I'm Ready to Sell My Business—Now What?

YOUR 7-STEP ROADMAP TO COMFORTABLY SELLING YOUR BUSINESS

FORTRESS
WEALTH PLANNING

Introduction

Congratulations on deciding to sell your business. While you have several steps ahead of you, if you're thinking, "I'm ready to sell my business," then you're already ahead in the game. Being proactive, rather than waiting until you *need* to sell, can help you get the best price for your business and make the transition easier.

Still, the road to selling a business can feel like a long one, so it helps to have a guide along the way. This ebook provides destination markers to make the road more manageable. In particular, we cover:

1. Preparing your personal finances before putting your business on the market
2. Mistakes to avoid when starting the business sale process
3. Must-dos to prepare for the sale
4. Determining what your business is worth
5. Using the proceeds of the sale to fund your lifestyle
6. Preparing to replace your income while maintaining your lifestyle
7. Leveraging the expertise of a financial advisor who works with business owners on these transitions

Even with the practical guidance this guide provides, selling a business can be too complicated to tackle on your own. Reaching out to professionals such as a financial advisor can help make the process manageable and align your financial and lifestyle goals.

I'm Wondering Whether to Sell My Business: How Will This Affect My Personal Finances?

If you're wondering, "Should I sell my business?" you probably need to first sort out how that sale would affect your personal finances. Most likely, your business and personal finances are intertwined to some degree, even with separate business and personal bank accounts. If your business gets sold, what would that mean for your personal finances? The transition from CEO of the business to CEO of your personal financial situation can be overwhelming. Many business owners have spent decades with their head down, growing the business and neglecting their personal balance sheet. Having an advisory team can help with this transition and avoid the big mistakes.

You may have questions like:

- How much money will I have after I sell my business?
- How much will I owe in taxes?
- Can I afford to sell my company?
- Will I have enough to fund my lifestyle after I sell?

Knowing your personal finances will be OK can provide the emotional detachment needed to make objective decisions about selling your company. Understanding what it takes financially to walk away is important to give you the confidence required for a successful negotiation and business sale.

Some steps you can take to prepare your personal finances for a business sale and get to this comfort zone include:

- **Knowing how much income you need after your business is sold:** You may have gotten used to generating a certain income level from your company, but that could change after it's sold. Think about how much income you need to cover both your basic expenses and your ideal lifestyle. That way, you can determine the number you need to sell your business *before* you enter negotiations. Otherwise, you may accept a number that's too low and ends up hurting you. We've seen it happen to some very smart business owners.

  Suppose you need $100,000 in income per year and you're relying on the proceeds from your business to provide that amount for the next 30 years. In that case, you would need to sell your business for $3 million (after taxes) to draw down $100,000 per year for 30 years. Of course, factors like inflation, how the money is invested, taxes, and savings will affect that number. Inflation is one of the biggest factors in determining how much you will need over your lifetime. Determining the sale price you need will be more complex than this simplified example.

- **Diversifying your business wealth:** By diversifying your business wealth, you can become less reliant on needing a certain sales price for your company. You also help protect your company and family in times of change. Steps include:
  - Building a war chest of cash to account for unexpected expenses. Think of your war chest in terms of “number of years of spending.” How many years of spending do you have available in cash? Is that enough?
  - Contributing the maximum to retirement plans while you’re still working and can utilize this strategy for tax savings.
  - Making sure your investment portfolio reflects your financial life goals and risk tolerance.
  - Determining if insurance is necessary to protect your family and business from unexpected events.
  - Optimizing taxes with strategies such as company-sponsored retirement plans, tax loss harvesting, and asset location.
  - Updating your estate plan to include a buy-sell or business succession plan to take care of your family should you pass.

I'm Wondering Whether to Sell My Business: What Mistakes Should I Avoid?

From small business owners to startup founders to large business owners, anyone trying to sell their business can make mistakes that reduce their net proceeds or make the process more stressful than it needs to be.

