IBEX

5 Decisions To Secure Your Legacy

“I will never sell my business.”

“Business is doing great;
I have no plans to sell.”

“I am running my business;
I don’t have time to think about selling.”

“Why would I want to sell my business, I love what I am doing.”

“It is not my business to sell.”

If you find yourself making or thinking these statements, We want to you consider three numbers:

75

of business owners are dissatisfied with the results of their business sale.

Only 28

of family businesses currently have a strategic plan for the future of their business.

100

of privately held businesses will transition to new owners.

You took control of your destiny many years ago when you took on this mantle of business ownership. This is not anything different than you have been doing all these years. This is merely the strategy to complete this phase of your journey.

Five Decisions to Control Your Legacy

1. How will I transition the ownership of my business?
2. Will I accept today’s market value for my business?
3. Have I structured my personal and corporate taxes to maximize the cash I will receive?
4. How will I invest all that cash I will receive?
5. How will I live?

In this whitepaper we will explore each of these decisions and provide some guidance about how to begin the process.

How will I transition the ownership of my business

Give it to my family/ Sell it to my family

What seems like the easiest decision is likely the most complicated. Let's ask some more questions, assuming that the family you are giving the business to are your children:

- Do your children want the business?
- Do you have one or more children who have proven themselves capable of running the business after you step aside?
- Do you have children who have not been active in the business before now?
- How will you and your spouse live in retirement?

The simple step of giving the business to your family is fraught with risk. If not properly planned, this transition can disrupt operations, drain assets from the business and cause resentment / infighting in the family.

Sell to my management team / my employees

Banks love to finance management teams and the Small Business Administration has specific programs to support management team takeovers. Management will need strong credit scores and enough cash for 10% to 20% of the purchase price.

This path can weigh the business down with debt. You want to make sure your team is ready to carry that burden.

Sell to a new owner

Depending on your reasons for selling (retirement, growth, legacy, etc.) this can be a complete sale of the business or a partial sale with a focused future for you.

A partial sale of the company, 10 to 15 years before you retire, allows you to convert some of the value you have created into cash, secure resources to grow the business, focus on what you do best and then have a second payday with a bigger business.

Will I accept today's market value for my business?

Everyone asks us, "What is my business worth?"

Buyers buy businesses for cash flow. They buy with the belief they can increase the company's cash flow and the fear that the cash flow will evaporate before they can implement their strategy.

Buyers will use a number of factors to determine if they want to buy your business, how much they are willing to offer for your business and how they want to structure the deal for your business.

Size is a major component. A business generating $10M of revenue is going to attract a larger pool of potential buyers who will pay a higher price than a business generating $1M of revenue.

In addition to size, buyers will look at the following factors in and around your business.

1 Financial risk

Are you able to demonstrate stable revenues and profits over the past five years? Is your revenue and profit growing or shrinking?

2 Quality of financial information

Audited financial statements are the best, but that is expensive, and most companies don't do audits unless they must. Reviewed financials provide investors some comfort that a professional has looked at the books. If you have neither, a good set of financial records are a must. Invest in QuickBooks and a QuickBooks consultant to get your records straight.

3 Diversification risk

a) Customer concentration increases the risk for the investor. If more than 50% of your revenues come from five or fewer customers, the opportunity for a revenue catastrophe significantly increases.

b) Supplier concentration puts your products at risk. If more than 70% of your products come from less than three suppliers, you run the risk of supply gaps and you have little pricing leverage.

4 Management risk

Business owners always talk about wanting to protect their employees. Guess what? Buyers' number one concern is the quality and stability of the management team and the employees. Is there anyone in your company who can run your business? If no, find that person and train them.

5 Industry risk

Simply, what are the growth prospects for your industry?

6 Competitive risk

What are the barriers to entry in your market? What unique skills or services do you offer that your competitors do not?

7 Growth assessment

How much more can you sell to your existing customers? How much more of the existing market share can you capture from your competitors? Do you have an opportunity to profitably move into other geographic regions?

All of this sounds like the business factors you think about every day, doesn't it?

Buyers are concerned about the same things as you because they are looking to grow your bottom line and create additional wealth for themselves.

More importantly, the more factors you get right, the more money you will make every day and the higher price your business will demand on the market.

Have I structured my personal and corporate taxes to maximize the cash I will receive?

Minimizing taxes on the sale of a business requires careful planning and consideration of various strategies. We cannot emphasize strongly enough to consult professional tax advisors and consult them early. Start with your CPA. If your CPA does not have transaction and structuring experience, find a tax attorney or CPA who does.

