THE EXITING ENTREPRENEUR

The art of selling a business and thriving thereafter.

SUMMIT
FINANCIAL GROUP, LLC

Only one thing comes close to the challenge of building a business: Selling it.

Initiating an exit strategy while still managing the daily demands of your business can be as complex as it is ultimately rewarding. Navigating this process and negotiating a sale often leaves little time to consider your future finances – and all the steps you need to take to help reach your long-term goals. We have created this guide to share our cumulative knowledge, gained over many years of successfully guiding entrepreneurs through this major life transition and liquidity event.

PRE-SALE PLANNING

The successful sale of your business can hold substantial financial potential for you, your family and your legacy. If this is your first sale, it's critical that you know where to start. If you have sold other businesses in the past, you can consider how to try to improve on the previous outcomes.

The key to maximizing the potential value of this transaction is a thorough and strategic evaluation of the available options. Before pursuing a sale and finalizing an agreement, you should carefully consider several factors. Would I benefit more from a cash sale or an all-stock sale? How can I work to ensure the full value of the business is realized? Will post-deal covenants affect my lifestyle?

1. CASH VS. STOCK PAYMENT

Deciding between a cash or stock payment is challenging. You should keep key risk factors and uncertainties in mind when weighing the options. With an all-stock sale, the prospect of a higher selling price and the opportunity for future appreciation may seem attractive, but the risk associated with the resulting stock holdings can be difficult to forecast. In addition, contractual provisions and SEC regulations can prevent you from immediately selling or hedging. The market exposure could potentially erode a portion of your wealth if the stock price declines.

2. CONCENTRATED STOCK STRATEGIES

If you elect to receive stock as full or partial payment for the sale of your business, you must also consider the risk associated with holding a concentrated stock position. Though the buyer might encourage you to maintain the position to reap the benefits should the stock appreciate in value, you should ask yourself: If you had opted for a cash payment instead, would you invest it all in one firm? This is why it is important to consider a strategy for reducing your exposure such as selling some stock and diversifying your holdings, or hedging through derivatives transactions.

3. STRUCTURING THE TERMS OF YOUR SALE

Structuring the terms of the sale to fit your needs can also help mitigate risk. For example, establishing a "floor and ceiling" on the offer price will ensure you receive the value you seek within a certain range, regardless of fluctuations in the stock price. It can mitigate risk for you and the buyer for the time period between the sale's announcement and its closing. You might also negotiate terms that allow you to sell or hedge the stock as soon as possible after the sale closes.

4. WEIGHING VALUATION

What is your business worth? Valuation is often the single most important factor in the transaction and should be central to your planning, before and after the sale. It's important to adjust your wealth planning strategies based on how your business is valued.

The first step of creating a tax-advantaged strategy is establishing the fair market value of your business. For publicly traded companies, this is easily done by looking at an up-to-date stock quote. For privately owned companies or limited partnerships, valuation can be more complex, but can also enable even more tax advantages.

Because such non-publicly traded entities are not readily marketable, interests in them are often entitled to valuation discounts. Discount for lack of marketability (DLOM) refers to a method used to help assess the value of closely held and restricted shares. The theory behind it is that a valuation discount exists between a stock that is publicly traded and therefore has a market and a stock that is privately held and has no such market.

Similarly, if you own property that is expected to appreciate substantially over a relatively short time (e.g., from a pre-IPO price to a post-IPO price), there may be opportunities for transferring much of this appreciation at significantly reduced transfer tax costs.

Creating an estate plan prior to the completion of the sale can create the potential for significant tax savings. There are estate planning strategies that can help reduce capital gains tax exposure and facilitate the transfer of assets to your chosen beneficiaries.

5. EXPLORING YOUR FINANCIAL PLAN

It is important to give ample thought and planning to the assets you will receive from the sale of your business. Do you plan to spend the proceeds or invest them? Will they be directed largely toward short-term needs or long-term goals?

