BluePrint FINANCIAL PLANNING
MORE THAN JUST INVESTING

RAYMOND JAMES

Selling a business

GETTING THINGS IN ORDER

You've spent years building and nurturing your business. There were days when you wore too many hats and ran out of time before the to-do list was done. You have seen firsthand how hard work pays off. And it was worth it. The same can be said for when you're ready to let someone else take over. The work you put in upfront makes it that much easier to hand over the keys when you're ready.

However, too many business owners don't take the time to think ahead and develop a transition strategy for when they want to – or need to – leave the business. And many fail to consider how the business fits into their overall retirement income plan. The fact is your business is a huge part of your life and your net worth, so it's vital that you work with a financial advisor and other appropriate professionals to learn about your options for the future long before you're ready to take action.

SMART TRANSITIONS

The time to think about transitioning – whether you decide to sell all of or part of the business or bequeath it – is while you're in good health and the business is strong. That way you'll be in a good place to negotiate and won't be forced to make decisions under difficult circumstances. Planning ahead also helps the business thrive before, during and after the transition.

Have you thought about

Getting the business ready for sale or transfer requires laying some groundwork. You'll need to:

- Perform a full financial and tax review.
- Consider the tax consequences of a sale.
- Determine a strategy to optimize cash flow after the sale closes.
- Have the business valued and determine whether it makes sense to sell interest or shares of the business versus selling the assets.
- Make copies of key documents and financial statements going back at least three years.

UNDERSTANDING YOUR OPTIONS

Entrepreneurs have three basic options when it comes to passing along their business: You can either sell all of it, part of it or pass down your business to an heir.

METHOD	BENEFITS	CONSIDERATIONS
 **GIFT/SUCCESSION** You'll essentially give the business to someone in your family, either while you're living or as an inheritance.	▸ Control the timing and size of the gift. You can dictate terms in your will, pass it along directly or even transfer it to a trust. ▸ May be able to combine with lifetime gifts and may come with other tax advantages (i.e., future appreciation will be excluded from estate).	▸ Your chosen heir may not want to run or may not be capable of running the business. ▸ Tax implications
 **PARTIAL SALE** You sell a minority or majority stake in your business through private equity, growth equity or mezzanine financing.	▸ Create immediate liquidity while retaining majority or minority ownership. ▸ Potentially eliminate personal guarantees. ▸ Mitigate the risk of having a majority of your assets tied up in your business.	▸ Timing is key. Where your business is in its lifecycle may dictate the options available. ▸ Planning is important. Your business strategy (additional growth, taking on a partner, full exit) will impact your exit strategy.
 **FULL SALE** You'll sell the business to a qualified buyer or family member.	▸ Buy-sell agreements can be used to guarantee a sale. ▸ Can sell to a person of your choice, including your children. ▸ Can be used in conjunction with lifetime gifts if sold to family. ▸ Estate can sell the business after your death.	▸ Absent a buy-sell agreement, you may not be able to find a buyer. ▸ Will need sufficient funding to complete the sale. Children may not be financially capable of buying the business at fair market value. ▸ The business won't be part of lifetime gifts or available for inheritance.

GETTING READY

Regardless of how you are passing on the business, you may need at least two to three years to fully prepare a business for new leadership if you are not planning to continue in a leadership role. And you'll need to enlist the help of others to ensure things go as smoothly and as profitably as possible. There are many moving parts to a business deal, and it takes time to get them all working together.

Whether considering a full or partial sale, the transition could be made much easier with a buy-sell agreement in place. This arrangement provides helpful guidelines and instructions for the transfer of stock and power when a partner or owner wants to leave or becomes incapacitated. If you don't have an agreement in place, you may want to consider the following steps to help transition the business to a new owner.

Figure out if you're ready. The leading reasons business owners leave include divorce, death, disability and retirement. You may just want to try something new.

ASK YOURSELF…

1. Do you know someone ready to run the business? A partner? An heir?
2. Are you ready to give up control? Or deal with the emotions of letting go?
3. How will you fill your days?
4. Do you want to still be involved after the sale or would you prefer a clean break?
5. Will you have enough income without the business?
6. Do you want to make sure your employees are taken care of?
7. Do you have a number in mind to agree on a deal?
8. Is the business a significant part of your retirement plan?

ENVISION THE FUTURE OF YOUR COMPANY.

A clearly defined long-term plan can help you find the best new owner for the company and your employees.

IDENTIFY YOUR COMPANY'S BEST ATTRIBUTES.

List the things that help your business stand out in the marketplace. Strong growth potential? Loyal customer base? Record of profitability? Innovative ideas? Great employees? Enviable location? Lack of competition? Identify opportunities for growth, stability and strength to help make your business even more desirable to potential buyers.

HIRE A TRUSTWORTHY TEAM.

Transitioning a business can take years. You'll want the best and brightest with you all the way. Among them: A tax pro, financial advisor, attorney and investment banker. These professionals can work together to guide and support you through the transition process and produce a comprehensive view of your business's tax and legal obligations. They can also help determine how the full or partial sale may affect your personal finances and plans for retirement.

TIP

A good accountant is crucial. He or she will know how to minimize taxable income or recast earnings to adjust for one-time business expenses or extraordinary income. It's a good idea to have your accountant recast financials alongside your usual statements and returns so you won't have to do it later.

Value the business. You'll need help here. Your financial and tax advisors can help you determine which valuation method makes the most sense for your business and can put you in touch with a professional who can provide that valuation service. You'll need to factor in the company's supply and demand, inventory, past and future income streams, liabilities and expenses, corporate structure and taxes among other things.

