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Either You Have It, or You Don't

Business owners planning for a successful future should always begin by identifying and understanding their primary objectives for themselves, their families, their ownership and their businesses. In this exercise, you might include, among other things:

- The date you wish to exit;
- The amount of cash you want upon exit; and
- Your choice of successor.

Today, let's look carefully at that second objective: How much cash must your ownership of the business deliver in order to enjoy a financially secure post-business life? For most owners this is a great starting point for determining when, or if, they can leave their businesses on their own timeline and on their own terms.

The Issues

Paula Davis was the 58-year old owner of Davis Data Analytics, Inc. She had engaged her financial advisor to:

- Set a realistic assumption for a rate of return on Paula's investments;
- Research actuarial information to determine average life expectancies for both she and her spouse; and
- Help her and her spouse agree on and establish an acceptable post-exit annual income amount.

As part of this process, Paula and her advisor reached the critical question whose answer would determine Paula's ability to retire on her terms: What must the value of Paula's business be if Paula is to leave, as she desires, at age 63?

Like Paula, your resources are likely both in the business and outside of it. You need to know the value of both so you can determine if there is a gap between the amount of money you will need in the future and the amount you have today. If you have enough to secure your financial future, your planning will go in one direction. If you don't have enough for complete financial freedom, your planning will go in another direction. Both scenarios are fine, but you'll want to know which one fits your situation. Any gap must be quantified and—to exit successfully—you must create and implement strategies to close that gap. Most owners retain an experienced financial planner to help with this project.

The Process

Paula and her advisor used the following process:

First: *Paula and her spouse agreed on their future annual income needs.*

Second: *Paula and her advisor, using their agreed-upon estimate of a projected rate of return, calculated how much Paula's non-business investment assets would be worth at Paula's desired exit date.*

Third: *Paula's advisor calculated the amount of investment capital needed to pay Paula and her spouse the target income per year for the duration of their lives (based upon current actuarial tables and assumed reasonable, maybe even conservative, investment returns). This amount needed to be net of taxes, since Paula intended to use it for spending.*

The Bottom Line

When the business falls short of the value needed to achieve your financial targets, you need to work with your advisors to build business value to achieve your goals. When the business value meets your needs, you turn your attention to other goals and objectives, such as taking care of loyal employees, leaving a legacy in your industry and your community, focusing on the "What's next?" question. You either have it or you don't. Keep in mind that neither circumstance eliminates the need for planning.

Contact our firm for help in organizing the right advisors to determine your business's current value and the gap (if any) between what you have today and what you'll need in order to exit on your terms. We can help you to understand your ultimate objectives and what you must have (and must do) to reach them. Contact us today if you'd like help taking the next step.

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The example provided is hypothetical and for illustrative purposes only. It includes fictitious names and does not represent any particular person or entity.

Please contact Dan O'Brien for a free one hour consultation on your exit planning needs
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