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### Making an Exit Plan Strategies to Help Maximize a Business Owners' Wealth

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# Making an Exit Plan: Strategies to help Maximize a Business Owners' Wealth

August 31, 2022

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Indiana Continuing Legal Education Forum (ICLEF)

230 East Ohio Street, Suite 300

Indianapolis, Indiana 46204

Ph: 317-637-9102 // Fax: 317-633-8780 // email: [iclef@iclef.org](mailto:iclef@iclef.org)

URL: <https://iclef.org>



# **MAKING AN EXIT PLAN: STRATEGIES TO HELP MAXIMIZE A BUSINESS OWNERS' WEALTH**

August 31, 2022

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**MAKING AN EXIT PLAN: STRATEGIES TO HELP  
MAXIMIZE A BUSINESS OWNERS' WEALTH**



## **Description**

How to develop income strategies to help maximize a business owners' wealth.

## **Faculty**

**David Ghormley**

MFS Investment Management

P: (317) 517-7141

E: dghormley@mfs.com

**Nicole McGoff**

Merrill Lynch Wealth Management

P: (317) 706-3195

E: nicole.mcgoft@ml.com

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**David Ghormley, CFA**

MFS Investment Management, Indianapolis



*David Ghormley, CFA*, is Director at MFS Investment Management in Indianapolis.

MFS Investment Management is an active, global asset manager with a uniquely collaborative approach to build better insights for clients. Its investment approach has three core elements – integrated research, global collaboration, and active risk management. Through the combined application of these three principles, the firm works to deliver sustainable investment solutions for the individual and institutional investors it serves.



**Nicole C. McGoff, CDFA®**  
Merrill Lynch Wealth Management, Indianapolis



*Nicole McGoff, CDFA® - Financial Advisor*

Nicole and her team are passionate about helping their clients live their best financial lives. Her process begins by listening to her clients' goals and needs to providing them with a thorough, educational, and transparent financial strategy.

Nicole began her financial services career in 2010 as a Financial Advisor working with successful families and business owners to build, protect, and transfer their wealth. Most recently, Nicole spent four years at Capital Group|American Funds where she educated Financial Advisors and research teams on investment processes and effective practice management. This experience has allowed her to better service the needs, wants, and wishes of her clients.

Nicole enjoys being an active member of the Assistance League of Indianapolis and other volunteer organizations within her community. She attended Western Michigan University where she played Division I Golf and earned her degree from Indiana University-Purdue University Indianapolis. Her greatest joy is spending time with her husband, Sean, two children, Colin and Maeve, and English Mastiff, Lily.



# Making an exit plan

Strategies to help maximize business owners' wealth

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# Start thinking about it now

A majority of your wealth may be tied up in your business.

An exit plan can help:

- Differentiate personal and business finances
- Monetize the wealth you've created
- Transfer and seek to preserve your wealth through tax-minimization strategies

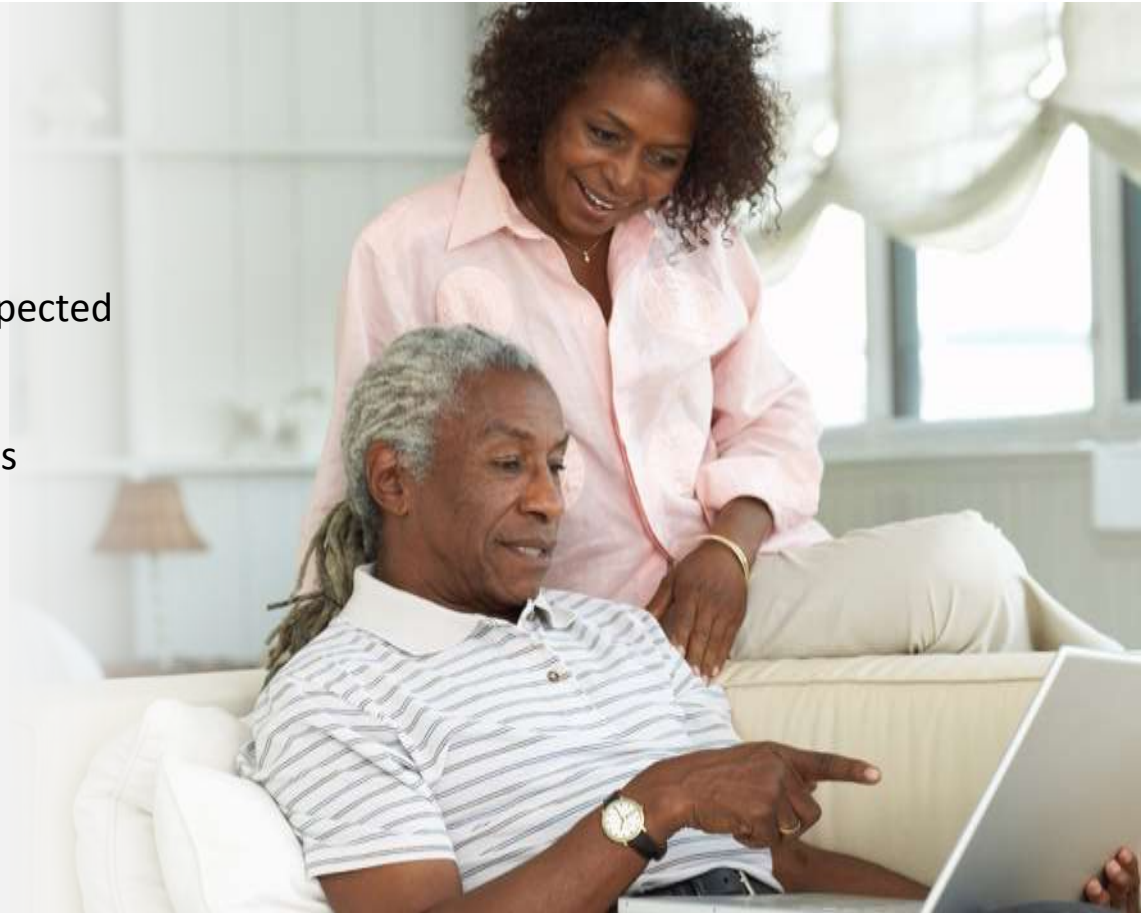
It's a good idea to:

- Start to develop your exit plan at least two to three years before your transition
- Review it with your financial advisor and tax experts to address changing needs

Only **33%** have a robust, documented plan that's been communicated to those it affects.<sup>1</sup>

# Best practices for exit planning

- 1 Define and prioritize your goals
- 2 Prepare your business for the unexpected
- 3 Maximize the value of your business
- 4 Determine your exit strategy
- 5 Know what comes next





# Define and prioritize your goals

## Make the time to consider:

- Your personal and business goals
- Who the next generation of leadership might be
- How much value you can take out of the business
- Your plans for your next phase



# Define and prioritize your goals

## Plan ahead of your exit

More than half (51%) of all business owners (and two-thirds among large corporate owners) plan to leave their business within the next five years. Yet selling or transferring ownership to family is the exit plan for just 28% of business owners.<sup>1</sup>

That's because:

- 1 The owner has no intention of retiring anytime soon
- 2 The owner's wishes are outlined in a will
- 3 Important decisions have not yet been made about future management



# The importance of contingency planning

## CASE STUDY 1

### Lucas Motors

- Three siblings inherit a successful chain of car dealerships from their father
- They expand the business to a \$50 million valuation
- Rick, who manages several dealerships, dies unexpectedly
- He leaves \$20 million to his siblings, which generates an estate tax bill of nearly \$6 million



# Life and key person insurance

## CASE STUDY 1 — Result

### Lucas Motors

- The business assets are tied up in real estate and auto inventory
- Peter and Rachel consider selling dealerships to raise cash for the taxes
- They have to hire an interim manager to take Rick's place
- They take a costly loan against the value of the properties to pay the estate taxes
- Lucas Motors buys life insurance and key person insurance for the siblings



# Prepare for the unexpected with four key strategies

## 1 Key person insurance

The business may suffer from the loss of employees who are critical to its success

Business purchases life insurance for each key individual

- Gives business the death benefits
- Provides funds to replace revenues lost while hiring and training a replacement

## 3 Disability insurance

The business may suffer if a partner is permanently disabled and can no longer work

Each partner purchases disability insurance

- Pays any debts and covers ongoing expenses after a partner is permanently disabled

## 2 Business continuation with life insurance

The death of an owner could force the family to sell the business for less than its full value

Business purchases a life insurance policy on the owner

- Guarantees repayment of business loans if the owner dies
- Buys time for an orderly sale and transition of the business

## 4 Buy-sell agreement funded with life insurance

Business partners may not be able to buy out each other's share if one dies

Business or owner pays for a life insurance policy on each owner

- Helps the surviving owner maintain control of the business
- Eliminates the need to sell the business to settle the deceased partner's estate

# Maximize your business's value well before an exit



## Structure

Compare the features of S corps, C corps and LLCs; consider using trusts

## Employees

Enhance retention with robust employee benefit plans

## Records

Document all vendor/client agreements

## Operations

Consider hiring a management consultant to review

## Family issues

Address any difficult dynamics in advance

## Assets

Update valuations and ensure that titles are correct

## Transfer

Implement transition strategies well in advance of a sale



# Determine your exit strategy: Succession or sale?

## Succession

Transfer the business to family members

## Sale

Sell the business to an unaffiliated buyer  
or to employees/partners



# Succession strategy

## Transfer to family members

### CASE STUDY 2

#### Bennett Oil

- Tom and Betsy Bennett are founders of a \$50 million heating oil and propane gas distributor
- They want to retire and sell the business to their son, Doug
- Their daughter, Anne, a physician, does not want to be involved in the business
- Tom and Betsy set up an intentionally defective grantor trust (IDGT) and an irrevocable life insurance trust (ILIT), and make gifts into each
- They use the trusts to transfer the business to Doug and equalize Anne's inheritance

