



Exit Strategy: Preparing Yourself

When transitioning a business, the stakes are high, and emotions run deep, making effective preparation paramount. This preparation involves more than just your company, it is about how you and your family will be affected before—and after—this monumental journey.

The following outlines four key questions and four areas of consideration for business owners in the run-up to a liquidity event with a focus on how they will be affected personally.

Key Questions

- 1 Have you considered how the transition will change your day-to-day life?
- 2 Beyond the business multiple, have you considered your personal multiple (i.e., how your own wealth will be affected)?
- 3 What is your ideal vision for activating the wealth you are about to acquire?
- 4 Do you have preferences for charitable giving, especially regarding tax efficiency?

Critical Focus Areas

Get Comfortable With the Idea of Being Uncomfortable

- Assess your feelings and attachments toward the company to ready yourself for your next phase.
- Think about ways to make an impact post-transition while maintaining your identity and purpose.
- At the appropriate time, communicate about the transaction with close family, employees, and community members—with honesty and sensitivity.

A Premier Advisor for Nearly Nine Decades

Since 1935, William Blair has guided owners of closely held businesses and their trusted advisors through monumental decisions. Our relationship-driven approach empowers owners to maximize the value of their businesses—and turn that capital into an enduring legacy. We invite you to contact us to discuss the ways we support and advise business owners and help our clients capitalize on the tremendous opportunities available to them today.

Be Ready for an Influx of Capital

- Understand possible value received (e.g., cash, equity, earn-outs, or a combination), and plan to earn interest income while escrowing funds for taxes.
- Assess the tax implications (ordinary, capital gain, combination of both) and cash flow timing under a range of valuations.
- Coordinate with legal counsel on funding trusts, charitable vehicles, and other structures, especially when facilitating wealth transfer of any rollover equity.

Illustrative Proceeds Maximization Case Study

Below, we outline a situation in which a company founder, after receiving \$100 million in proceeds from a transaction, donates approximately one-third to charity and one-third to family members. Effective tax planning would have saved this individual \$10.2 million in income taxes and \$19.9 million in estate taxes for a total of \$30.1 million.

Total Tax Bill Without Planning (in Millions)		Total Tax Bill With Planning (in Millions)	
Gross Estate ¹	\$115.0	Gross Estate ¹	\$115.0
Transfer Stock in Trusts	—	Transfer Stock in Trusts ²	(\$30.0)
Funding DAF Pre-Transaction	—	Funding DAF Pre-Transaction	(\$30.0)
Income Tax on Sale ³	(\$21.4)	Income Tax on Sale ⁴	(\$11.2)
Estate Tax Exclusion ⁵	(\$27.2)	Estate Tax Exclusion ⁵	(\$27.2)
Taxable Estate	\$66.4	Taxable Estate	\$16.6
Estate Tax (40%)	(\$26.5)	Estate Tax (40%)	(\$6.6)
Total Tax Bill	(\$47.9)	Total Tax Bill With Planning	(\$17.8)
		Total Income/Estate Tax Savings	\$30.1

Sale of Company (\$100 Million Interest)

Wealth Transfer Prior to Transaction

Fund trusts for three children

Charitable Planning Prior to Transaction

Fund charitable entity with company stock

Realize Income and Estate Tax Savings

Minimize desired lifestyle while also accomplishing wealth transfer and charitable goals and tax efficiency

Note: Figures presented above represent estimates and are subject to change.

¹ Assumes shareholder has \$10 million basis in company and value of \$100 million at the time of the transaction. Also assumes that shareholder has \$15 million in other assets.

² Post-transaction value of stock transferred to children's trusts through a grantor-retained annuity trust (\$3 million pre-transaction value).

³ Assumes 20% Long Term Gain Tax on \$90 million plus Medicare Surtax at 3.8%.

⁴ Assumes avoiding \$27 million realized cap gain and obtaining a fair market value charitable deduction for 30% of company stock transferred to DAF pre-transaction.

⁵ 2024 estate tax exclusion amount is \$13.61 million per individual.

Make Sure Your (Personal) House is in Order

- Incorporate asset protection and thoughtful distribution language in your estate plan.
- Consider harvesting capital-loss opportunities and transferring shares at a pre-transaction valuation to access potential valuation discounts.
- Learn about trusts that can minimize estate tax exposure and charitable vehicles that can pre-fund several years of gifts to maximize tax deductions.

Next Steps for Your Capital

- Work to recreate a sustainable income stream through a combination of fixed income, qualified dividends, and tax-efficient realized gains.
- Consider forming a family office to harness your wealth while maintaining your family's legacy.
- Evaluate alternative investment strategies— including hedge funds, private equity, and merchant banking solutions—that you may now have access to.

While business owners are likely (and understandably) overwhelmed by the idea of selling, they have at their disposal a very valuable resource—time. They should use it to carefully weigh the personal and family implications of a potential transaction.

**For more information,
please contact:**

Andrew Hansen

Founder-Owned
Business Advisory
+1 312 364 5439
ahansen@williamblair.com

Sam Longenecker

Founder-Owned
Business Advisory
+1 312 364 5237
slongenecker@williamblair.com

Chris Brathwaite

Director of
Pre-Liquidity Planning
+1 312 364 8533
cbrathwaite@williamblair.com

Emily Guglielmo

Wealth Strategist –
Pre-Liquidity Planning
+1 312 364 8324
eguglielmo@williamblair.com

November 2024

William Blair® is a trade name for William Blair & Company, L.L.C., William Blair Investment Management, LLC and William Blair International, Ltd. William Blair & Company, L.L.C. and William Blair Investment Management, LLC are each a Delaware company and regulated by the Securities and Exchange Commission. William Blair & Company, L.L.C. is also regulated by The Financial Industry Regulatory Authority and other principal exchanges. William Blair International, Ltd is authorized and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom. William Blair only offers products and services where it is permitted to do so. Some of these products and services are only offered to persons or institutions situated in the United States and are not offered to persons or institutions outside the United States. This material has been approved for distribution in the United Kingdom by William Blair International, Ltd. Regulated by the Financial Conduct Authority (FCA), and is directed only at, and is only made available to, persons falling within COB 3.5 and 3.6 of the FCA Handbook (being “Eligible Counterparties” and Professional Clients). This Document is not to be distributed or passed on at any “Retail Clients.” No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.