

Look beyond the transaction

Transition doesn't end when the business is sold

Most business owners, investment bankers and deal brokers have one thing in common. They all tend to view an M&A transaction as the finish line—the consummation of the owner's professional journey. In reality, however, that's just a midpoint. No transition is truly complete until you've become fully engaged in the next phase of your life. So, exactly what factors have to align to achieve a successful transition?

1 The market needs to be receptive

2 The business needs to be prepared for the sale

3 YOU need to be personally ready to transition

The first two are relatively straight-forward. We are all aware of the unprecedented appetite for M&A that currently exists in the market. It has been a seller's market for the better part of the past decade (aside from the 2020 drag imposed by COVID), with plenty of capital available to invest and valuation multiples steadily climbing. Now with tax law uncertainty looming on the horizon and growing concern over how long the current 'frothy' market can be sustained, both buyers and sellers are rushing to push through deals. It's abundantly clear that a perfect storm of M&A deal drivers are aligning.

Often the business isn't as ready as it could be to facilitate the transaction and maximize its value. However this is the area, because business owners are by nature data-driven entrepreneurs, where most people focus all their energy

and effort. It takes a great deal of time and work to prepare a business for a sale; but valuation factors that buyers are looking at are known commodities that can be addressed and improved (e.g., improving the business' KPIs, restructuring debt, building out the management team).

Even the professionals you may engage in planning often have a tendency to focus solely on the financial capital created from selling the business—how to maximize sale proceeds while minimizing taxes.

Certainly these are all critical aspects of a business transition. And we as a firm spend a considerable amount of time helping our clients navigate these issues. But what about #3 above? At some point, a deal is going to be consummated and you'll find yourself sitting there with a pile of money wondering 'what do I do now'. It's a storyline we see play out day in and day out.

Time and time again, clients tell us post-sale that the one thing they wish they had done differently is to have spent more time prior to the transaction on personal planning for their wealth and their life after transition.

The human aspects of a sale

There is a tremendous difference between the sale transaction and the transition—with the latter representing something beyond the sale. It delves into an area which may be uncomfortable for some because it's not tangible and quantifiable. Furthermore, it forces you to explore some emotional questions such as why you're selling the business and how you can fulfill and enrich your life moving forward.

In a seminal research paper published by a former business owner turned venture capitalist and executive coach,¹ the author (who similarly struggled to reinvent himself) found:

- **Most owners did not describe any awareness of an anticipated state of being for the period following their exit from the company;**
- **Almost 70% encountered an adverse state of being during or following their separation that undermined much, if not all, of their satisfaction at completing the transaction;**
- **Most in the study were able to overcome their negative feelings at some point following their exit—though it often took several years.**

As entrepreneurs, business owners often lack a strong support network to help them envision what to expect on a personal level post-sale. You may not have other ex-owners who have gone through the transition process and who can help you understand the various emotional changes that stepping away will entail. You may not even be viewing the transaction as a transition. Given the prevalence of rollover equity today, you may be focused on the next business endeavor without really considering the incredible financial freedom you'll be gaining, and how that might impact your life.

This lack of focus on the life impact of financial freedom (and all its implications) is the primary reason why so many owners say they wish they would have spent more time on personal planning and why Truist Wealth's Business Transitions Advisory Group is such a valuable sounding board. The sole focus of the group is working with owners who are planning to sell their business. We've come to learn that a successful transition is about much more than tangibles like valuation and tax mitigation. It is also about the intangibles; maintaining purpose, a sense of community and structure, and effectively preparing your family for the new challenges of managing generational wealth.

¹ "Voluntary transition of the CEO: owner CEOs' sense of self before, during and after transition," Randy T. Byrnes, *Frontiers in Psychology*, October 2015

Reimagine the transition process

With no single checklist to follow because every owner is different, and few, if any, predecessors to impart their wisdom, planning for life after the business is a completely different animal.

We often start the process by encouraging owners to focus on a few critical questions:

- What are the right next steps for you?
- How are you going to replace the purpose, community, and structure the business provided?
- What pursuit(s) would make you genuinely happy?
- What is there left for you to achieve?

We then suggest you take time to visualize the financial implications that will result from a sale:

- How will deal structure impact what you have to invest?
- How can your money move your life towards your goals?
- How can you know if you have enough?
- How should you manage your money?
- How involved do you need to be in the management of your money?
- Should you spend it, leave it to children, give it away?
- How do you find advisors who can be trusted?

