



**NHPA**

North American Hardware  
and Paint Association

# Disruption Series

# 6 Steps to Selling Your Business





# Gary Pittsford

President & CEO  
Castle Wealth Advisors

# A sampling of Castle Wealth Advisor's clients:



# Common Questions for a Succession Plan

- What is my business really worth?
- Will I have enough income in retirement?
- How do I minimize taxes for the sale?
- Who do we consult with?
- What are the exit strategies?
- Where do we start?

# Where Do We Start?

*Protecting the Business and Family*

# Six Critical Areas

**Business  
Entity**

**Family  
Members**

**Transition  
Options**

**Retirement  
Security**

**Tax  
Options**

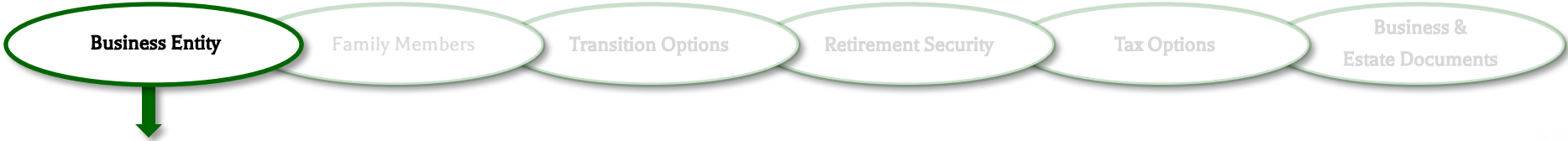
**Business &  
Estate Documents**



**NRHA**  
North American Retail  
Hardware Association



**CASTLE**  
WEALTH ADVISORS



# Types of Entities

1982 to 2018

- S-Corporation
  - Limited Liability Company
  - Family Limited Partnership
  - C-Corporation
  - General Partnership
  - Sole Proprietorship
- Pass Through Entities**  
10.9 million to 30 million
- 2.2 million to 1.5 million





Business Entity

Family Members

Transition Options

Retirement Security

Tax Options

Business &  
Estate Documents

## Which Company Is Worth More?

	<u>Company A</u>	<u>Company B</u>
Sales:	\$ 2,000,000	\$ 2,000,000
Inventory:	\$ 900,000	\$ 700,000
Gross Margin:	36%	41%
Stockholder Equity:	\$ 600,000	\$ 400,000
Owner Salary:	3%	3%
Profit:	1%	4%

## Transition Options – Inside the Family

- Gift stock to the next generation (with discounts)
  - Annual - \$15,000
  - Exclusion - \$11,580,000 (2025)
- Sell stock to the next generation (installment note or bank loan)
- The business value
- Partial bank loan
- Who will keep voting control

Business Entity

Family Members

Transition Options

Retirement Security

Tax Options

Business &  
Estate Documents

## Transition Options – Outside the Family

- Transition stock to key manager(s)(with discounts)
- Strategic buyer (dealer)
- Sell stock or assets to buyer
- The business value
- Term sheet/letter of intent
  - What to keep
  - What to sell

# Who Do I Talk To?



# Your Advisor Team

- Attorneys  
(Business, estate, real estate)(Fee-only fiduciary)
- Accountants  
(Business, personal)(Fee-only fiduciary)
- Financial advisor  
(Fee-only, fiduciary, independent, RIA)(Fee-only fiduciary)
- Your wholesale partner and staff

# Where Do I Start (With My Team)?

*Getting the Business Ready*

# Maximizing the Value – Three Year Plan

- Year **three** before sale
  - Clean up financials (assets/liabilities)
  - Reduce expenses – (1% - 2% per year)
  - Increase margins – (1% per year)
  - EBITDA
  - Add-backs

# Maximizing the Value – Three Year Plan

- Year **two** before sale
  - Work on personnel
  - Right people in the right job
  - Employee training
  - Employee job description and salary range



# Maximizing the Value – Three Year Plan

- Year **one** before sale
  - Make physical changes at the facility
  - Work on inside appearance
  - New signage and lighting
  - Outside appearance