# Putting trusts in place

## CASE STUDY 2 — Result

### Bennett Oil

- The IDGT purchases Bennett Oil for a note that pays income to Tom and Betsy, supporting their retirement needs
- The ILIT purchases a second-to-die life insurance policy on Tom and Betsy
- After the parents die, Doug takes a loan to repay their estate
- The estate is divided between the siblings based on the business value and Doug's loan payments
- Anne receives the life insurance proceeds

# Other potential solutions for selling to family members

## Succession strategy

- Grantor-retained annuity trust (GRAT)
- Family limited partnership (FLP)
- Installment sale
- Leveraged recapitalization





# Sale strategy

Sell to an unaffiliated buyer

## CASE STUDY 3

### Health Solutions Plus

- Stan Miller owns a distributor of over-the-counter health care products
- He receives an unsolicited offer to buy the business for \$60 million
- Stan's financial advisor offers to introduce him to the Private Sales Referral Network (PSRN) at BofA Securities
- PSRN connects Stan with three investment banking firms from the member network
- The member investment bankers suggest ways to realize the potential value of the business before a sale



# Marketing the business

## CASE STUDY 3 — Result

### Health Solutions Plus

- Three years later, the business is ready to sell, and Stan has implemented smart wealth transfer strategies
- Stan engages one of the investment bankers he met through PSRN
- The member investment banker markets the business and receives offers from three buyers
- A competitor offers \$90 million, with half to be paid in cash
- Stan's exit plan helps optimize the after-tax value of the business for him and his family



# Receiving strategic investment banking guidance

The Private Sales Referral Network can give you access to third-party investment bankers for:

- Capital raising
- Employee stock ownership plan (ESOP) advisory services



# Sale strategy

## Sell to employees or partners

### CASE STUDY 4

## Sentry Systems

- Government contractor designs personal watercraft for the military
- Founder Walter Carson is ready to retire
- His team of three senior engineers wants to buy the business
- The company's employee stock ownership plan (ESOP) has been buying Walter's shares for the past 10 years





# Facilitating a buyout

## CASE STUDY 4 — RESULT

### Sentry Systems

- Each employee of Sentry Systems has an ESOP account
- The ESOP buys Walter's remaining shares, and he retires
- Walter defers taxes on the sale by investing the proceeds in stocks and bonds
- Walter's employees now own the company; one of the senior engineers becomes CEO
- Without the employee benefit plan advice of Walter's financial advisor, his team might not have been able to buy him out



# Other potential solutions

## Sale strategy

Here are more ways of selling to employees or partners:

- Buy-sell agreement
- Installment sale
- Leveraged recapitalization
- Management buyout



# Know what comes next

A tailored strategy can help you maximize the value of your business.

We can work with you to:

- Identify and prioritize your goals and concerns
- Allocate resources and develop investment strategies aligned with your goals
- Periodically review and update your strategy

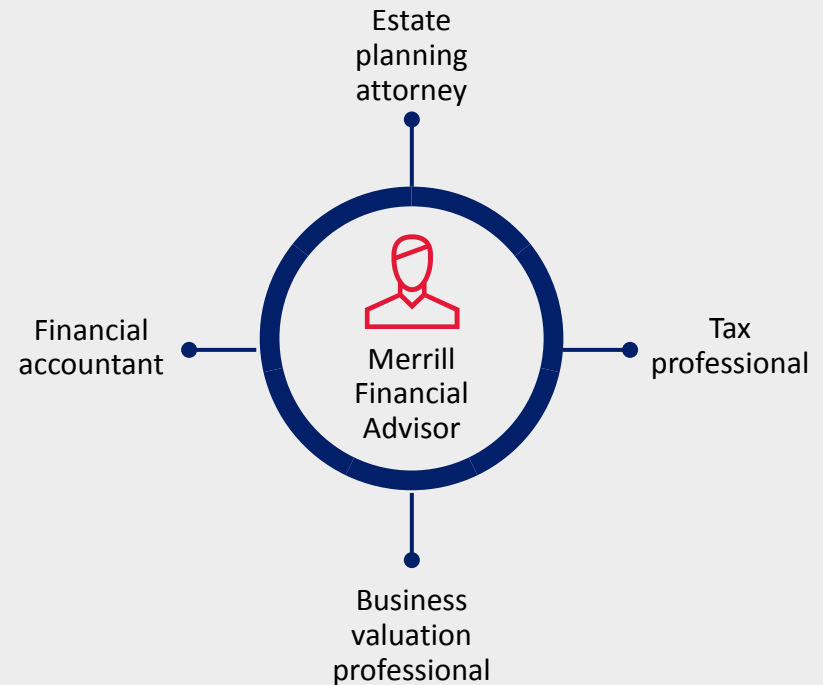
**63%** of business owners (six in 10) have no formal plan for the succession of their business.<sup>1</sup>

# Build your team of advisors

## Business owner

Your team may also include an investment banker, mergers and acquisitions counsel, a management consultant, and a human resources consultant.

Review any financial transactions or arrangements that may have tax, accounting or legal implications with your personal professional advisors.





Thank you