Be sure to consider projecting an annual budget in addition to considering your future spending needs. This can help us to accurately model the amount necessary to fund your goals and needs.

Once you have addressed the more immediate future, consider turning your attention to legacy planning. Whether you are most concerned with maximizing the amount you can pass to your heirs tax efficiently or the gifts you will be able to make to your favorite charities, your planning should be forward-looking enough to include the legacy you wish to create.

Grantor Retained Annuity Trust

A grantor retained annuity trust (GRAT) is one technique that can transfer wealth with little practical impact on the underlying transaction, yet deliver results. Individuals who experience significant increases in net worth typically consider estate planning after the wealth creation event. However, often the best opportunity to transfer wealth and reduce tax exposure is prior to a business sale, an IPO or merger transaction.

A GRAT can be a powerful wealth transfer tool for an asset expected to rapidly appreciate and can create a meaningful difference in net proceeds for family business owners contemplating a sale or transfer.

An example:

A decision is made to transfer a 20% interest in the closely held shares of the business into a GRAT for a term of two years. Because of the lack of liquidity and marketability, the $10 million worth of shares are valued at $7 million.

If, within the period of the GRAT, the business sells for over $100 million, the shares in the GRAT could now be worth $21 million. Utilizing the appreciation and the discounts in the shares transferred to the GRAT, $15 million passes to the children free of gift or estate tax, plus $4 million the owner would leave net of tax, for a total of $19 million.

Had the owner not done the GRAT planning and instead waited until death to transfer the 20% interest to the children, the after-estate-tax net value to them would be only $12 million.

This is a hypothetical example for illustration purpose only and does not represent an actual investment. Actual investor results will vary.

WEALTH STRATEGY

When you consider all the work that went into building your business, it seems that creating a strategy for investing the sale proceeds would be much simpler. However, all too often, successful entrepreneurs do not realize how difficult it can be to manage this process objectively when they are at the center of it. It can cause them to make decisions that hinder rather than help their investment results.

Your experience running a successful business certainly goes a long way toward making you savvier than the average investor, but it is not a replacement for the seasoned counsel of a professional advisor.

While it can be challenging to relinquish the control you grew accustomed to when managing your business, the transition from running that business to relying on investment professionals to manage the sale proceeds can help ensure you fully reap the rewards of your hard work.

1. ASSEMBLING YOUR PROFESSIONAL TEAM

A comprehensive wealth management plan is comprised of more than just investment vehicles. This is why you should assemble a team of professionals that can help you plan for every facet of your financial life. We offer a wealth of specialized knowledge that gives you access to:

Professionals at Raymond James Trust, Raymond James Investment Banking and the Raymond James Wealth Planning department that have wide-ranging knowledge of pertinent wealth planning issues, and are willing to offer their advice.

Raymond James Investment Banking

As a business owner, a large percentage of your net worth is tied up in your company. Raymond James Investment Banking serves as another planning resource to help position your company to achieve optimal growth and maximize value. The many ways Raymond James Investment Banking adds value include:

Valuations, ownership, transaction type

- Valuation drivers (growth, profitability, total addressable market, etc.)
- Pros/cons by transaction type (full sale, capital raise, recapitalizations, IPO)
- Structuring considerations (tax implications, stock/asset, cash/earnout, phantom stock, etc.)

Peer benchmarking

- Relative growth, profitability comparisons between companies
- Analysis of income statement (product, channel, service, geography) and balance sheet (cash, debt)
- Understand broader industry landscape (trends, players, business models, etc.)

SWOT analysis (strengths, weaknesses, opportunities, threats)

- Understand strengths of the business and where to spend resources to enhance value
- Identify weaknesses and think of ways to mitigate risks (international, concentration, etc.)
- Where is the most opportunity (e.g., disproportionately invest in recurring revenue streams)
- Identify industry/competitive threats that keep the owner up at night

Raymond James Wealth Planning

Raymond James Wealth Planning is an experienced team of consultants who collaborate with resources across Raymond James to find solutions for advisors and their high-net-worth clients that address complex wealth management needs.