Business Entity

Family Members

Transition Options

Retirement Security

Tax Options

Business &  
Estate Documents

# Tax Impact for the Buyer and Seller

	<u>Seller Options</u>	<u>Buyer Options</u>
<b>I</b>		
<u>2018 – New Law</u>		
A. Personal tax	39.6% → 37%	39.6% → 37%
B. Capital gains tax	0% - 15% - 20% - 23.8%	0% - 15% - 20% - 23.8%
C. Federal gift tax		
1. Annual - \$15,000		
2. Lifetime - \$11,580,000 (to 2025)		
<b>II</b>		
A. C-Corporation	35% → 21%	35% → 21%
B. Pass-through entities		
1. Deduct 20% of income (QBI)	Ask CPA	Ask CPA
<b>III</b>		
A. Federal estate tax		
1. Exemption - \$11,580,000 (to 2025)		

*\*See Castle's three tax articles*

Business Entity

Family Members

Transition Options

Retirement Security

Tax Options

Business &  
Estate Documents

## Retirement Income Security

- Sale of business
- Consulting fees
- Non-compete agreement
- Salary
- Rental income
- Directors fees
- Retirement plans
- Personal assets

Business Entity

Family Members

Transition Options

Retirement Security

Tax Options

**Business &  
Estate Documents**

## Stock Redemption Agreements

- Updated stock price or formula
- Purchase stock with cash or note over time
- Is life insurance needed
- Include all “trigger points”
  - Death
  - Disability
  - Divorce
  - Personal bankruptcy
  - Termination
  - Retirement
  - Stock sale

Business Entity

Family Members

Transition Options

Retirement Security

Tax Options

**Business &  
Estate Documents**

# Business and Estate Documents to Protect the Company's Value

## Business Documents

- Stock Redemption Agreement
- Lease Agreement (if applicable)
- Business Letter
- Note (for sale of business)
- Term Sheet/Letter of Intent
- Non-Compete Agreement
- Consulting Agreement

## Estate Planning Documents

- Personal Will
- Revocable Living Trust
- Durable Power of Healthcare
- General Durable Power of Finances
- Personal Letter

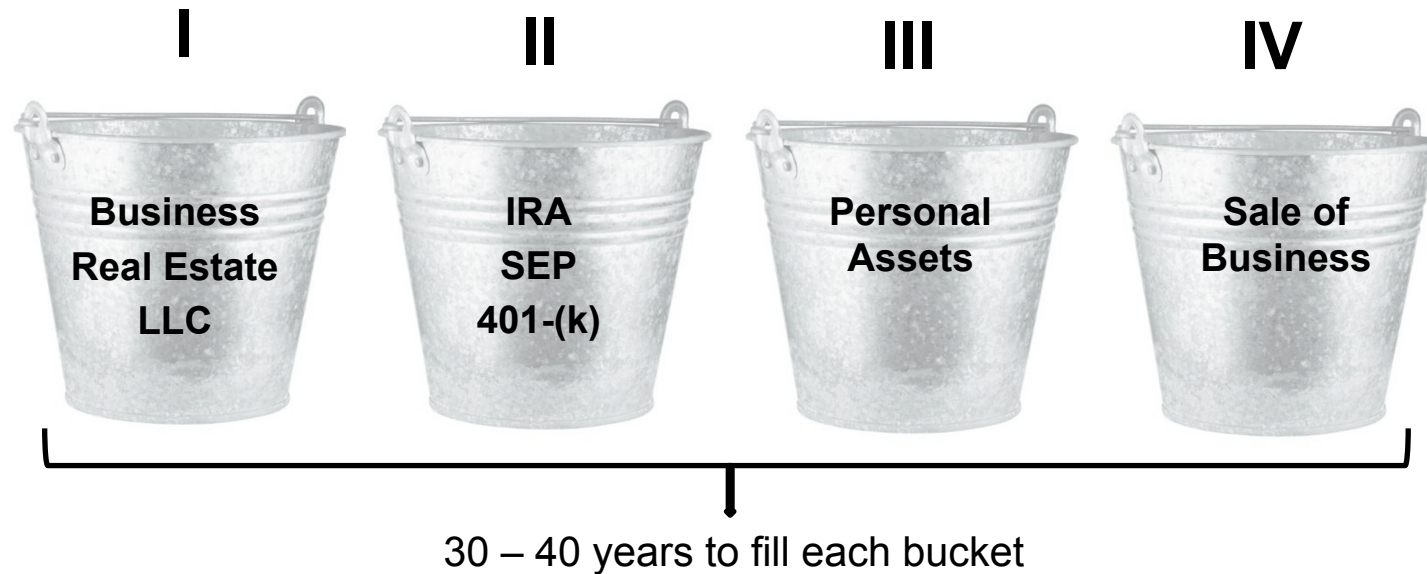
# **Family Business, Inc. to Family, LLC**

