“No exit” is alike: helping business owners manage their assets and navigate their exits

Business owners often build their careers – and their personal lives -- around the companies they own. Their time, energy, and cash are committed to helping their prized asset grow, and eventually it becomes the hub of their financial lives. They may have significant amounts of deferred equity tied up in the business and a vision for the exit that will provide the ultimate return on their investment.

When the exit arrives, it brings unforeseen decisions and complexities. Instead of the day-to-day economic benefits associated with ownership, there is now a different type of asset inflow to manage.

For a father and daughter team that was entrenched in the family business, a situation unfolded that had each striving for different goals. Through our work together, we were able to pave the way for a successful outcome.

Opportunity: Maximize value of thriving family business
Challenge: Varied needs for different generations of owners
W&F goal: Provide guidance to maximize growth and protect assets for future sale

After running a healthcare technology company for nearly 20 years, the founder welcomed his daughter as a part owner in the business. They experienced a breakthrough innovation that catapulted rapid adoption of their product line.

Their first challenge was the mixed blessing of an influx of capital, with over $4 million in excess cash on the books. We worked with the owners to consider their options: retain it in the business as capital reserves, invest it in new equipment upgrades, or set it aside in a family trust?

Our conversations explored the most tax efficient routes and helped determine how to allocate capital across the business and their personal estate. The blueprint created a vision for growing and safeguarding family assets while also diversifying the business holdings in order to spread risk across multiple entities.

The momentum of the company continued to climb, and an exit opportunity came into clear view. We helped the client develop an approximate baseline valuation of the company to facilitate advance planning; the father and daughter were at very different stages of life, with different goals and needs to address.

The father opted for a full sale of his shares to a private equity buyer. He no longer had assets in the business to manage, but instead generated a significant amount of cash that would need to fund his lifestyle.

The daughter stayed on as CEO, retaining a heavy stake in the business. Her minor liquidity event allowed for a new investment strategy, but she still had a concentrated position in the company. That led us to diversify her portfolio to reduce holdings in healthcare equities, thereby limiting her exposure to disruption in that industry. We balanced her investments overall to position her for maximum gains when a final exit from the business comes to pass down the line.

For both individuals, we discussed how our due diligence in portfolio construction would benefit their unique circumstances over time. We look at equities in much the same way they – and other business owners – consider their own balance sheets. For example, we favor companies with strong cash flow, dividend growth, reliable measures of profitability, and capable management teams who are committed to creating long term value for shareholders.

The family's journey continues, and we've been proud to serve them with:

- Investment portfolio management
- Discounted cash flow analysis for approximating business valuation
- Financial planning
- Estate planning
- Trust management

For more information on how business owners and executives can plan for financial success, contact Ed Sullivan, Vice President, at 617-557-9800 or esullivan@welchforbes.com.