

Preparing to Transition Your Business

To successfully transition your business, the process should begin well before the company is put on the market, gifted, or otherwise transferred to new owners. In order to leave the business when you want with adequate monetary and other desired results, advance planning is necessary. A pre-planned exit strategy can help facilitate the transition into retirement, as well as provide a more seamless transfer of business interests in the event of a disability or an untimely death.

Ten Ways for Your Business to Prepare for Transition

1. Be honest with yourself
2. Define the road forward
 - a. Projections, SWOT (Strengths, Weaknesses, Opportunities, Threats) analyses, backlog
 - b. Key opportunities and risks
 - c. Product line analyses
 - d. Succession issues
3. Prepare your system and staff for timely reporting
 - a. Management summaries
 - b. Availability of trailing twelve month information
 - c. Accurate monthly and quarterly results and trends
4. Understand your value proposition: What is your compelling case?
5. Build and engage your management team and define the succession plans of key leadership
6. Summarize major customer and major vendor information (profitability, backlog, agreements, commitments, pricing, etc.)
7. Determine potential addbacks for the prior three years
 - a. EBITDA (Earnings before interest, taxes, depreciation, and amortization)
 - b. Non-recurring expenses
 - c. Market based compensation
 - d. Owner and related party modifications
 - e. Tax driven adjustments
8. Prepare GAAP (Generally Accepted Accounting Principles) basis results for the prior 3-5 years.
 - a. Consider the need for prior period adjustments
 - b. Address areas of concern
 - c. Consider the need for an audit
9. Update and document your financial controls and segregation of duties
10. Get corporate and ownership documents organized
 - a. Address related party and buy-sell issues
 - b. Consider building a data room

Additional Considerations

- Is it the right time to sell given market conditions?
- Are there unused or unattractive assets that should be disposed of prior to the sale of the business, such as substandard or obsolete equipment or vacant land with potential environmental concerns? These types of assets could limit the available sale structures, if a buyer does not want to acquire them.
- If you are planning to transfer ownership to your children or other family members, has the impact of gifting versus selling the business been evaluated?
- If you do not plan to sell to a third party, has a successor been selected?
 - Has he or she received adequate training to be able to earn the respect of employees and manage the company moving forward?
- Has the retention of key employees following a change in ownership been addressed through deferred compensation or other methods?
- Has the tax impact of various sale structures been considered (asset versus stock sales, tax-free transactions)?
- How will the sale structure impact the cash flow of the business?
 - Will sufficient funds be available to fund payments to you, as well as to maintain and grow operations?
 - If not, is it possible that a buyer will be able to obtain third party financing under current capital market conditions? While financing may be available today, it is not guaranteed to be available in the future at the time of a triggering event.
 - Have you considered seller financing options such as earnouts, seller notes, or royalty/licensing agreements? What impact would this sale structure have on your financial independence?
- What level of liquidity is needed to fund your personal financial independence?
 - Will potential sale proceeds be sufficient to meet this need?
 - If so, how will it impact the structure of the sale in terms of cash needed at closing versus your ability to wait for installment payments?
- Will changes to your personal estate plan be needed as a result of the selected succession plan?
- Will you continue to be involved in the business following the sale?
 - If so, in what capacity?
 - If not, what other interests (either business or personal) do you plan to pursue?

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