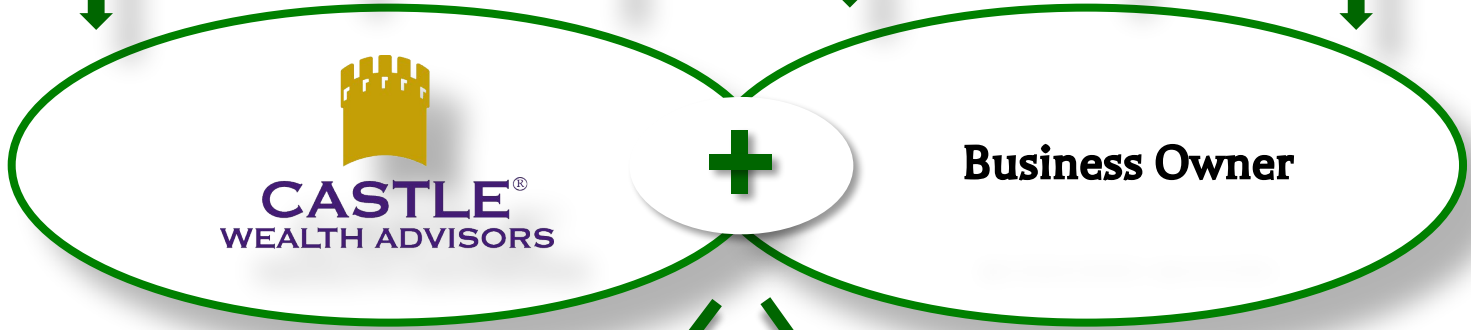
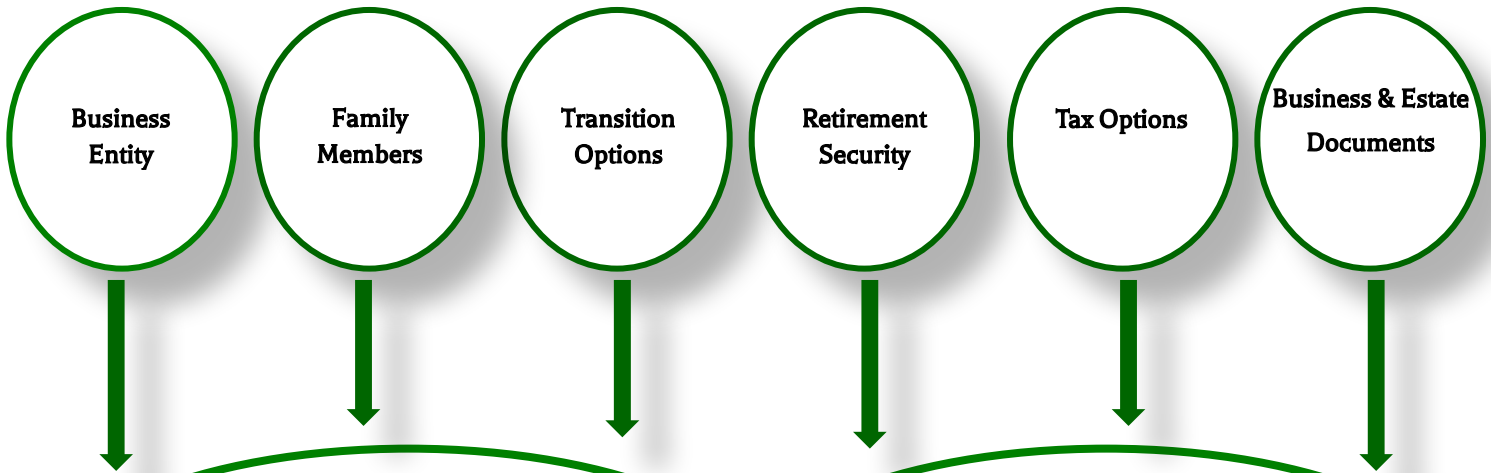
*Securing Your Future*



# Your Personal Net Worth

- Most owners have four buckets:







[www.Castle3.com](http://www.Castle3.com)

## Articles

One of the goals of Castle Wealth Advisors is to share helpful financial information with our clients and friends. This section of our website is devoted to doing just that. The articles listed below cover a wide variety of topics, such as business, financial and investment concepts, net worth planning strategies, and ideas for the next generation. We have also provided a search option in case you are interested in a specific topic. If you are not able to find what you are looking for, feel free to contact us.

