

YOUR BUSINESS IS NOT YOUR EMPIRE (or) THE EMPIRE SOLUTION

Most owners dream of building a business they can sell. Fulfilling all the dreams of family time and hobbies sacrificed to build the business empire. Only to find out, after taxes & fees, the sale proceeds do not generate an income comparable to the cash flow from the business. This is the reality business owners staring at retirement eventually wake up to.

THE EMPIRE SYNDROME

A new client of mine experienced this personally and apparently it took him nearly 5 years to come to terms with it. The business was generating \$5,000,000 in annual revenue with a consistent 10% EBITDA. Fortunately the sale took place with a 5X multiple for \$2,500,000. Sounds like a lot but let's continue. After taxes and fees (35%) the owner walked away with just over \$1.6 million dollars. Part of what took so long to actually sell was the fact that reinvesting the proceeds only generated roughly \$75,000 of annual income. That's a lot different than \$500,000 the business was generating every year. The thrill of managing and directing resources to impact the bottom line of the business would also be gone.

Although the owner didn't have a \$500,000 lifestyle, he still controlled & directed the EBITDA. There's a big difference in that and a retirement income of \$75,000. This is why a lot of sells fall apart. The owner thinks their business has to be worth more because it is unique and different.

I call it the Empire Syndrome. Time, energy, emotions, profit, everything gets poured into the business indefinitely. There isn't a lot of other planning done. We have all heard of people who have sold a business for a large lump sum. It's great when it happens but it's not the norm. The example above illustrates and there isn't a large percentage of businesses doing \$5,000,000 a year.

YOUR BUSINESS SHOULD BE PART OF YOUR EMPIRE

- > Start with an Emergency Fund for the business. This has to be the #1 focus for any business. The owner should set a profit margin goal and focus on it. Whether you take money out of the business or leave it in, it needs to be set aside for emergencies and for future opportunities.
- > Own the real estate in which the business operates. This expense is already coming out of cash flow via monthly rent. Let the business fund the real estate ownership. Many business owners can continue to rent the real estate after the business is sold. Often the real estate income surpasses the income from the business sell.
- > Fully fund a retirement plan. The cash flow is already going out every year in the form of income taxes. In many cases the business owner can save more in taxes than the expense (employee contributions and administrative fees) of funding the retirement plan. Over 20 years, an owner can potentially generate a retirement account balance of \$1,500,000 or more using dollars already flowing out of the business.

Once the business is funding these pieces of the Empire, build liquid assets that are safe & liquid.

Then invest in other real estate, business opportunities &/or blue chip stocks. This creates other income sources for retirement which is key to building a personal empire.

Fast forward 20 years and the business, retirement plan, real estate and personal balance sheet of investments have become their own wealth & income generators. This gives the owner options and the control needed to fund a lifestyle outside of business ownership and to pursue new business opportunities. This is the “Empire Solution.” Build your Empire, not just the business.

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