CITY NATIONAL ROCHDALE
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Business Owner Advisory

Three Immediate Considerations When Selling Your Business

- Preparing in advance to sell your business provides greater potential that the outcome will meet your expectations and allow you to retain control over the process
- Defining what a successful transition means to you personally and for the business establishes targets that help guide important decisions throughout the transition
- Assembling a strong deal team allows you to have advisors on your side of the table to advise and negotiate for you and your company's best interests

Owning and operating a business requires a lot of work. As the leader, your day might include strategic planning and decision-making on budgets, capital investments, products and target markets. Your day might also include more tactical activities to address personnel matters, monitor cash flow and address customer service issues. Every detail of your business requires attention to ensure continued success.

While it is typical to focus your efforts on the day-to-day and immediate needs of the business, the same level of care needs to go into how you plan for the future of your business and the day you are no longer leading it. And yet, a recent survey from the National Center for the Middle Market found that just 6% of business owners start planning for a business transition more than two years in advance.[1]

As more and more business owners opt to sell their business rather than pass it to the next generation, advance planning and preparation have become increasingly important. The most successful business sales result when business owners prepare both the business and personally well in advance of the ultimate transition.

The earlier you begin this planning, the more likely you are to usher in a transition that works for you and the business, and it allows you to retain control over the process.

If you are thinking of imminently selling your business, three steps you should consider taking are:

- Defining success for you and the business
- Understanding your exit options
- Assembling your deal team

DEFINING SUCCESS

The first step to building your plan is taking the time to consider and define what a "successful" transition really means to you, personally and from the perspective of your business.

PERSONAL

On a personal level, there are emotional and financial factors that need to be carefully considered. For some, selling their business will be their final act before retirement. For others, the sale could be a stepping-stone toward starting a new business or reprioritizing their day-to-day life toward other activities, like spending more time with family and loved ones.

The proceeds from the sale of your business will most likely play a major part in your financial future. You want to have enough financial resources to accomplish your goals. While the price you receive for the business is important, what really matters is how much you have left after paying taxes. In addition, considering how the proceeds will be deployed is an important part of your overall transition plan.

While this might vary from person to person, generally, the money you receive from selling your business will be allocated across four buckets:

Taxes and Lifestyle — You will need to pay taxes on the proceeds from your sale, and a portion will likely need to go toward covering your immediate-term expenses, unless you already have another steady source of income.

Longer-Term Family Needs — Whether it's creating a long-term portfolio to help support you and your family over time or establishing the legacy you want to leave behind for your loved ones, a portion of the sale proceeds will likely go to meet long-term goals for current and future generations.

Opportunistic — Many people who sell a business like to reinvest a portion of the proceeds in more opportunistic ventures, like buying property, becoming a private investor or even starting another business.

Philanthropic — Whether it's supporting your local community, nonprofits or a cause that's particularly important to you and your family, many people who sell a business have found using some of their proceeds for charitable work to be an incredibly rewarding experience.

Beyond the financial considerations, another one that is often overlooked is addressing what you are going to do with your time once the business is sold. Owning a business takes up a considerable amount of time in your life, and asking yourself how you are going to use the time you now have is an important part of ensuring that your post-exit life is personally as well as financially fulfilling.

Many owners continue to work in the business in some capacity for a period of time after the sale, but many business owners have said they have failed to consider how their time will be spent afterward. Often, owners initially enjoy activities like golfing, fishing or travelling, yet many find more satisfaction through entrepreneurial pursuits like philanthropy, investing in new businesses or real estate, or mentoring other earlier-stage entrepreneurs. It is important to ask yourself the right questions before the sale process begins to help ensure your definition of post-sale success goes beyond your financial security and addresses your personal fulfillment.

BUSINESS

A successful business transition will look different to every business owner, and getting the biggest selling price may not be your top priority. Just as you need to establish your priorities from a personal perspective, you also need to define what a successful transition looks like from a business perspective.

While this will vary from business to business, these are typical seller's priorities in a business sale based on what business owners we've worked with have said:

- Maximizing the company's valuation to attain a higher sale price;
- Securing more of the sales proceeds upfront;
- Reducing or eliminating contingent earn-out provisions;
- Retaining a minority stake in the business;
- Retaining and/or incentivizing key employees and management;
- Determining your future involvement in the business after the sale; and
- Maintaining the business's legacy and culture.

Each of these can be incredibly complex in their own right and contain intricacies that could impact the sale process or deal negotiations. Business owners have told us having more clearly defined priorities for the business enabled them to approach sale negotiations with a firm position geared toward making a deal that worked for them and the business.

UNDERSTANDING YOUR EXIT OPTIONS

Understanding your options will help you determine which path might be best for you and your business, yet 63% of business owners say they do not know their exit options.[2]

Typically, for privately held businesses, there are two main buyer types — internal and external buyers.

