

# Tips for selling your business



Wealth  
Management

Effective planning can help ensure that when you are ready to sell, you do so in a way that supports your goals and financial future.

When a business owner initially thought about selling his business, the owner received a \$105 million offer. But instead of selling it right away, the owner worked with an RBC Wealth Management financial advisor and an investment bank to market the business, and eventually sold it for \$126 million.

Retaining financial professionals opens a new pool of potential buyers, which shows the importance of doing careful advance planning before selling your business, even though an initial multi-million-dollar offer could tempt any business owner.

Ideally, start thinking about transitioning your business with a sale, a partial sale or a restructure for at least few years before you sell it. Before you sell, hire a financial advisor to help you position the business for maximum value—and to market it.

## Start with a business valuation

The first step for business owners preparing for a potential sale is figuring out the value of their business. Many business owners believe they know the value of their company, but without a professional valuation, they could be underestimating its worth.

Going through the business valuation process prior to selling is also

essential for the owner's personal retirement and wealth planning.

If a business owner is working with a financial advisor to develop a wealth plan based on a company they believe is worth \$20 million, it's smart to find out if that's truly the value.

## Plan a transitional strategy

Another important consideration is what comes after a potential sale. That is because your plans after selling your business—whether you want to retire, stay involved in the business or start a new business altogether—will impact the structure and timing of your sale.

It is rare for sellers to get a check and be 100 percent done with a business. Buyers usually want a transition period and rarely pay the entire amount for the business in one lump sum. Make plans based on how much you will get upfront, how long you will stay involved in the business and how much you will get later.

It is especially important for entrepreneurs to plan for such a transitional period, as they typically pour their money into growing their business, which means their investments are concentrated. A wealth advisor can develop a new strategy to meet owners' financial needs, including retirement and philanthropic goals.

## Consider options to structure the sale

How the sale of a business is structured is also something potential sellers need to evaluate. Some owners may want to monetize a piece of their business rather than sell it in its entirety. Owners who strategically plan for this type of transition may be able to sell the business in two or three phases to generate the largest potential profit.

Regardless of who buys the business, there is often an 'earn-out period' when the owner receives a lump sum at the initial phase of the sale and then additional payments if certain benchmarks are met. That is another reason to start planning earlier because you may have to stick around longer than you anticipated. Business owners who want to walk away immediately from their business may need to accept a lower offer than if they were to stay on to help transition and grow the business.

## Protect your family's and employees' financial futures

When planning to transfer business ownership, you also want to consider the implications for your family and employees. Many buyers need the leadership team to keep the business running. Business owners often want to fairly repay their key employees for

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their work in growing the business, so they will look for a way to cut the employees in on the deal.

For example, a retention can provide key employees with an incentive to stay during the transition, or an exit bonus may be offered to provide financial support for employees who choose to leave.

Another option for sellers is to sell part or all of the business to their employees through an Employee Stock Option Plan (ESOP), which can offer tax benefits for the company, the owner and the employees.

Understanding your retirement goals, your family's financial needs and the true worth of your company can start you on the path to selling your business in a way that secures your financial legacy and protects your employees.