Raymond James Trust
Raymond James Trust provides trust investment advice and administration designed to preserve and enhance client wealth, meet client estate planning needs for professional fiduciary services and control fiduciary liability.

Raymond James Charitable
Raymond James Charitable can help make your philanthropic vision a reality, creating a charitable giving plan that helps the organizations you're passionate about, while also furthering your overall wealth management.

Your other trusted advisors
We will collaborate with your accounting and legal professionals to help ensure cohesive and coordinated wealth planning.

2. PRESERVING YOUR ASSETS

Something that often goes overlooked by business sellers is preserving their assets from more than just investment risk. As a wealthier individual, you and your family could be exposed to many other risks:

Litigation
If an accident occurs on your property, you could become the target of an opportunistic plaintiff. Additionally, if the sale of your business and your increased net worth are public knowledge, situations that have been typically innocuous might now open you up to litigation.

Identity theft
Identity theft is an increasing problem, and your elevated position may make you a more attractive target for identity thieves.

Cybercrimes
As the number of internet-connected devices per household grows, so does the risk of cybercrimes such as password theft, email phishing, ransomware attacks and unauthorized bank transfers.

Liability for domestic help
If you have domestic employees on staff who lack disability protection and are injured while working on your property, you could be held liable. Additionally, if those employees fail to properly file their income taxes, you may unknowingly violate tax laws.

Professional liability
If you serve on the board of an organization, you may be personally exposed to risk unless you have professional liability coverage and are mindful of the policy's limits.

Precautions we can consider to insulate and preserve your wealth from these risks and liabilities include:

- Consider placing your assets in trusts and other legal entities to help provide preservation.
- Ensure you have adequate property and liability insurance.
- Consult specialized experts to assess your personal risks.

3. CONSIDERING YOUR LEGACY

It is all too easy for estate planning to become more of an exercise in reducing or deferring taxes rather than a plan for the legacy you want to leave. To avoid having your wishes take a back seat, your estate plan should start with what matters to you most.

You should discuss your intentions for your family, professional and philanthropic legacies with your professional team, who can then help you structure a plan that best reflects your wishes.

Ongoing estate planning reviews can help you and your family:

- Defer and mitigate income taxes
- Defer and mitigate transfer taxes
- Manage inter-family issues, e.g., second marriages
- Provide creditor protection
- Facilitate charitable dispositions

[1] Pre-Liquidity Event Planning for Private Executives, Deutsche Bank Wealth Strategies Group.

[2] Passing the Torch, Douglas K. Freeman and Lee Hausner, IFF Advisors, Privilege, Holiday 2005.

Tax planning

Your accountant should be an integral part of your wealth management plan. In addition to preparing your more complex tax returns, your accountant can advise you on matters unique to your post-sale circumstances, such as the tax liabilities from the transaction, and long-term tax planning.

Family office services

After a large liquidity event such as selling a business, some ultra-high-net-worth families decide to establish a family office. Having a family office enables a family to enjoy a full integration of financial strategies and directly oversee decisions regarding family financial matters, while maintaining tight control of the privacy and security of the family's financial information. We can help you consider and establish your own family office.

Philanthropy

While establishing a charitable legacy can be achieved in many ways – through venture philanthropy, private foundations, donor advised funds or outright gifts – your elevated position post-sale could make a family foundation an effective vehicle for both philanthropy and family governance.

A private foundation allows you the greatest degree of control over your charitable giving, both during your life and after your passing,[1] and by placing family members in key roles, you can help pass effective wealth management and philanthropy expertise from one generation to the next.

