

Writing Your Next Chapter

HOW TO DEVELOP A SUCCESSFUL EXIT STRATEGY

Starting a business is an exhilarating, all-consuming experience. Very few entrepreneurs think about how they will exit their company at its inception, yet planning your exit strategy as early as possible reaps the most benefits.

Deliberate preparation often yields stronger buyer interest, more favorable sales terms and the opportunity to structure sale proceeds in a tax-efficient manner. More than 4 out of 5 business owners agree that having a transition strategy is important to both their personal future as well as the future of the business, according to an April 2020 City National Bank survey of private banking clients. Yet only 4 out of 10 actually have a plan.

Sales of privately held businesses have been at record levels over the last decade, with only a temporary pause in the second quarter of 2020 due to the pandemic. The number of transactions and the total transaction value remain historically high. But before you start negotiating the sale of your business, it's essential to take steps to consider your life after the sale. Owners are sometimes surprised by the mix of emotions ranging from euphoria over a windfall, relief that a complex transaction is finalized and loss of a broader purpose in life and a place to funnel skills, creativity and energy.

We have experience with many business owners who travel or visit family for the first few months post-sale. However, many find it challenging six months to one year after the sale when they realize there is no day-to-day structure to their lives. We spend time discussing with clients their next chapter, and what that can look like, not just from a financial perspective but also from a personal perspective to help them have a successful transition.

CONNECTING YOUR PERSONAL AND BUSINESS PLANS

Business owners need to include their personal and family goals in their planning and preparations for a sale. A coordinated team of internal and external advisors throughout the process of selling a business can result in better personal and financial outcomes, including a smoother transition period and tax mitigation.

On the business side, you probably have a core team, including your management leaders, your accountant and your attorney, to work with to get your business ready for sale.

The owner may want to supplement this core team with additional advisors experienced in facilitating business transactions when it comes time to move forward with the sale. Additional team members potentially could include attorneys and advisors specializing in mergers and acquisitions, a business appraiser, an estate planning attorney and a private wealth advisor.

On the personal side, understanding what you want to do after the sale is important, especially when it comes to aligning those goals within a financial framework. A wealth advisor with the knowledge and ability to bring together various components can develop a coherent and comprehensive plan to ensure you have the resources to accomplish your post-sale dreams.

When we work with business owners, the selling price is just the starting point. Oftentimes, the most critical consideration is how much the business owner will retain after taxes are paid on the sale of the business. Helping business owners make sense of the many factors that should be considered when approaching and going through a sale is what our colleagues do every day.

Planners need to understand the big picture and connect it to the owner's goals.

When we first meet with business owners, they recognize life will change, but often they are not aware of the magnitude of the change.

A good starting point is to visualize how and where you want to spend time when the day-to-day commitment of running a business has ended. For example, you may want to move closer to family, pay for the college education of future generations or buy a vacation home to host family gatherings. You may want to be ready to take advantage of entrepreneurial opportunities or become more involved in the community through nonprofit board membership and philanthropic giving.

A wealth planner can help you estimate your daily living expenses post-sale. For example, you may have leveraged the business to offset some lifestyle expenses, like an auto lease, health insurance or maintenance costs for a secondary home purchased to support the business. Once the business has been sold, you'll likely have to pay these expenses yourself.

A wealth planner and tax advisor can identify strategies that will help meet your goals in a tax-efficient manner in the context of your short and long-term priorities.

CREATING AN INVESTMENT STRATEGY

Your wealth planner will team with an investment professional to develop a portfolio that aligns with your goals. The investment strategy will be guided by several factors, including projected income needs for day-to-day living, discretionary and opportunistic goals, the anticipated timing for these financial activities and your investment risk tolerance.

We often see business owners think about how the sale proceeds might support four types of activities, and that thinking can extend to the investment of the proceeds.

Those activities include taxes and lifestyle expenses, a long-term portfolio, opportunistic funds to buy another business, purchase real estate or for angel investing, and philanthropic funds to support communities or nonprofits through a private foundation or donor-advised fund.

For example, an individual received nearly \$50 million pretax from the sale of their business.

Working with the client, we determined \$15 million was needed to satisfy their tax obligation and provisional lifestyle needs. Another \$25 million was allocated to create the long-term investment portfolio, and \$5 million was set aside to support an aspirational goal of investing in real estate. The remaining balance was placed in a donor-advised fund to support the family's charitable interests.

ADJUSTING FOR RISK TOLERANCE

Running a business inherently carries risk, but you may lean toward a more conservative approach when investing or you may be comfortable with a higher level of risk.

This new chapter of life requires a shift to view the portfolio as an asset that replaces the business and provides the family with the liquidity, income and portfolio appreciation they need.

Ongoing communication helps ensure your goals and portfolio continue to stay aligned, particularly if your perspective or aspirations change.

PLANNING FOR YOUR NEXT CHAPTER

At City National Rochdale, we recognize the connectivity between the financial aspects of your personal life and your business. Working with you and your advisors, we can help develop an integrated business succession plan and personal wealth plan, as well as implement an investment strategy that helps you manage everything seamlessly. We have years of experience working with owners who have successfully transitioned their businesses and have helped them prepare for the next chapter in their lives.

To learn more contact your Financial Advisor or CNR Senior Investment Consultant or Portfolio Manager.

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