You don't necessarily need to have clear answers to all of these questions, but you do need to begin to think about them.

Keep in mind that comprehensive transition planning must be forward looking and focus on you personally, not just the business. It can, and should, also consider the needs of others (family members, friends, and your community).

Other M&A research points to post-sale owners spending a few years living extravagantly until they finally get bored and yearn to re-enter the arena. Or alternatively, they jump right into investing their financial capital into a dozen different ventures until they slowly figure out who they are and what they really want to do going forward, at which point they then have to unwind most of what they've done.

It is important to take time now and start building the intellectual capital (the skills and knowledge) you need to engage in that next chapter in your life. Try to focus on learning more about the M&A process so you can begin to envision what a transaction would mean to you personally. Maybe it's learning how to be a successful investor. Perhaps it's exploring the myriad estate planning strategies and vehicles and the various degrees of control each allows you to exert. Or it may simply be learning how to better prepare and communicate with future generations of your family to help strengthen your legacy.



Don't wait to start preparing

Did you know that roughly 50% of business owners had no concrete plans to sell before engaging in a transaction. When you finally get to the other side of the deal, don't find yourself in the all too common position of sitting there with a \$30 million windfall and no real plan. There are many things to think about, including what income that money needs to generate or what purpose it needs to serve in the years ahead.

When it comes to personal preparedness there's no scorecard. There are no metrics or valuation multiple you can rely on. It's up to you, as has been the case throughout the growth of your business, to put the right team in place to succeed.

By aligning the transactional M&A capabilities of Truist Securities, Inc. with the personal planning, guidance, family education, and family governance resources of Truist Wealth's Business Transition Advisory Group and Center for Family Legacy, you'll effectively put the structures in place for a much smoother transition.

At the end, it's all about control; being able to pick the time, being able to pick the buyer, and being able to focus on what lays ahead, not what lays behind. Moreover, planning what you want to achieve with your post-transaction wealth, what the ideal next stage of your life will look like, and based on those two, what you should do with your wealth to meet those goals. Knowledge of self is a powerful motivator and can add clarity and certainty that will ensure you're prepared if, and when, opportunity knocks.

Contemplating a transition at some point in the not-too-distant future? The Business Transition Advisory Group is here to help. Please reach out to your Truist Wealth advisor or relationship manager to start a dialogue.



Authored by:
Russell Sanders
Managing Director, Senior Transition Advisor, Business Transition Advisory Group
Truist Wealth

Truist.com

Investment and Insurance Products: Are Not FDIC or Any Other Government Agency Insured • Are Not Bank Guaranteed • May Lose Value

Comments regarding tax implications are informational only. Truist and its representatives do not provide tax or legal advice. You should consult your individual tax or legal professional before taking any action that may have tax or legal consequences.

Truist Wealth Business Transition Advisory Group is a marketing name used by Truist Financial Corporation. Services offered by the following affiliates of Truist Financial Corporation: Banking products and services, including loans and deposit accounts, are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank, Member FDIC. Trust and investment management services are provided by SunTrust Bank and Branch Banking and Trust Company, both now Truist Bank, and Truist Delaware Trust Company. Securities, brokerage accounts and /or insurance (including annuities) are offered by Truist Investment Services, Inc., and P.J. Robb Variable Corp., which are each SEC registered broker-dealers, members FINRA, SIPC, and a licensed insurance agency where applicable. Life insurance products are offered through Truist Life Insurance Services, a division of Crump Life Insurance Services, Inc., AR license #100103477, a wholly owned subsidiary of Truist Insurance Holdings, Inc. Investment advisory services are offered by Truist Advisory Services, Inc., GFO Advisory Services, LLC, Sterling Capital Management, LLC, and Precept Advisory Group, LLC, each SEC registered investment advisers. Sterling Capital Funds are advised by Sterling Capital Management, LLC.

This document is being furnished to senior management personnel of existing or prospective corporate and investment banking clients of Truist Securities, Inc. for information purposes only and may not be reproduced or redistributed outside of their company. Truist and Truist Securities are trademarks of Truist Financial Corporation. Truist Securities is a trade name for the corporate and investment banking services of Truist Financial Corporation and its subsidiaries. All rights reserved. Securities and strategic advisory services are provided by Truist Securities, Inc., member FINRA and SIPC. Loan syndications are offered by Truist Securities, Inc. Loans and loan related products are offered by Truist Bank.

©2021 Truist Financial Corporation, Truist, Truist purple, and the Truist logo are service marks of Truist Financial Corporation.