



If I Sell My Business, Can I Maintain My Current Lifestyle?

A confident, fact-based “yes” answer to this question is the measure of a successful exit, because “success” means leaving your business in the hands of the person you choose, on the date that you pick with the amount of money in your pocket that supports the lifestyle you desire.

While there are many facts to consider (e.g. the value of your business to a buyer, the income you can expect non-business assets, the length of your post-exit life, etc.), let’s focus on just one.

If we assume that: 1) your business is worth as much as you believe, and 2) a buyer will pay cash, today, will the net proceeds you receive at closing be sufficient to maintain your lifestyle? That’s the question every trained exit planning advisor poses to owners. Let’s look at how two owners answered this question.

Michael and Sharon Drake had grown their business over the last 32 years and were eager to sell it. They believed that it was worth about \$2,000,000, and that the net sale proceeds (after capital gains taxes and selling expenses) would be about \$1,500,000. Michael and Sharon’s compensation totaled \$250,000 per year and they generally spent all of it. In addition to their compensation, the business earned about \$500,000 of pre-tax income. Their CPA estimated that the business was worth about four times income, or \$2,000,000.

In evaluating whether the net proceeds of \$1,500,000 would be adequate to support an owner’s post-exit lifestyle, exit planners understand that:

1. Most retirees do not reduce their spending upon Retirement.
2. A prudent annual withdrawal rate from retirement funds is no more than four to five percent.

At that rate, the Drakes will need about \$5,000,000 of capital to realistically withdraw \$250,000 annually over the course of their lifetimes.

Given this withdrawal rate and the desire to maintain their lifestyle, the Drakes will need, after they sell their business, approximately \$3,500,000 of additional income-producing assets.

What additional assets do the Drakes have? Like most owners they have non-business investments (less than \$1,000,000 in their 401(k) accounts) and Social Security benefits. These assets will cover part of the income gap but the couple is still short about \$2,000,000. This shortfall means that, if they exited today, their post-sale income would be almost in half of the amount they enjoy today.

An inability to replace current lifestyle spending with the investment return from the sale proceeds and existing non-business assets is the fate of many (perhaps most) owners of successful companies.

To avoid that fate, it is imperative that you plan and act to secure your financial future long before (five to ten years, ideally) you plan to exit. If you fail to act, you risk ending up as the Drakes did—eager to exit, but forced to remain because they were unwilling to abandon their current lifestyle.

A first step in ensuring your financial security is simply to calculate the gap between your current assets (including your business if you sold it today) and the assets necessary to maintain your lifestyle after you exit your business. I'll have much to say in future posts about proper ways to value existing assets (including your business) and realistic investment withdrawal rates. For now, I hope you understand that you cannot move toward your exit without an accurate understanding of:

1. What you have (income-producing assets,
2. What assets will need upon your exit from the business, and
3. The difference (or gap) between the two.

Once a financial planner makes that calculation for you, you can answer the One Question: "If I sell my business will I be able to maintain my current lifestyle?"

If the answer is YES, you will be able to maintain your current lifestyle if you sell your business it's important to take the next step. Let us help you design a strategy to exit your business, or to protect the value of your business for the time that you want to continue to be at the helm.

If the answer is NO, and there is a gap between what you need the business to be worth and what it is worth currently, take the next step and let us help you design a value building strategy that will help you reach your goals.

[Click Here](#) to learn more about CORE Strategic Business Solutions and our Business Transition Planning Services.