual gifts can be made to take advantage of the estate and gift tax exclusions and deductions.

— SCOTT NELSON, Lommen Abdo

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### ACCOUNTING • BUSINESS VALUATION



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Our work is for compliance reporting, such as for accounting audits, gifting and estate filing, Employee Stock Ownership plans, and where defensibility is critical, as for litigation. We help you use valuation tools for operations turnaround, selling your business, buying another, or assessing and obtaining financing.

**Q** You say business owners can now quantify their 'blue sky.' What is that, and why is it important?

**A** When you first formed your business with cash and other contributions, the balance sheet accurately reflected what your business was worth. But right after inception, the value of your business and the balance sheet parted ways. Thanks to a shift in the accounting paradigm, accountants can now recognize and quantify intangible business assets, otherwise known as blue sky. As an entrepreneur, you can use this knowledge to evaluate the kinds of intangible assets you are creating in your business.

— RANDY SCHOSTAG, Minnesota Business Valuation Group

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