Thinking Of Selling Your Family Business? Here Are Six Key Steps You Need To Take Now

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Some businesses are family-owned for generations, but keeping a business in the family is not always the right choice. Family business owners who anticipate a sale should start planning as early as possible. For many business owners, most of their wealth is tied up in a business they spent years growing and there is tremendous pressure not to botch the sale. Ideally, a business owner will begin planning a sale at least three to five years before the transaction. Below are six steps that family business owners can take now to help prepare for a successful sale in the future.

1. Evaluate Personal Goals

The decision to sell a family-owned business is a business decision but also a family decision. A family business owner must evaluate the next generation's desire to own and ability to operate the business. If the next generation lacks the desire to maintain the family business, then a sale may be the best choice. The owner should also consider their personal involvement in the business. Some owners want to remain involved in the business after the sale while others want (and sometimes need) to be able to walk away. The owner's need to remain involved after the sale will often depend on the type of buyer.

2. Put a Team in Place

Most family business owners have a financial advisor, CPA, and business lawyer, but few have worked with a mergers and acquisitions (M&A) advisor unless they participated in a previous business sale. An M&A advisor helps broker the sale of a business and they also typically provide business valuation and exit planning services. Depending on the size of the business and the anticipated sale date, a business owner can decide whether and to what extent to engage an M&A advisor, but it can be helpful to go ahead and get one lined up. Your financial advisor, CPA, or business lawyer should be able to refer a qualified M&A advisor.

3. **Get a Business Valuation**

   It is often difficult for business owners to be objective about the value of their business. An independent valuation provides business owners with an unbiased perspective of what someone else would pay, which can help set expectations and negotiate the deal. A valuation may also identify opportunities for an owner to increase the value of their business. An M&A advisor can assist with providing a business valuation.

4. **Ascertain Potential Buyers**

   Business owners sometimes overestimate the level of interest in their business. A valuation can help assess the pool of potential buyers or lack thereof. The number of potential buyers has a significant impact on the marketability of a business which typically has a similar impact on the sales price. The team you put in place to assist with the sale will also be driven in part by the number of potential buyers. An M&A advisor will be much more involved in brokering a highly marketable business whereas if there is only one realistic buyer then they may have less involvement.

5. **Consider the Impact on Personal Finances**

   A business valuation is key to understanding what someone may be willing to pay for a business, but a seller is more interested in understanding what they will get. Business sales can be structured as asset or stock (equity) sales. Buyers typically prefer asset sales because they do not assume any liability, and they can immediately deduct more of the purchase price. However, asset sales often result in a substantial portion of the purchase price being taxed as ordinary income. Your CPA and M&A advisor should be able to work together to prepare a net proceeds analysis which takes into account the potential tax liability to provide an estimated amount a business owner would actually receive from a sale.

   Your financial advisor can run cash flow projections based on the net sales proceeds to provide cash flow and net worth projections following the sale of the business. These projections should also take into account any “personal” business expenses such as a company car or phone service. Having to pay these expenses out of pocket can come as a shock after years of running them through the business. The cash flow and net worth projections help to avoid any unwanted financial surprises following the sale of the business.

6. **Wealth Transfer and Charitable Planning**

   In addition to the other members of your sales team, it is also important to bring your estate planning attorney into the discussion early on. The sale of a business is often the biggest liquidity event of the business owner’s life and there may be significant tax benefits to doing wealth transfer or charitable planning in advance of the sale. Transferring part of a business to the next generation before the sale may result in a considerable reduction in the business owner's estate tax liability. Similarly, for business owners who are charitably inclined, structuring charitable gifts in connection with the sale is an effective way to reduce the business owner's income tax liability from the sale.

Selling a business can be a full-time job on top of what is already a full-time job running the business. With a family business, there is often also a significant emotional component to the sale. For these reasons, many family business owners delay starting the sales process until they are forced to do so by their need to retire or some other event that can negatively impact the family financially and emotionally. Family business owners who anticipate a sale should start planning as soon as possible. Doing so can help to maximize the sales proceeds, minimize the taxes, ensure financial stability, and maintain family harmony.

If you have any questions or would like to discuss further, please reach out to your client service team, or call 404.264.1400. You can also visit us on the web at **HomrichBerg.com.**

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