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CASE STUDY

Will vs. Melody: A Tale of Two Entrepreneurs

Executive Summary

Many business owners spend decades building their companies and then put minimal thought into planning and ensuring they get the most out of their business when the time comes to sell.

Hint: Effectively negotiating the purchase price for your business is a relatively small lever to pull in relation to other opportunities to maximize your take-home proceeds.

This case study, and subsequent monthly articles, are meant to empower business owners so that they can be intentional with their business planning.

Feel free to reach out if you'd like to learn more about how your business fits into your personal wealth plan, or if you'd like to receive a complimentary business valuation.

Wing-It Will

The owner of a manufacturing services firm had spent 22 years building his firm. The time for retirement was approaching but he had been putting off the topic. One day, a private equity firm called him and expressed interest in his business. The owner, open to exploration, allowed the conversation to proceed. After a few months, the private equity firm made an offer for ~$20M, and the owner accepted the offer.

The offer he received was slightly below market but he didn't know that. He paid full ordinary income taxes on the proceeds.

Maximizing Melody

The owner of a professional services business had a tendency to be intentional about everything she did in her life. Several years before retirement, she connected with an investment bank to learn about (A) the value of her business now and (B) what she could do to increase the value of her business in the years leading up to a transaction. She also connected with a wealth advisor to learn (A) how much post-tax cash she needed to net in a transaction to meet all of her financial needs and (B) how to minimize her tax liability. She spent the next 2 years making adjustments to her business to increase its value and completing her pre-transaction estate planning. She then re-engaged the investment bank and sold a portion of the business for $60M to a private equity firm.

She continued to lead the business post-transaction and anticipates selling her remaining equity for another ~$80M within the next two years.

Conclusion

In hindsight, Wing-It Will recognized the value of earlier preparation. If he could do it over again, he would have met with a wealth advisor in advance to complete estate and tax planning before the transaction, which would have saved him over $1M in taxes at the time of sale and millions more in future estate taxes. Additionally, he would have consulted with an investment bank ahead of time to identify strategies for increasing the value of his business in the years leading up to the sale. In contrast, Melody's proactive preparations significantly enhanced her outcome. Her planning increased her cash proceeds at the time of closing by more than $10M and reduced her future estate taxes by $20M+.

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