We introduce most of our clients to tax professionals to take one more look at all the strategies that could be deployed to minimize the tax bite out of your windfall. Here are some of the ideas we have seen tax specialists deploy:

- **Optimize the Sales Structure:** The way you structure the sale of your business can have significant tax implications.
- **Evaluate the Timing of the Sale:** The timing of the sale can impact your tax liability. Depending on your current and projected income, it may be advantageous to sell in a year with lower tax rates.
- **Investigate Qualified Small Business Stock (QSBS):** If your business qualifies as a small business corporation under specific criteria, you may be eligible for QSBS treatment.
- **Utilize Capital Gains Tax Rates:** Depending on the jurisdiction and the length of your ownership, capital gains tax rates may be lower than ordinary income tax rates.
- **Utilize Tax Deductions and Credits:** Review available deductions and credits that may apply to the sale of your business.
- **Incorporate Estate Planning:** Integrating estate planning into your overall strategy can provide tax benefits.
- **Consider Installment Sales:** Consider structuring the sale as an installment sale, where the buyer pays for the business over time rather than in a lump sum. This can help spread out the tax liability over multiple years and potentially reduce the overall tax burden.
- **Use Business Structures:** Explore different business structures, such as partnerships, limited liability companies (LLCs), or S corporations, that offer tax advantages.
- **Allocate Purchase Price:** Allocate the purchase price among various assets in a way that maximizes tax benefits. Certain assets may qualify for more favorable tax treatment, such as capital gains rates or depreciation recapture.

- **Explore Tax Deferral Strategies:** Investigate tax deferral mechanisms like a Section 1031 exchange, also known as a like-kind exchange, which allows you to defer capital gains tax by reinvesting the proceeds into a similar investment property.
- **Utilize Net Operating Losses (NOLs):** If your business has incurred net operating losses in previous years, you may be able to use those losses to offset taxable gains from the sale, thereby reducing your overall tax liability.

Remember, tax laws can be intricate, and the effectiveness of these strategies may depend on your individual circumstances and the prevailing tax regulations. **Always consult with a tax professional before making any decisions related to minimizing taxes on the sale of your business.**

Start tax planning well in advance of the sale to allow for proper structuring and implementation of tax-saving strategies.

How will I invest all that cash I will receive?

You are making a profound transition. All these years you have run a business that provides you with the cash flow to support your family's lifestyle. That cash flow will go away after you sell the business. You need to make sure you manage this windfall wisely.

Steps one, two and three: ***Consult with a financial advisor.*** *Seek professional advice from a financial advisor or wealth manager who can help you develop an investment plan* tailored to your needs. They can provide personalized guidance, consider tax implications, and assist in constructing a well-balanced portfolio.

Investing a windfall from selling a business requires careful consideration and planning to maximize returns and achieve your financial goals. Here are some steps to help you make informed investment decisions:

- **Define your financial objectives:** Start by identifying your short-term and long-term financial goals. Do you want to preserve the capital, generate income, grow your wealth, or a combination of these? Understanding your objectives will guide your investment strategy.
- **Assess your risk tolerance:** Evaluate your comfort level with risk. Investments come with varying levels of risk and potential returns. Consider factors such as your age, financial responsibilities, and willingness to accept market volatility. This assessment will help determine the appropriate asset allocation for your portfolio.
- **Create a diversified portfolio:** Diversification is key to managing risk. Allocate your windfall across different asset classes, such as stocks, bonds, real estate, and alternative investments. This diversification can help mitigate the impact of any single investment's performance on your overall portfolio.
- **Understand investment options:** Familiarize yourself with various investment vehicles available to you. Some common options include stocks, bonds, mutual funds, exchange-traded funds (ETFs), real estate, and commodities. Each investment type has its own risk profile, liquidity, and potential returns.
- **Consider tax implications:** Consult with a tax professional to understand the tax consequences of your windfall. They can help you explore strategies to minimize taxes on your investment gains, such as utilizing tax-advantaged accounts like IRAs or 401(k)s, or employing tax-efficient investment strategies.
- **Set realistic expectations:** While investing can offer potential growth, it's important to have realistic expectations about returns. Markets can be volatile, and investments can fluctuate in value. Avoid making hasty decisions based on short-term market movements and focus on long-term performance.
- **Review and adjust your portfolio periodically:** Regularly review your investment portfolio to ensure it aligns with your goals and risk tolerance. As market conditions change, re-balance your portfolio to maintain your desired asset allocation. This process helps you stay on track towards achieving your financial objectives.
- **Educate yourself:** Continue learning about investment strategies, financial markets, and economic trends. Stay informed through reputable sources, books, podcasts, or educational courses. Expanding your knowledge will empower you to make more informed

Understanding these ideas will enable you to work effectively with your investment advisor to develop and execute a legacy building investment plan.

