Wealth Planning **Update**

Six best practices for selling or transferring your business

Contemplating the sale or transfer of a business can be very exciting. It's the culmination of many years of hard work and an opportunity to monetize what is most likely your largest, albeit most illiquid, asset. A sale or transfer can also free up your time to pursue other interests, as you embark on the next chapter of your life. Further, it helps lay the groundwork for estate planning.

That said, transitioning from being a business owner to your next stage in life requires forethought and planning to achieve your goals.

Preparation is the most important factor in a successful transition. The best outcomes are realized through years of advanced planning. This important preparation assures you have plenty of time to assemble a team of advisors, who will lead you through each step along this journey, and provide you with time in the case of any necessary restructuring that ensures the most favorable outcome, at the optimal price and with the best terms.

With years of experience in this arena, BMO Wealth Management shares these six best practices to guide you in the pursuit of a sale or transfer of a business.

① Leave ample time to structure the kind of transition you want.

Start by thinking about your long-term goals. Do you wish to monetize your company's value, continue to grow the business, or pass the family enterprise to the next generation?

Next, think about who you would like to see as a buyer. Some owners want to keep the business in the family for children or grandchildren. Others want the business to go to trusted employees, who will continue to make an impact in the community. Still others may want to sell to a strategic buyer with whom they can achieve the highest value possible.

All these considerations take time to execute, so it's prudent to start years before any planned transfer. Use this time to assemble a team of trusted advisors, including corporate and estate lawyers, accountants, exit planning advisors, and bankers. This also leaves you time to train and mentor your successors and gain a realistic valuation of your business. And by starting early, you will have enough time to make tax-efficient gifts or sales to your family or community.

② Understand the true value of your company.

To establish a starting point for negotiations with a potential buyer, you must have a fair market valuation for your company. This work is typically conducted by a mergers and acquisitions firm or an investment bank. Knowing the realistic value of your business helps ensure you avoid surprises when considering offers.

A valuation conducted by a qualified appraiser with knowledge of your industry will not only establish a fair price for the business at present time, but also it will identify areas for improvement, which if completed may increase your firm's value.

You will also need a fair market value if your transition plans involve making gifts to family in order to have a valuation of shares or interests transferred for estate planning purposes.

③ Consider the emotional aspects of a sale or transfer.

While the sale or transfer of your business is primarily a financial transaction, there are also many emotional aspects. To set yourself up for the best chance of success, make sure you are emotionally prepared to accept the change before you begin your negotiations. Your business has likely been one of your highest priorities for many years. Consider what it will feel like for you on the other side. Taking the time to process this, to envision how this will look for you, will not only help you make appropriate decisions throughout the negotiation process, but also help you realize you have things to look forward to when the sale is complete.

