



Solving for X

You may remember from high school algebra something along the lines of; solve the following for X. Solving for X means finding the value of X that would make the equation true. For example, what is the value of X if $X+1=3$. Well it must be two, since $2 + 1 = 3$, $X = 2$. With a simple equation like this it was possible to just think briefly about it and get the answer. The more complicated the equation gets, the more work is involved.

Solving for X in determining the proceeds necessary from a business ownership transfer, where X is the amount of funds needed for an income producing investment portfolio to provide financial security for life, is a much more complicated calculation.

How would you go about solving the following equation?

Does $X + Y = \text{financial security}$?

In this scenario:

- X represents the net investable proceeds from an ownership transfer of your business
- Y represents the income producing assets you own outside of the business

Unlike the simple equation in the first paragraph, solving for X here is much more complicated. First, you need to understand the potential ranges of value for your business, as well as areas of the business where company specific risk is negatively impacting value. Second, you need to calculate

the net proceeds you will receive from transitioning ownership of your business. Taxes, long term debt, escrows and holdbacks, earn outs, seller financing not paid, as well as working capital adjustments will all be deducted from proceeds an owner will receive. The value of your company, less these deductions is what is available for investment in income producing assets.

If the funds from an ownership transfer of your business (X) are not sufficient when added to your current income producing assets (Y) to equal financial security, then you have a value gap in your business. This gap must be addressed early so you have enough time to increase the value of your business, or build more income producing assets outside of the business. If left unaddressed, the value gap will mean accepting a different lifestyle when you decide to transition ownership of your business. A point to keep in mind is not all business owners transition ownership on their desired timeline. Many ownership transition events are involuntary due to death, disability, divorce or shareholder disagreements.

If solving for X, as it relates to your personal financial security were as simple as $X+1=3$, it would be easily solved alone. With something as complex as solving for X, when your financial security is involved, seeking advice from a team of qualified advisors becomes very important. A qualified business and financial advisor, along with a CPA and attorney are all critical to successfully solving for X.

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A business advisor is going to work with you well in advance of an ownership transition event to maximize the value of your company and help you evaluate the best ownership transition options. Your personal financial advisor will advise on determining if your current income producing assets owned outside of the business, along with the proceeds from your business are sufficient to build an investment portfolio to ensure financial security. They will help set realistic assumptions of life expectancy for you and your spouse, investment portfolio returns, withdrawal rates and inflation. A CPA will advise on the most tax efficient way to structure a transaction and your attorney will make sure the terms are the most advantageous to you. Additionally, your financial advisor and attorney can address estate planning issues.

Advisors have a fiduciary duty to their client, which means they should avoid all conflicts of interest when advising you. Working with the right advisors will help with solving for X, even with the most complex equations.

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