How will I live?

“Then there’s the reality of the game itself. The clock is running. What once looked like an eternity ahead of you is now within reach. And while you do not fear the end of the game, you do want to make sure that you finish well, that you leave something behind that no one can take away from you. If the first half was a quest for success, the second half is a journey to significance.”

Bob Bruford
Halftime-Moving from Success

Even though we have already established that there is a 100% chance that you will transition out of your business, it is still a daunting task. Your business is you and you are your business. The entire purpose of this whitepaper is to show you a path to control that decision.

And this is the hardest of the five decisions. You have an opportunity to create legacy. We see too many business owners allow chaos to prevail.

In order to enter into this new phase of your life with confidence and enthusiasm, address these eight factors:

- **Assess your financial situation post-sale** *(see above)*. Work with a financial advisor to determine how the proceeds from the sale will be allocated. Consider your long-term financial goals, such as retirement planning, investments, and any potential tax implications.
- **Take time to reflect on your personal goals and aspirations.** Consider what you want to do with your newfound time and freedom. Define your vision for your post-business life and identify activities or ventures that align with your interests and values.
- **Discuss with the buyer the transitional obligations of the sale** or any consulting agreements arising for the sales agreements. Ensure you have a clear understanding of your role, responsibilities, and timeline during the transition period. It can help facilitate a smooth handover and knowledge transfer.
- **Evaluate Non-compete Agreements.** Understand the scope and duration of these agreements to avoid any legal complications if you plan to start a new venture in a similar industry.
- **Identify New Opportunities.** Explore new ventures, hobbies, or philanthropic activities that interest you. This could be starting a new business, investing in other companies, volunteering, or pursuing personal passions. Networking with other entrepreneurs, industry professionals, and like-minded individuals can help you discover potential opportunities.
- **Invest in personal development activities** such as workshops, courses, or mentorship programs that can enhance your skills or knowledge in areas of interest. This can help you stay engaged and continuously grow in your post-business life.
- **Be prepared for potential lifestyle adjustments.** Selling a business often brings changes in routine, social interactions, and personal identity. Take time to adapt and find new sources of purpose and fulfillment outside of your business.
- **Embrace and seek out emotional support.** Selling a business can be an emotional process. Surround yourself with a support network of friends, family, or fellow entrepreneurs who can provide guidance, encouragement, and a listening ear during this transition.

Remember that life after selling your business is a unique and personal journey. Take the time to plan, reflect, and explore the paths that will bring meaning.

These are five very simple questions with complex answers.

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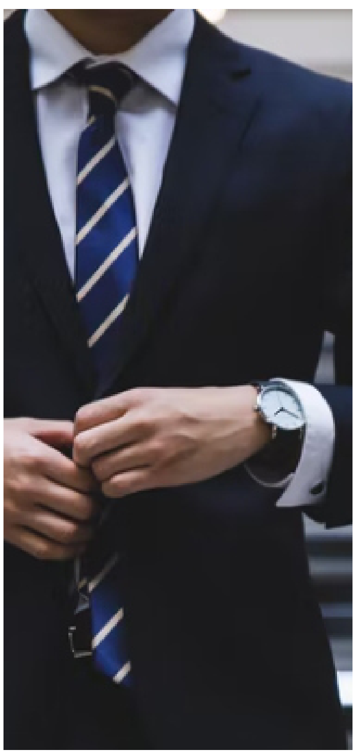
In order to fully answer these questions, you will need counsel from your family, your friends and your trusted advisors. To create the legacy we all desire, answer them we must.

I B E X
Middle Market Business Brokers



"True, entrepreneurship is not foolhardy; nor does it require particular courage. It merely seeks to gather and examine as many of the facts as possible about the market and the environment that might impact the decision. And then a decision must be quickly made. Likewise for the second half of life to be better than the first, you must make the choice to step outside of the safety of living on autopilot. You must wrestle with who you are, why you believe what you profess to believe about your life, and what you do to provide meaning and structure to your daily activities and relationships. There is a risk in this decision: in tossing aside the security blanket that keeps you safe and warm in your cautiously controlled zone of comfort, you may have to set aside familiar markers and reference points. You may feel, at least at first, that you are losing control of your life.

To that I say. 'Good for you'."

Bob Bruford
Halftime-Moving from Success