I'VE HEARD OF 'PRE-TRANSACTION PLANNING', BUT WHAT IS 'POST-TRANSACTION PLANNING'?

By Michael Krol, CFP®, CPA, Head of Wealth Advisory

When making the decision to pursue the sale of a business, the entrepreneur begins down a path filled with both uncertainty and opportunity. During this time, the business owner's team of professional advisors has an opportunity to provide tremendous value before, during and after the sale.

"Pre-transaction" planning focuses on everything that leads up to the sale, from the nuances of the deal drawn up by the M&A attorney, to the sophisticated income and estate tax strategies executed by the estate attorney and accountant. In many, if not all cases, "post-transaction" planning is equally as important as pre-transaction planning, yet it is often overlooked entirely. This oversight can leave many of the entrepreneur's post-sale needs unfulfilled and can result in significant complications and disappointment in the seller's post-sale life.

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What, then, is "post-transaction" planning, and how does it impact the seller's perceived success or failure of a business sale? Post-transaction planning includes issues such as lifestyle funding analysis, personal affairs management and balance sheet transition. But which member of the entrepreneur's advisory team is expected to fulfill the post-transaction planning responsibilities? What if the entrepreneur has only retained the services of an investment advisor, and not a private wealth firm with a comprehensive approach? (see our OnePaper for the distinction). Without the services of an experienced wealth advisory team, the entrepreneur is left to navigate the murky waters of their balance sheet, tax planning and cash flow management alone. And much like the technical aspects of pre-transaction planning, post-transaction planning must take place during the finite window prior to the sale of the business.

LIFESTYLE FUNDING ANALYSIS

The burning question for the owner selling their business is often, "Will I be able to fund my lifestyle following the sale?" However, an even more important question is, "How much does it actually cost to provide for my lifestyle?"

The lifestyle of a business owner often involves components paid for by the business with the added benefit of an income tax deduction. The combined impact of these items can be significant, and typically, they are buried in various corners of the business such that the business owner will not have a reasonable expectation of their lifestyle-funding needs.

A private wealth advisor with experience in this space will comb through "business expenses" in order to distinguish true business expenses from personal expenses being run through the business. This exercise helps to provide the business owner with a true sense of their lifestyle spending. These lifestyle expenses are referred to as "add-backs", and after the sale, add-backs such as transportation, meals and entertainment must be paid for from the seller's personal assets, without the helping hand of Uncle Sam.

Additionally, many business owners have related business entities, such as real estate holdings, that funnel income streams from the primary business to their personal accounts. These income streams can have a significant impact on post-sale lifestyle funding and therefore must also be assessed in advance of the sale transaction.

PERSONAL AFFAIRS MANAGEMENT

Frequently, employees of the business administer the personal finances and lifestyle arrangements of the owner. These may include scheduling, bill paying and travel arrangements, among many others. In post-sale life, these services will not only be paid for out of pocket but must be staffed and administered outside of the business.

Is the business owner adequately prepared for this influx of responsibility or even aware of what life will be like without a Chief Financial Officer? Through Waldron's experience helping business owners transition through the sale of their business, we have found that in many cases, the owner had vastly underestimated the administrative responsibility they will experience post-sale.

This service gap has the potential to snowball in complexity in the months and years following a sale transaction, and may result in the creation of a de facto family office comprised of individual professionals which the entrepreneur must now coordinate and manage themselves. These post-sale service gaps should be identified and planned for in advance and can best be addressed by a private wealth firm with experience integrating pre- and post-transaction planning solutions, and a comprehensive understanding of the entirety of the seller's financial life.

BALANCE SHEET TRANSITION

Managing the wealth inherent in a successful business enterprise is much different than managing personal wealth post-sale. The entrepreneur will have substantially more liquid assets, a net worth which is tied to the financial markets, and numerous investment decisions to make. As the entrepreneur's net worth is no longer tied to a substantially illiquid private asset, it is the private wealth advisor's responsibility to adequately prepare the entrepreneur to have a net worth that is "marked to market" daily.

Pre-transaction planning, including trusts and new ownership entities, can add complexity and require ongoing maintenance which did not exist when the business owner's personal and business wealth were managed as one and the same. Trust vehicles and other new entities, such as GRATs, will have a substantial impact on the entrepreneur's post-sale cash flow, which may not have been realized at the time of execution. Through financial modeling and projections, an experienced wealth advisor has the unique ability to aid the business owner in determining if a proposed estate planning vehicle accomplishes the business owner's post-sale lifestyle goals. An experienced advisor would also be able to help a business owner establish their post-sale lifestyle and legacy goals, and to devise a customized planning strategy and asset allocation to achieve them.

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CONCLUSION

The management of wealth post-sale not only requires a different way of thinking, but also the development of a comprehensive approach to managing the various aspects of wealth in its new form. When developed in unison, pre-transaction planning and post-transaction planning can be a powerful combination to successfully transition a business owner to "life after sale." Success lies in having an experienced and trusted advisor working toward this end in advance of the sale.

A private wealth advisor with transactional experience needs a seat at the table to ensure that the business owner understands the important post-sale cash flow and estate planning considerations of their situation to plan for the sale, and their life after it. Attorneys and accountants serve a vital role in the business sale, but may not fill the aforementioned post-transaction planning voids, nor should they be expected to. Likewise, investment managers do not provide these crucial pre- and post-transaction planning services. Only an experienced private wealth advisor can provide the necessary post-transactional planning services required to fill the gaps one faces when their affairs are no longer managed within their business.

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Michael heads Waldron's Wealth Advisor Team, focusing on the personnel and client offering that has helped Waldron earn national recognition and establish the firm as a thought leader in the wealth planning space. He has spoken at wealth management conferences and on university campuses, and is a frequent contributor to industry publications, including *The Wall Street Journal*, *The Journal of Financial Planning®* and *Wealth Manager Magazine*.