

# CASE STUDY:

## Pre-Sale Planning for Business Owners



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The decision to sell a business, whether to sell it outright or transfer it to family members, is complicated. It involves consideration of a myriad interrelated financial, familial and emotional factors. Once the decision is made, preparing for the sale of a business poses additional considerable challenges, ranging from pre to post-sale planning. By recognizing these challenges and addressing them effectively, a business owner can realize the optimal benefit from the sale of the business.

### Challenges and Key Considerations

#### 1. Pre-Sale Analysis

- Deal structure considerations
  - Timing and type of sale
  - Tax implications
  - Retained liability and growth opportunities
  - Proceed uses: taxes, charity, family, heirs, etc.
- Estate and wealth transfer issues
  - Tax ramifications
  - Family wealth transfer goals
  - Philanthropic goals
- Personal and family circumstances and goals
  - Future involvement of self and/or family in business
  - Future business and personal plans
  - Personal and family circumstances and goals
  - Financial framework: assets and future needs
  - Payout structure and restrictions
  - Timing for family members to receive proceeds

#### 2. Team Construction

- Requirements for sale and post-sale expertise
  - Investment banker
  - Business valuation expert
  - Corporate and personal accountants
  - Business Attorney
  - Trust and estate attorney
  - Wealth manager
  - Lending specialist
  - Family governance advisor
- Advisor roles and interactions
  - Roles and responsibilities
  - Processes for communicating and coordinating

#### 3. Tax Implications

- Potential deal structures' tax opportunities and consequences
  - Tax implications of what, when and how of sale proceeds
  - Continued employment (salary vs. consulting, etc.)

#### 4. Lifestyle Needs and Investment Goals

- Income and spending forecasts and needs
  - Expense of replacing memberships, benefits and other company perks
  - Changes in lifestyle and lifestyle needs
- Investment strategies, short and long term
  - Investment of immediate cash payment
  - Analysis of total portfolio for asset allocation and investment strategies
  - Inflows and outflows issues
  - Long-term investment plan implementation

#### 5. Post Sale Experience

- Business focus change: from entrepreneur to investor
  - Comfort level with growth and risk of investment portfolio
  - Role to play in investment portfolio (delegate vs. do)
- Personal dynamics
  - Impact of loss of control
  - Continued relationship with employees
  - Opportunity to focus on lifetime goals

## Client Background

Robert and Nancy Scanlon were the sole owners of a business in New Jersey for more than 30 years. As they approached their sixties, they wanted to sell their business to spend more time with their family. They were New Jersey residents with two children, John, age 26 and Susan, age 28. They were approached by a private equity firm that wanted to buy the business.

## Goals and Issues

Robert and Nancy wanted to work for the new entity for approximately three years following the sale and remain on the board of directors for an additional three years. Their daughter, Susan, the CFO, wanted to keep her position at the company for five years once the sale was final.

After the sale, the family planned to relocate and needed \$1 million for the purchase of their new home. The family had strong charitable intents and considered establishing a family foundation with a portion of the proceeds from the sale of the business. Finally, Robert and Nancy wanted to transfer wealth to their children in a tax efficient manner, protected from creditors once the children were prepared to receive it. They were uncertain if they could achieve all these goals in light of new lifestyle needs.

The table below highlights some of the issues the Scanlon family faced when they sold their business along with the recommendations we provided to help them with a successful sale of their business and transition to their life after sale.

Challenges and Considerations	Issues and Concerns	Solutions and Recommendations
1. Pre-Sale Analysis	How to handle estate taxes resulting from wealth created at sale.	Suggested and created tax efficient transfers of ownership in the business to family members at pre-sale valuations to reduce growth of assets in seller's estate. The Scanlons are projected to save approximately \$8.8M in future estate taxes.
2. Team Construction	Whether or not to use Robert's personal accountant and lawyer to provide valuation and trust and estate expertise.	Worked with Robert and evaluated current team, identified experts needed for team, kept current accountant and hired advisors with specialized experience in valuation, trust and estate issues. The expertise of the new team helped identify critical areas of the sale to ensure that no detail or opportunity for savings was overlooked.
3. Tax Implications	Which type of sale is best: lump sum payment for 90% of asking price vs. installment sale over 30 years totaling 125% of asking price.	Considered and evaluated alternatives and implications based on cash flow, income tax and creditor risk. Robert and Nancy decided on lump sum because income tax rates are currently legislated to rise in 2015. The lump sum sale is expected to save approximately \$600,000 in income taxes on a present value basis.
4. Lifestyle Needs and Investment Goals	How to invest proceeds in order to maintain lifestyle after leaving the business in three years.	Analyzed spending needs and suggested an asset allocation strategy to allow the Scanlons to maintain their lifestyle over time and to provide for their children and grandchildren. Worked with a family governance expert to help prepare their children for their new wealth.
5. Post-Sale Experience	How to manage portfolio of assets to create an income stream instead of taking cash from an operating business.	Projected range of potential outcomes through Monte Carlo analysis. The Scanlons can now focus on family, travel and other interests knowing they have appropriately allocated assets and established a plan to fulfill their lifestyle and wealth transfer goals.

## Conclusion

The Wealth Management division of Peapack-Gladstone Bank provided the Scanlons with significant analysis and evaluation of multiple scenarios for the sale of their business. We worked with them to evaluate their current team and help them build an even more effective team of experts where each member's knowledge and expertise was specifically related to the needs of selling a business. After the sale, we helped them create an investment and wealth planning strategy to meet their needs. With considerable planning and analysis, the Scanlons saved almost \$9 million in estate and income taxes and achieved their income, investment and wealth transfer goals for themselves and their family.