Seven mistakes to avoid include:

1. **Waiting too long:** If you start looking for prospective buyers only when you want to sell right away, you can limit your options. Give yourself a longer timeline, thereby helping you find the right deal. Start the process early. We recommend seeking the guidance of a financial advisor two to three years before a sale to allow enough time for pre-sale planning.
2. **Not considering all your options:** A business broker may have a list of potential buyers that seem appealing, but don't think they're your only option. You can explore selling your business to other parties, such as family members or key employees.
3. **Failing to communicate with partners and other stakeholders:** Just as you want to be prepared, so do your partners and other stakeholders. Giving others a heads-up on your intentions promotes good business relations, which can make your company more attractive to a buyer. Most buyers want to maintain continuity post sale. Make sure your team is on board.
4. **Assuming the sale will completely fund your lifestyle afterward:** Many business owners have fringe benefits or personal expenses supported by the business. It's important to know how much of your personal expenses are buried in the business, as these will need to be replaced. It is also important to understand what it costs to support your ideal lifestyle and financial goals, as you may need to plan to supplement with other sources of income or adjust your personal spending. Understand what a reasonable rate of return is to expect from the post-sale proceeds and how the proceeds will be invested.
5. **Failing to step back:** You want to give space to let the new owners/management hone their skills. Giving up control can be challenging since you've run the business successfully for years, but it's essential for the company's longevity. Consider taking on a mentoring role. Many buyers want to retain the owner and management for a time to assist with the transition and may even tie up a portion of the sale, known as a "hold-back." Spend time thinking about what an acceptable structure is.
6. **Being unaware of what it takes financially to walk away from the business:** You should know the sale amount you need to provide enough income for your next life stage. If you rush into a sale without this in mind, you might accept sale terms that end up hurting you financially.
7. **Waiting until the sale is imminent before considering tax planning strategies:** Well before your business gets sold, consider the tax implications. Preparing in advance can help you leverage strategies that minimize your tax burden. Waiting too long in the negotiations can hinder your tax planning abilities. This is an area where time is your friend. We recommend seeking guidance two to three years before a sale to allow enough time for pre-sale planning. Not every sale has this luxury, but the sooner the better.

I'm Ready to Sell My Business: What Are the Must-Dos?

Similar to how you should watch out for seven mistakes before selling a business, you will also want to focus on seven "must-dos":

1. **Assemble your team:** Selling a business can be too complex to do on your own. Put together a team with professionals such as a financial advisor, tax advisor, business valuation professional, and attorney. Seek out advisors who are brutally honest and not just telling you what you want to hear.
2. **Determine your business timeline:** Set a goal for when you want to exit your business. Speaking with your team can help you determine a realistic time frame that includes optimizing your business for sale, minimizing taxes, putting your company on the market, accepting an offer, and moving into the next phase of your life.
3. **Determine which group you will sell to:** You don't need to narrow down prospective buyers right away, but it helps to focus on a general group. Determine your preference in selling to a third party or family members or completing an internal sale.
4. **Assess the gap between your lifestyle costs and your income sources:** The size of the gap between your non-business income sources and your lifestyle costs will help determine how much you need to sell your business for.
5. **Get a business valuation:** While you may have a number in mind, it's important to get a business valuation to know realistically what your business is worth. (See the next section for more details.)
6. **Implement drivers to increase value:** Similar to how you can increase the value of a home before selling, you can implement drivers to increase your company's value. From optimizing cash flow to maintaining physical assets included with the sale, you have options to make your business more attractive to prospective buyers.
7. **Set up the buy-sell agreement with the buyer:** If you have co-owners, work with your business sale team to set up the buy-sell agreement to streamline the sales process. This agreement lays out how you can exit the business.

I Want to Sell My Business: What Is My Business Worth?

If you want to sell your business, you should determine how much your business is worth. That way, you can get a clear idea from the get-go how your business sale can support your personal finances. Conducting a business valuation can also be an excellent planning tool, as it helps you to make informed decisions to drive up the company value as needed.

As the Corporate Finance Institute notes, conducting a business valuation tends to fall into one of the following methods:

1. **Discounted cash flow (DCF) analysis:** This valuation method prices a business based on the company's financials to come up with a price today based on expected cash flow in the future.

2. **Relative value market approach:** Another approach to pricing a business is to value it in relation to other companies. For example, you could look at what similar companies have sold for recently. Or you could value the company in relation to the market valuation for comparable public companies. For example, you might look at a public company's price-to-earnings ratio and value your business based on the same multiple.

3. **Cost approach:** For certain transactions, such as real estate, you might develop a valuation based on how much it would cost to create the same property. In other words, adding up the cost of land and building materials could lead you to a valuation.

The different methods for valuing a business each have pros and cons, and much depends on the type of business or assets you want to sell. Talk to your financial advisor to begin the valuation process and see what your business is worth.

I Want to Sell My Business: Will the Proceeds Fund My Current Lifestyle?