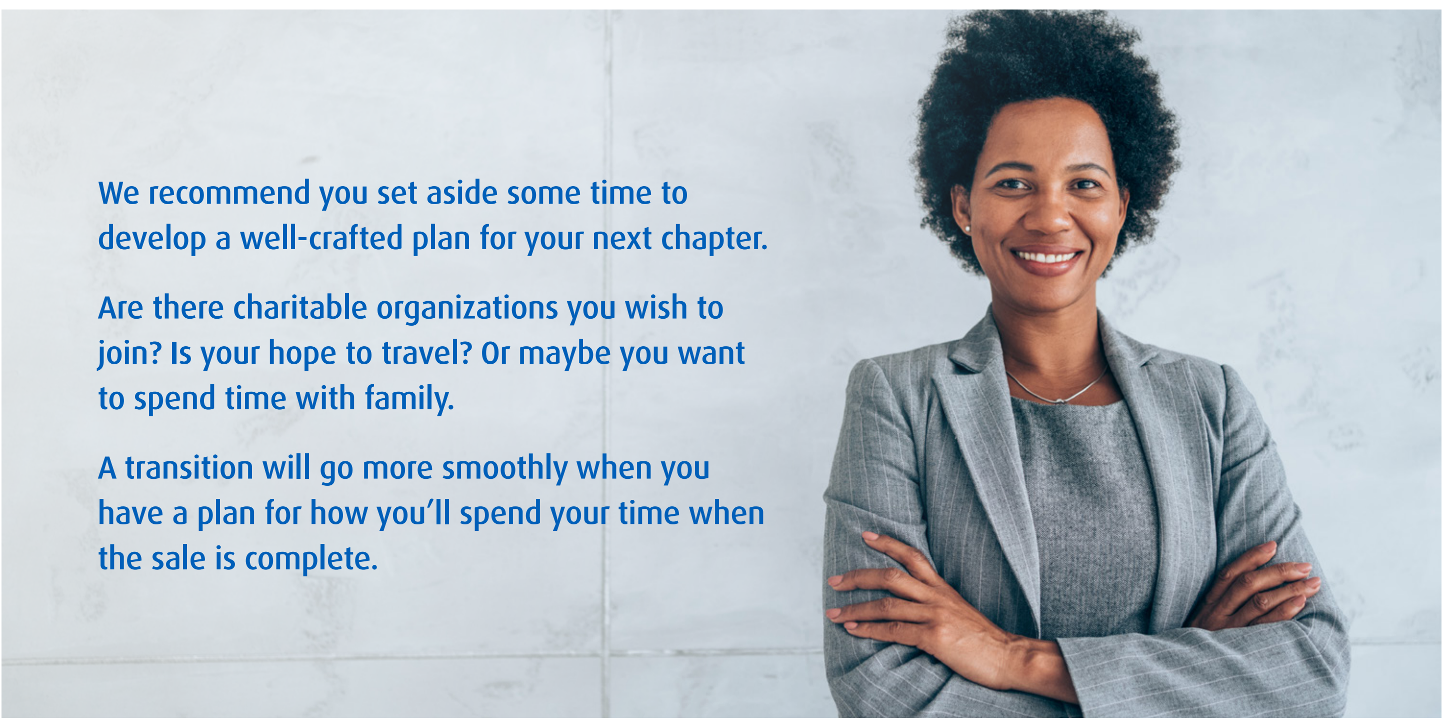
We recommend you set aside some time to develop a well-crafted plan for your next chapter. Are there charitable organizations you wish to join? Is your hope to travel? Or maybe you want to spend time with family. A transition will go more smoothly when you have a plan for how you'll spend your time when the sale is complete.

④ Create a solid plan for the outcome you desire.

The structure of a transfer depends on your goals, which will direct you to the right type of buyer, whether it's an outside buyer, management, strategic partner or family member. In addition, sellers will have a big say in the terms of the sale and will also want to structure it in a way that fits their goals.

For example, you may want to stay involved in the business during a longer transition period after a sale. In that case, you will want to find a buyer who welcomes your involvement. Or you might feel strongly that the future owners should stay in the community that you cherish. These negotiations are your opportunity to structure the deal with the most favorable terms for you.

However, you should know that insisting on specific conditions may mean agreeing to a lower sale price. Some owners are willing to give up some value if it means executing a sale on their own terms.



⑤ Plan for unforeseen circumstances.

A business is an illiquid asset, and a sale is often necessary to monetize the value. However, emergencies may arise that can preempt even the best-laid plans, such as the death of an owner.

If a business needs to sell fast, perhaps to settle an estate, that's a less than optimal situation to obtain the best price. For starters, the right people may not be in place to take over, and the market cycle may not be as receptive as other times.

Again, advanced planning is vital, so you can sell on your terms and realize the valuation you seek.

⑥ Understand the tax implications.

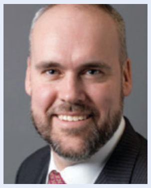
A sale of a business will most likely require capital gains on the appreciation of the sale or stock or interest units (if you are selling securities). In addition, there may be ordinary income and income recapture if the buyer only purchases the business's assets. However, with early planning you can minimize some of the tax consequences of the transfer.

For starters, you can structure the sale so you receive income payments over time, rather than in one lump sum, which requires you to accept all payment in a single year. Installment payments may lower your overall tax obligation by keeping you in a lower tax bracket.

Keep in mind that utilizing an installment sale involves some risk. In theory, by doing this, you will be financing the buyer's purchase. So, if the buyer is unable to pay or the business fails you may not realize all your payments. Or you may need to step back in and run the business for a time, and then begin the transition all over again.

Consult with your tax and estate planning professionals for the most tax-efficient strategies for your particular situation.

As you begin the next chapter of your business and look toward the future, work with your team of advisors to help you optimize value, find new owners, and protect your heirs with the necessary estate planning—all on your own terms.



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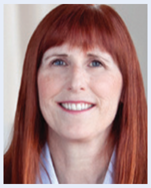

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