INTERNAL SALE

This type of sale can take many forms, each with its own pros, cons and nuances. Typically, there are three main types of internal sale:

- Leveraged recapitalization
- Management buyout
- Employee stock ownership plan (ESOP)

Internal sales typically take a much longer time to complete and will often require a period of time where you remain involved in the business to oversee the transition and help ensure the continued success of the business, which can take years.

Generally, internal sales tend to come with lower selling valuations, due to the friendlier nature of the buyer, which may impact your financial plans. It is also common for internal sales to require some level of purchase financing as well. Such financing could either come through you, called seller financing, or be outside funding through a bank or another capital provider.

EXTERNAL SALE

In contrast, an external sale is when an outside party, like a competitor, private equity (PE) firm or family office investor, buys the business from you.

In many cases, this kind of sale is handled through a formal process, which will often involve an investment banker or

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business broker. Typically, an external sale process will be completed within six to nine months. You will receive the majority of the proceeds from this type of sale at closing, though it can take up to a year or more for the full amount to be paid. One exception is when selling to a PE firm, where it may take three to seven years to get fully paid out if you ultimately roll over some of the equity in the business as part of the sale.

With all of the differences between these deal types, it's important to bring yourself back to the personal and financial priorities you've defined for yourself when considering which deal is right for you.

Having the right combination of experience and expertise on your team will help guide you through the sale process and ensure that you are getting the most value and favorable terms out of your deal.

ASSEMBLING YOUR DEAL TEAM

Once you have defined your priorities and explored your various exit options, the next step for an external sale is building the team of professional advisors who will support you in executing the process.

YOUR BUSINESS TEAM

Your team will likely include several professionals with different areas of expertise. Having the right combination of experience and expertise on your team will help guide you through the sale process and ensure that you are getting the most value and favorable terms out of your deal.

Assembling a strong deal team is important because buyers often have a strong team working with them. You should have an equally strong team of advisors representing you and your goals.

As a seller, here are the most important members you will need on your team:

- **Certified Public Accountant** — To provide advice and support on all financial and tax matters related to the deal;
- **Mergers and Acquisitions (M&A) Attorney** — To not only negotiate deal terms but also to review other professional advisor engagement proposals and offer insights on pre-sale company entity restructuring opportunities; and
- **M&A Advisor/Intermediary (i.e., investment banker or business broker)** — To help you identify and source suitable buyers and support the execution of the sale process from start to finish.

Experience in this type of transaction is crucial, so it is important to make sure that every member of your deal team, whether someone you already work with or a new relationship, has M&A expertise.

Key employees and management team members will also most likely play an important role throughout the process, so ensuring you are all aligned on the priorities beforehand is crucial. You may want to also consider financial incentives for them ahead of the deal process to ensure they are engaged and committed throughout this process.

YOUR PERSONAL TEAM

You should have advisors who can help you understand the ramifications of a sale on your personal financial situation and help you create personal wealth strategies to help mitigate the impact of taxes and transfer wealth in a tax-efficient manner.

This team may include:

- **Trust and Estate Attorney** — To advise on matters relating to the transfer of your wealth, as well as asset protection considerations prior to the sale process; and
- **Financial Advisor** — To recommend personal wealth strategies that help minimize taxes on the sale, as well as investment strategies for the post-sale proceeds that support your previously identified personal goals.

Once your team is set, work with them to build a clear road map for the process from start to finish. Strong lines of communication between you and your team are important for ensuring everything moves forward smoothly. In addition, introducing your business and personal team advisors to each other will ensure everyone is coordinated as you go through the sales process.

TAKE THE NEXT STEP

If a sale transaction is on the immediate horizon, the considerations above should be top priority for you.

If, however, your timeframe to sell is on the longer end of the curve (e.g., two years or more), then there are additional proactive advance planning steps to consider that could potentially further enhance your long- term result. The sooner you start planning, the more time you have to put the pieces in place to make sure that your transition is successful at every level.

City National Rochdale and City National Bank have dedicated specialists who can help advise you in collaboration with your financial advisor on all aspects of your business transition, from the sale itself to personal financial planning and your wealth transfer plans. We pair sophisticated financial tools and modelling techniques with a personal approach to illustrate for you the financial benefits advance planning can help deliver. We recognize the connection between your business and your personal finances, and understand that each decision you make affects your entire wealth picture today and in the future.

A business transition is a dynamic process. Working with you and your advisors, we can help develop an integrated plan for your business transition and your personal wealth.

Reach out to your Financial Advisor if you are interested in learning more about how City National Rochdale can help.

[1] Owner Transitions In The Middle Market—When Business Gets Personal: A Business Owner's Perspective on Selling a Middle Market Company, 2022.

[2] Walking to Destiny: 11 Actions an Owner MUST Take to Rapidly Grow Value & Unlock Wealth, Christopher M. Snider, 2016.

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