Before you sell your business, you should be able to answer whether the proceeds will be enough to fund your lifestyle. Getting a business valuation will help you answer that, but you also need to clarify how much you need to fund the lifestyle.

Start by putting together a budget. Add up the annual non-business income sources that you can use after the sale, ranging from retirement plan distributions to Social Security income. Then add up your annual expenses, such as housing, food, travel, new hobbies, philanthropy, family members' education, etc. Be thorough with your costs, even if you think that they seem minor or that they can easily be adjusted. For now, you just want to see where you're at.

Next, subtract your expenses from your non-business income. If there's a gap, the proceeds from your business sale will need to make up the difference. Depending on the size of the gap and your business valuation, you may be set to go ahead with the business sale, or you may need to make adjustments to close the gap. Seek the guidance of a financial advisor to determine a reasonable rate of return to expect from your company's post-sale proceeds and how the money will be invested.

For example, you may want to scale back your living expenses if you think some of your current costs can be cut once you sell your business. Other options include finding ways to increase the value of your business or generating additional income through a new line of work after you sell your business. Financial planning provides comfort for business owners when deciding their next steps. It especially helps owners determine what is possible for them after liquidating their business.

Congratulations! You Sold Your Business. Now What?

As exciting as selling your business can be, it can also come with big life changes that take some adjustment. One of the most significant changes is how best to prepare for income replacement without sacrificing your lifestyle.

Suppose your company made $1 million a year, and your business owner income was $300,000. If the business sold for $2 million, then after taxes, you would end up with around $1.6 million to invest. If you safely assume you can take out 5% a year from your investments, that's $80,000—less than what you were making as a business owner.

As mentioned, you should have a financial plan in place—ideally before you sell—to replace the income you enjoyed as a business owner. Work with your financial advisor to build out the plan, which should integrate all the areas of your financial life.

This post-sale transition can also be emotionally challenging. Putting your heart and soul into building up your business and then having that aspect of your life go away can be difficult. A survey by the Exit Planning Institute found that 40% of business owners feel reluctant to leave because they don't have a plan for what to do next.

Having a detailed vision for your lifestyle after this transition can help minimize the emotional challenges. How do you want your life to look from day to day? Will you volunteer, go back to school, mentor other business owners? Making a plan that you get excited about will help you more easily step into life post-business owner. It'll also help you organize your finances.

Talk with a financial advisor to determine how you can adjust your lifestyle in a way that sets you up for financial longevity and leaves you feeling fulfilled.

How to Hire a Financial Advisor Who Works with Business Owners

It's important to have a team that includes a financial advisor helping you through the process of selling a business. A financial advisor can provide long-term financial planning that integrates all the areas of your finances, including business and personal wealth, tax planning, investments, and estate planning.

Consider working with a financial advisor with expertise in helping business owners sell their companies. For example, our firm partner Michael G. Skowfoe specializes in helping business owners transition their business. You can find advisors through:

- **Referrals:** Ask other business owners who have successfully sold a company (or are selling one) who they worked with. Talk to family members, friends, and professionals such as your CPA or attorney.
- **Search engines:** You can search online for appropriate advisors in your area.

Once you find some potential professionals to work with, research their websites to determine whether they:

- Provide comprehensive, ongoing financial planning.
- Specialize in working with business owners and understand the nuances of selling a business.
- Are a fiduciary and operate on a fee-only model. As a fee-only, fiduciary advisor, they are legally obligated to put your interests first. They do not take commissions or other third-party compensation; instead, they get paid by you.

From there, you should interview potential advisors. Have meetings with more than one to understand how each could potentially help you, the fees you will pay, and the services you will receive.

SIMPLIFY THE STEPS TO SELLING YOUR BUSINESS

If you're thinking, "I want to sell my business," hopefully this guide has given you a better understanding of the steps it takes to get to a successful exit. The path can be complex at times. But taking these preparatory steps and working with trusted professionals can help you get a good value for your business and transition into your next chapter more easily.

Working with a fee-only, fiduciary advisor such as Fortress Wealth Planning can help you streamline your business sale and position yourself for long-term financial success. Our firm in Ponte Vedra Beach, Florida, has a dedicated team helping business owners find their footing now while building the future they desire. We can help:

- Protect your company, spouse, and family in this time of change
- Assess your goals and passions to determine what your next life stage should look like
- Understand your income and savings needs to achieve your desired lifestyle
- Make decisions about the timing and structure of your business transition
- Convert the proceeds from your business into income

We offer an introductory call for business owners ready to transition their business.

Get in touch with us for a complimentary consultation.

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