TIP

Business valuation is a critical part of the process. It is both an art and a science. Many factors, both internal and external, could impact business value so it is extremely important to get it right – from a seller's and a buyer's perspective.

Get organized. You'll need up to three years of comprehensive financial and tax records. Update, maintain and protect all legal documents relevant to the business. This could include your will, a buy-sell agreement, power of attorney (POA) and life insurance policy for yourself and other key executives. These documents would clearly define what is to happen if the business owner ceases to be an owner for any reason, while the policy would provide cash on an income-tax-free basis if you should suddenly die.

TIP

Document your processes and procedures. Creating a how-to manual will smooth the transition for everyone, but it may also help potential buyers see themselves in the role.

SEARCHING FOR A MATCH

A long-term plan has been drafted, you've documented your processes and procedures and have completed the other preparations for the future of your business. Whether you've decided it's time for a full or partial sale or are merely starting the search for the successor of your business, there are steps you can take to determine who you would feel comfortable taking on the business and finding that match.

Building blocks of a good business deal

- Banks, credit unions and credit card companies
- Three years of financial statements and business records
- Insurance policies
- Contracts, deeds, leases, non-compete agreements
- Tax returns
- Partnership/shareholder agreements
- Background information
- Intellectual property (i.e., copyrights, patents, trademarks)
- Assets, inventory included in sale
- The Terms of the Agreement and payment terms
- Any representation and warranties of the seller and buyer
- Contingencies (non-compete agreement?)
- Fees, including brokers fees
- Date of closing

DETERMINE YOUR STRATEGY

GIFT / SUCCESSION

Decide on a successor. Even if you're passing the business to an heir, you'll still need to make sure that person is capable of running the company. If you're working with a stranger, ask for information about education, experience, knowledge, financing and time frames. Rely on both data and gut feelings to choose someone worthy of the responsibility.

If you're gifting the business to a family member or top executive, it is important to delineate the roles of each person involved and play to their strengths and skills. Choose someone who is motivated and qualified to drive the business.

PARTIAL SALE

Take some chips off the table. If you want to potentially get rid of the personal guarantee yet continue to grow your business, a leveraged recapitalization may be a perfect strategy for you.

If you are seeking a partner to help grow the business while generating significant liquidity, consider a growth equity investment or majority sale.

FULL SALE

Ready to hand it all over. If you are ready to completely exit the business and generate the rewards from the value you've created, seek the help of an experienced and specialized intermediary to market the business and find the appropriate buyer (full-service investment bank, boutique investment bank or business broker).

Remember, no one is more motivated, passionate and knowledgeable about your business than you. So your team of professionals shouldn't be the only one marketing your business.

Negotiate, negotiate, negotiate...

A deal rarely happens overnight. Work with the buyer and your team to reach a deal everyone can agree on. Financing details are crucial here, particularly if you're looking to the proceeds to provide some cash flow in retirement. Determine if you want a cash payment, a lump sum or installments, down payments and a time frame for the balance to be paid off.

Let's talk about it

Consider the pros and cons of how the deal is financed before signing anything. For example, cash buyers usually seek a discount so that may reduce your payout by 20%, but an all-cash deal also could offer a clean break and a lump-sum payout.

If you're seeking consistent cash flow, perhaps you want to retain a smaller ownership role. This would allow you to remain involved with the business and could provide some deferred compensation.

Taking the proceeds in stock allows you to participate in any upside potential, but you also take on risk if the new owners don't grow the business. You may also find yourself with a concentrated and relatively illiquid investment should the company falter.

If you're willing to accept payment in installments, you'll likely be paid interest on the loan and may be able to postpone some of the capital gains taxes on the sale. Of course, that comes with risk, too. The buyer may be late or default on payments.

Be patient! Deals fall through for a variety of reasons. Yes, that can be disappointing, but your team can help you put together another offer as long as you're patient and maintain realistic expectations.

TIP

Many owners view the sale of their small business as their "retirement plan." If that describes you, work with your advisor to make sure the terms of the deal will provide you the consistency and level of income you will need.

MAKING THE TRANSITION

Review – then sign – the deal. Before you sign the final documents, step back and review the agreement in terms of your own financial objectives. Only if you are satisfied that the sale is structured in a way that will help you achieve your financial goals, should you put pen to paper.

Be there. If you're relinquishing some or all leadership responsibilities, be sure to mentor the next leader. Consider serving as a consultant to the business for a period of time to help ease the transition for your employees and your customers. After all, you've got the experience to train those who follow in your footsteps. You'll also have time to introduce the new owner to your vendors and other key business contacts.

Move on. If you plan to exit the business completely, your exit plan should have a clear timeline and end date. When the time comes, relinquish the keys and the responsibilities.

CLOSELY HELD BUSINESS

A business owned by a few individuals or family

90% of companies in the U.S. are closely held businesses.

33% of closely held businesses survive into second generation of ownership.

Source: U.S. Small Business Administration, Office of Advocacy

We're here to help

Transitioning your business can be daunting for even the most experienced business owner. And you shouldn't have to do it alone. Working with a financial advisor, a tax professional and an attorney can help you find the plan that makes sense for your specific situation. It helps, too, to have someone beside you who understands the challenges entrepreneurs face and who can help you make smart decisions – for your business, yourself and your family. You can count on us.

RAYMOND JAMES®

Kiel VanderVeen, CFP®
Cole Sharp, CFP®

bpfinancialplanning.com · 402-873-0530
1720 South 11th Street
Nebraska City, NE 68410