Family governance

While much of your legacy can be built and sustained with the help of professionals and key financial and legal structures, fundamentally, your legacy is your own to govern. Families that have perpetuated their wealth across multiple generations are the ones who have recognized and embraced the importance of contributing to the financial, human, intellectual and social capital of their families and communities. And these efforts reflect the strategic decision made by the early wealth creators that the members of this family won't merely live off the earnings and achievements of others.[2]

Family constitution

Wealth has the power to unite families, but also has the capacity to drive them into conflict. To help limit that possibility, you should place a priority on open communication and consider the benefits of drafting a family constitution. These documents can clearly define the role of each family member as it relates to financial and business matters and can serve as an effective governance tool.

INVESTMENT MANAGEMENT

Now that you have created processes to manage your family enterprise and preserve your assets, let's focus on the future preservation of your assets. As you begin this process, avoid the instinct to rush to reinvest the proceeds. A conservative early approach can position you against a near-term market drop, and you can always adjust your tactics as your needs and market opportunities allow.

MANAGING YOUR CASH

Once your transaction is complete, your first priority should be finding a secure place to custody your cash or stock. To maximize interest income on your cash, you should consider investing in high-quality money market funds or securities and cash alternatives. There are several types of high-grade municipal cash alternatives, which typically yield positive short-term returns that you can access directly. Note that you should carefully evaluate your tax situation before investing in cash alternatives. The Alternative Minimum Tax (AMT), varying state tax rates, and discrepancies between taxable and tax-exempt rates should all be considered.

Once you have found a place to invest your cash and are receiving a competitive yield, it is time to begin developing a long-term strategy for your new liquidity.

Fixed income investments may involve risks including market risk if sold prior to maturity, credit risk, reinvestment risk and interest rate risk.

FINE-TUNING YOUR PHILOSOPHY

Depending on your level of experience in investing, developing a specific strategy may take time. Building the business that created this liquidity took years, and becoming comfortable investing the resulting wealth will require time and patience. The reinvestment process is an evolution.

A comprehensive investment strategy should incorporate your financial goals while considering the constraints of the markets. By combining high-quality investments with an overriding strategy, you can maximize the efficiency of your asset allocation to produce the greatest long-term returns.

Many firms will propose asset allocation strategies of varying complexity – remember that an asset allocation strategy should be built to your needs and goals as opposed to the view of an investment bank's chief strategist. And that it will grow and change along with you.

Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Past performance is not indicative of future results. Investing always involves risk and you may incur a profit or loss. No investment strategy can guarantee success.

Evaluating traditional and non-traditional investments

Most firms define the universe of investments by three categories: stocks, bonds and alternative investments. Much of today's advice focuses on choosing long-only stock managers, municipal bonds and hedge funds. There are other ways to potentially increase your returns while mitigating principal risk. For example, some investments fall between the three categories and are designed to offer either more risk mitigation for your money or a leveraged approach to growing your money. We can help you explore "hybrid" investments that can potentially reduce your overall risk exposure while seeking long-term returns, including hedged and leveraged equity, taxable bonds, real estate, private equity, lending, principal protected notes, and leveraged hedge funds in addition to traditional investments.

Alternative investment strategies involve greater risks and are generally only appropriate for sophisticated investors. You should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements.

Developing an investment policy statement

A detailed investment policy statement (IPS) will define the parameters for your overall asset allocation, the selection of professional managers and ongoing portfolio maintenance. Drawing up an IPS in conjunction with your lead advisors can serve as a guide as you review your portfolio on a quarterly or semiannual basis. A proper investment policy will quantify acceptable levels of risk (as measured by portfolio variance) and strictly define your expected results.

SAMPLE INVESTMENT POLICY EXECUTIVE SUMMARY

Current Assets:	$20,000,000
Assets for Investment:	$1,000,000
Investment Time Horizon:	More than 20 years
Investment Objective:	Growth – long-term capital appreciation and elevated levels of volatility
Risk Tolerance:	Portfolios with a growth objective are designed to increase in value over time and provide strong growth potential. Invested almost entirely in stocks for their higher return potential, this type of asset allocation may be appropriate for investors who can accommodate a moderate to high level of risk.

