William Blair

Private Wealth Management

Preparing for the Sale of Your Business: A Timeline

For owners of family businesses and other closely held companies, the opportunity to sell and generate liquidity can be both exciting and overwhelming. Stakes are high for the owners, from both a financial and emotional standpoint. Careful planning for the goals you are trying to accomplish for the company, yourself, and your family will help drive the strategy for optimizing the process and outcome.

Personal Planning (should begin 6–12 months prior to sale)

Transaction Analysis

Each transaction is different and has unique tax, estate, and long-term financial planning implications. William Blair understands the nuances involved and has dedicated wealth planning professionals to guide management teams and owners through the personal side of the transaction.

- ☐ Analyze and understand the unique attributes of a potential transaction including the character and timing of income, and resulting tax exposure
- ☐ Coordinate the team of professional advisors (CPA, estate attorney, and other specialists as needed)
- ☐ Consider near- and long-term planning objectives including improving tax efficiency
- ☐ Review existing estate plan and model the impact of a potential transaction on the estate structure

Financial Modeling

Comprehensive financial planning ahead of the transaction should include projecting the post-transaction balance sheet and testing financial independence given desired lifestyle spending.

- ☐ Determine cash flow needs
- ☐ Estimate core capital required to maintain lifestyle
- ☐ Identify excess capital available for wealth transfer and charitable giving goals (refer to case study on back page)
- ☐ Establish investment policy tailored to risk tolerance, liquidity needs, and tax considerations
- ☐ Develop optimized allocations based on tax assumptions, income requirements, and risk tolerance

Estate Planning

Effective estate planning provides for the orderly transfer of wealth to family, charities, and even future generations.

- ☐ Establish revocable trusts that adapt to your needs throughout your lifetime
- ☐ Balance your lifetime income needs with wealth transfer goals
- ☐ Establish the appropriate trusts to receive wealth transfer gifts to heirs
- ☐ Establish timeline, amounts, and other considerations in transferring wealth to heirs
- ☐ Consider insurance strategies to meet any estate tax shortfall
- ☐ Incorporate asset protection and thoughtful distribution language in the new estate plan

Tax Minimization Strategies

Anticipating and planning for tax exposure can help minimize what could be a very significant tax bill. While taxes can never be eliminated, some techniques can be employed to reduce the burden.

- ☐ Identify capital loss opportunities
- ☐ Consider gifting stock valued at pre-transaction levels
- ☐ Establish charitable vehicle to pre-fund several years of future gifts in the same year of the transaction, maximizing your charitable deduction
- ☐ Take advantage of any non-qualified deferred income opportunities available through current organization
- ☐ Consider funding wealth transfer vehicles with potential rollover equity

Business Sale Process

Start-up and Legal

- ☐ Hire investment bank
- ☐ Hire legal counsel
- ☐ Pre-kickoff meetings

Kickoff Process

- ☐ Organize kickoff calls with investment bankers
- ☐ Determine go-to-market strategy
- ☐ Conduct organizational meetings

Upfront Due Diligence

- ☐ Conduct third-party due diligence
- ☐ Review upfront business and financial diligence
- ☐ Investment bankers review existing financial models

Marketing the Business

- ☐ Develop teaser
- ☐ Prepare buyer lists
- ☐ CIP distribution
- ☐ Fireside chat meetings
- ☐ Buyer communication

Initial Indications

- ☐ Collect Indications of Interest (IOI)
- ☐ IOI review calls

“Blackout Period”

At this stage of the process, the sale of the company will demand your time and energy.

Prepare to Receive Proceeds

Based on the tax, estate, and investment planning work done prior to the deal closing, you are now prepared and ready to receive your proceeds.

- ☐ Review consideration received: cash, equity, earn-outs, or a combination
- ☐ Negotiate best deal for executives based on payment structure
- ☐ Earmark anticipated taxes due and use short-term cash management strategy for those funds

Investment Management

Once proceeds are received, portfolio construction and security selection can begin in the appropriate accounts.

- ☐ Recreate a sustainable and resilient income stream through a combination of fixed income, qualified dividends, and tax-efficient realized gains
- ☐ Evaluate alternative strategies including hedge funds and private equity
- ☐ For public equity, navigate rule 144 stock sales, create 10b5-1 plans, hedging concentrated positions

Post-Sale Considerations

After the hectic and exciting process of selling your business, reality tends to set in both financially and emotionally. This is a time to reflect and plan for the future.

- ☐ What is next? How to fill the void of running your business
- ☐ Consider conversations with executives who have recently gone through this process
- ☐ Conduct conversations to ensure next generation benefits from new financial position, not harmed
- ☐ Personal/cybersecurity review
- ☐ Inventory future professional/ charitable opportunities
- ☐ Family dynamics review

Management Presentations/Buyer Due Dilligence

- ☐ Meet with potential buyers

Buyer Due Diligence

- ☐ Due diligence calls/ meetings
- ☐ Potential facility tours

Transaction Agreements

- ☐ Management term sheets
- ☐ Purchase agreements and other ancillary documents

Rebids/Final Bids

- ☐ Collect rebids/ final bids

Signing and Closing

- ☐ Regulatory filings
- ☐ Closing approvals and consents
- ☐ Funding

Post-Closing

- ☐ Closing dinner

Illustrative Proceeds Maximization Case Study

Proper planning allows for substantial tax savings

Situation: Shareholder/group to receive $100 million in proceeds from a transaction
Objective: Intends to donate roughly one-third to charity over lifetime, one-third to children

Without Planning (in millions)

Gross Estate[1]	$115.0
Income Tax on Sale[2]	($21.4)
Estate Tax Exclusion[3]	($22.8)
Taxable Estate	$70.8
Estate Tax (40%)	$28.3

With Planning (in millions)

Gross Estate	$115.0
Income Tax on Sale[4]	($15.0)
Transfer Stock to Trusts[5]	($30.0)
Funding DAF Pre-Transaction	($30.0)
Estate Tax Exclusion	($22.8)
Taxable Estate	$17.2
Estate Tax (40%)	$6.9

$6.4 million in income tax savings

$21.5 million in estate tax savings

Sale of Company ($100 million interest)

Wealth Transfer, Prior to Transaction

- ☐ Fund trusts for three children

Charitable Planning, Prior to Transaction

- ☐ Fund charitable entity with company stock

Realize Income and Estate Tax Savings

- ☐ Maintain desired lifestyle while also accomplishing wealth transfer and charitable goals, tax efficiency

1. Assumes shareholder has $10mm basis in company and value of $100mm at the time of the transaction. Also assumes that shareholder has $15 million in other assets.
2. Assumes 20% Long Term Gain Tax on $90 million plus Medicare Surtax at 3.8%.
3. 2019 estate tax exclusion amount is $11,400,000 per individual.
4. Assumes avoiding $27 million realized cap gain via $3 million gift to DAF pre transaction. ($70mm–$7mm basis)*23.8% = $15mm
5. Post transaction value of stock transferred to Children's trusts through a grantor retained annuity trust ($3mm pre-transaction value).

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