Search articles by keyword...

SEARCH HERE



### For Business Owners



### Financial Concepts



### Next Generation



### Investment Concepts

#### Business Succession/Exit Planning

Succession/Exit Planning Tied to Your Recovery This Year

\*\*\*Coronavirus Aid, Relief and Economic Security CARES Act\*\*\*

Where Do I Start? Succession/Exit Retirement

Four Buckets for Financial Security

Dynamic Buy-Sell Agreements

Six Reasons for a Business Valuation

Proper Succession Planning Increases Value for the Owner

#### Documents to Protect the Family

Seven Documents Business Owners Need Now

Stock Redemption Agreements Provide Protection

Two Owners Then One, Now What?

Owner's Sudden Accident - Be Prepared

Wills And Trusts

Business Owner's Financial Checklist

#### Increasing Business Value

Thinking About Selling Your Business?

Maximizing the Value of My Business

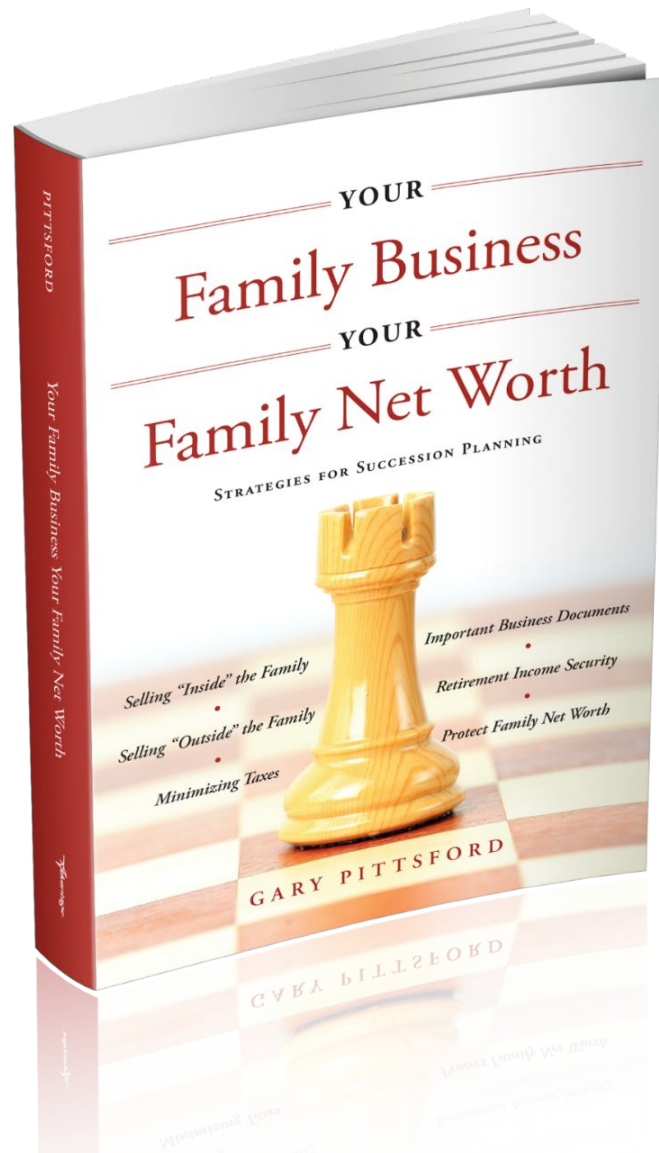
Building Value for the Future

Negotiating an Increasing Sales Price

Steps To Success

Tough Business Ideas for Tough Times

**Available on Amazon.com**  
**Or contact Amy@Castle3.com**





---

***Gary Pittsford, CFP<sup>®</sup>***

*President and CEO*

*Castle Wealth Advisors, LLC*

*Gary@Castle3.com*

*www.Castle3.com*

*317-849-9559*





# NRHA

**PHONE**

1-800-772-4424

**EMAIL**

[nrha@nrha.org](mailto:nrha@nrha.org)

**WEBSITE**

[www.nrha.org](http://www.nrha.org)