ASSET ALLOCATION

Asset Classes	Lower Limit	Strategic Allocation	Upper Limit
Large-Cap Domestic	34.00%	44.00%	60.00%
Small- to Mid-Cap Domestic	15.00%	18.00%	40.00%
International Equities	15.00%	31.00%	35.00%
Fixed Income	0.00%	2.00%	10.00%
Alternatives	0.00%	5.00%	20.00%

ALLOCATION VARIANCE LIMIT

Acceptable ranges for each asset class are listed above.

MONITORING

Quarterly	Review performance and status of money managers. Rebalance if allocation is outside of acceptable ranges. Tax considerations will be taken into account before any rebalancing occurs.
Annually	Review performance and status of money managers. Rebalance to Target Portfolio. Tax considerations will be taken into account before any rebalancing occurs.

This is a hypothetical example for illustration purposes only. Actual investor results will vary.

Some investment firms will sell the idea of comparing your investment returns to popular benchmarks such as the S&P 500 or the Dow Jones Industrial Average. However, given that benchmarks are simply data points and can fluctuate substantially, an IPS can serve as your personalized benchmark, requiring accountability from you and your advisors.

Small- and mid-cap securities generally involve greater risks and are not suitable for all investors. International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Alternative investment strategies involve greater risks and are not appropriate for all investors. The process of rebalancing may result in tax consequences.

The S&P 500 is an unmanaged index of 500 widely held stocks. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. Investors cannot invest directly in this index.

Liquidity solutions

Another important aspect of a sound financial advisory relationship that is often overlooked is access to your money. Working with an experienced administrative team means prompt access to your funds through wire transfers, check writing, mortgages and debit cards should be seamless. The best administrative teams can solve your day-to-day needs while providing back-office support for your family's financial affairs. And in addition to pure access to cash, the best banks and brokerages can create customized credit solutions to address your lending and mortgage needs.[3]

Raymond James & Associates is a member of the Securities Investor Protection Corporation (SIPC), which protects securities customers of its members up to $500,000 (including $250,000 for claims for cash). Raymond James has purchased excess-SIPC coverage through various syndicates of Lloyd's, a London-based firm. Excess SIPC is fully protected by the Lloyd's trust funds and Lloyd's Central Fund. The additional protection currently provided has an aggregate firm limit of $750 million, including a sub-limit of $1.9 million per customer for cash above basic SIPC for the wrongful abstraction of customer funds. Account protection applies when an SIPC-member firm fails financially and is unable to meet obligations to securities clients, but it does not protect against market fluctuations.

[3] Mortgages offered by Raymond James Bank, an affiliate of Raymond James & Associates, Inc. and Raymond James Financial Services, Inc. Raymond James and your Raymond James financial advisor do not solicit or offer residential mortgage products and are unable to accept any residential mortgage loan applications or to offer or negotiate terms of any such loan. You will be put into contact with a Raymond James Bank employee for your residential mortgage needs.

SEASONED GUIDANCE FOR A SIGNIFICANT CHAPTER OF YOUR LIFE

The decision to sell your business stands to be one of the most complex – and rewarding – you will ever make. The more support, services and resources you have regarding the intricacies of the transaction, from pre-sale planning to investment management, the greater the opportunity to reap the financial rewards that will help achieve your long-term goals.

We are well-positioned to guide you through this significant life event. We can help you assemble a team that includes professionals at Raymond James Wealth Planning, Raymond James Investment Banking, Raymond James Trust and Raymond James Charitable as well as your CPA and estate attorney. Then we can coordinate their efforts to tailor a cohesive and comprehensive wealth management plan to you.

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Keep in mind investing always involves risk and you may incur a profit or loss. Past performance is not indicative of future results. No investment strategy can guarantee success. Raymond James financial advisors do not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

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