

# Business Continuation Planning

## Strategies for the Future



# Costly Mistake

No Business Continuation Plan  
= Business Left to Chance



# You've Worked Hard to Build a Successful Business

Would your business continue  
if you die or become disabled?

Will your business survive  
your retirement?



# How Is Your Business Doing?

- Do you have a formal plan?
- Have you selected a successor?
- Do you know your business's value?
- Do you have a buy-sell agreement?
- If so, have you funded it?





# Elements of Business Continuation Planning

- 1 Business valuation
- 2 Succession planning
- 3 Buy-sell agreement



# 1. Business Valuation

**How much is your business worth?**

- Cost approach
- Income approach
- Market approach



# Business Valuation: Cost Approach

- Book value
- Adjusted book value
- Liquidation value



# Business Valuation: Income Approach

- Capitalization of earnings
- Discounted future earnings





# Business Valuation: Market Approach

- Compare company to similar enterprises that have sold recently



# Business Valuation

## Worksheet

Average annual earnings <sup>1</sup>		\$1,000,000
Capitalization rate <sup>2</sup>	÷	25%
Total capitalized earnings	=	\$4,000,000
Fair market value of assets	+	\$250,000
Total gross value of business	=	\$4,250,000
Total liabilities	–	\$1,500,000
Estimated net value of business	=	\$2,750,000

1) Average after-tax earnings, including all compensation of owners.

2) Lower capitalization rate indicates lower business risk. Higher capitalization rate indicates higher business risk. Normal range is 10% (.10) to 30% (.30).

This hypothetical example is used for illustrative purposes only.

# Business Valuation Considerations

- Price satisfactory to a willing buyer and a willing seller
- Each party must have a reasonable grasp of the relevant facts involved in the transaction



## 2. Succession Planning

- Who will own your business?
- Who will manage it?
- Should you sell or liquidate?





# What Will Happen to Your Enterprise?

- Continuing
- Selling
- Liquidating
- Other options
  - Venture capital
  - Business “angels”
  - IPOs



# Continuing Your Business

- Are family members able to act as owners?
- Are they willing to own the business?
- Have you made appropriate plans?



# Liquidating Your Business

- Appropriate in many cases
- Often occurs due to lack of planning
- Consequences vary



# Selling Your Business

- Co-owners
- Key employees
- Competitors





# Case Study

Dr. Shultz



- Has a family history of heart disease
- Owns 65% of dental practice
- His heirs have their own successful careers
- His partner lacks the personal funds to buy out Dr. Schultz's interest

**What options are available?**

# 3. Buy-Sell Agreement

- Creates a market
- Establishes a price
- Provides cash for the buyout



# Buy-Sell Agreement

- Sinking fund
- Cash
- Borrowed funds
- Life insurance or disability income insurance



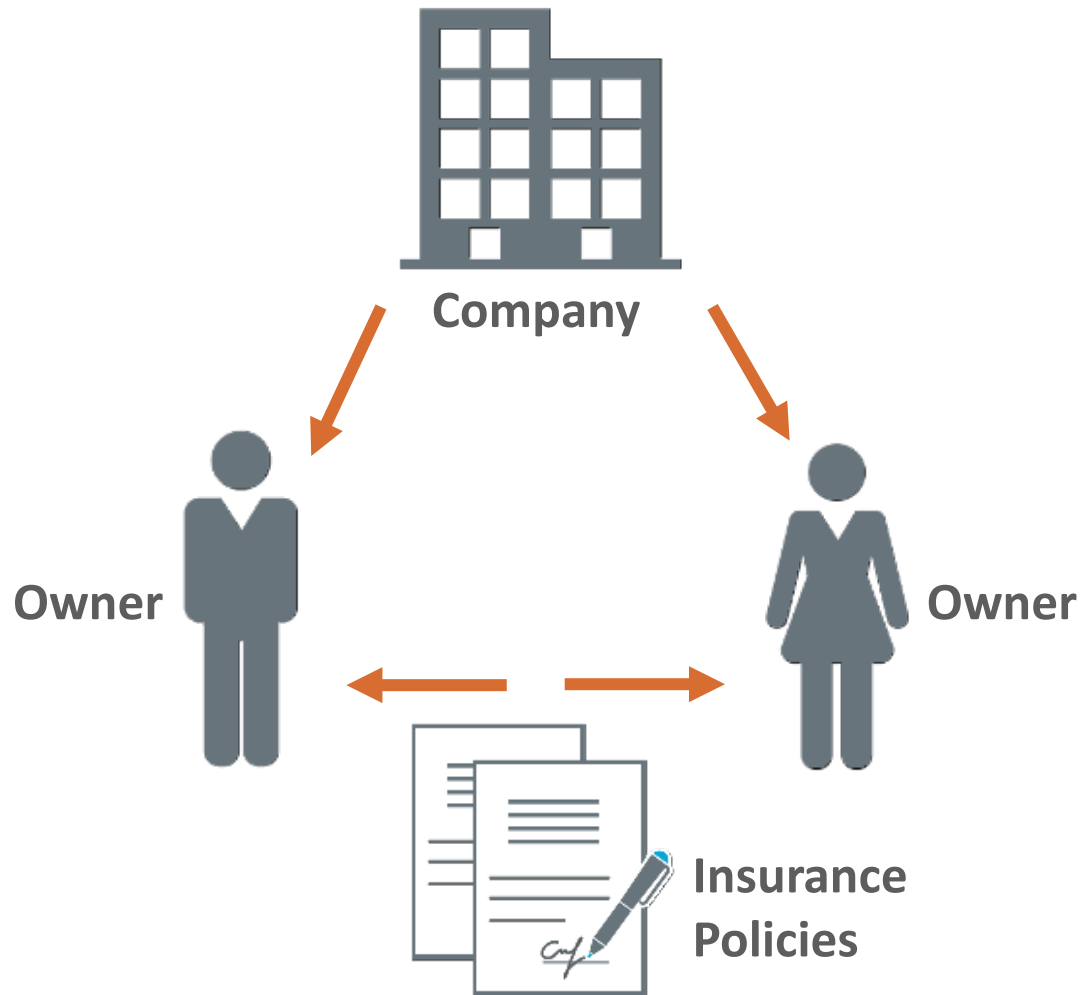
# Buy-Sell Agreement Structures

- Redemption buy-sell agreement
- Cross-purchase buy-sell agreement
- “Wait and see”  
buy-sell agreement

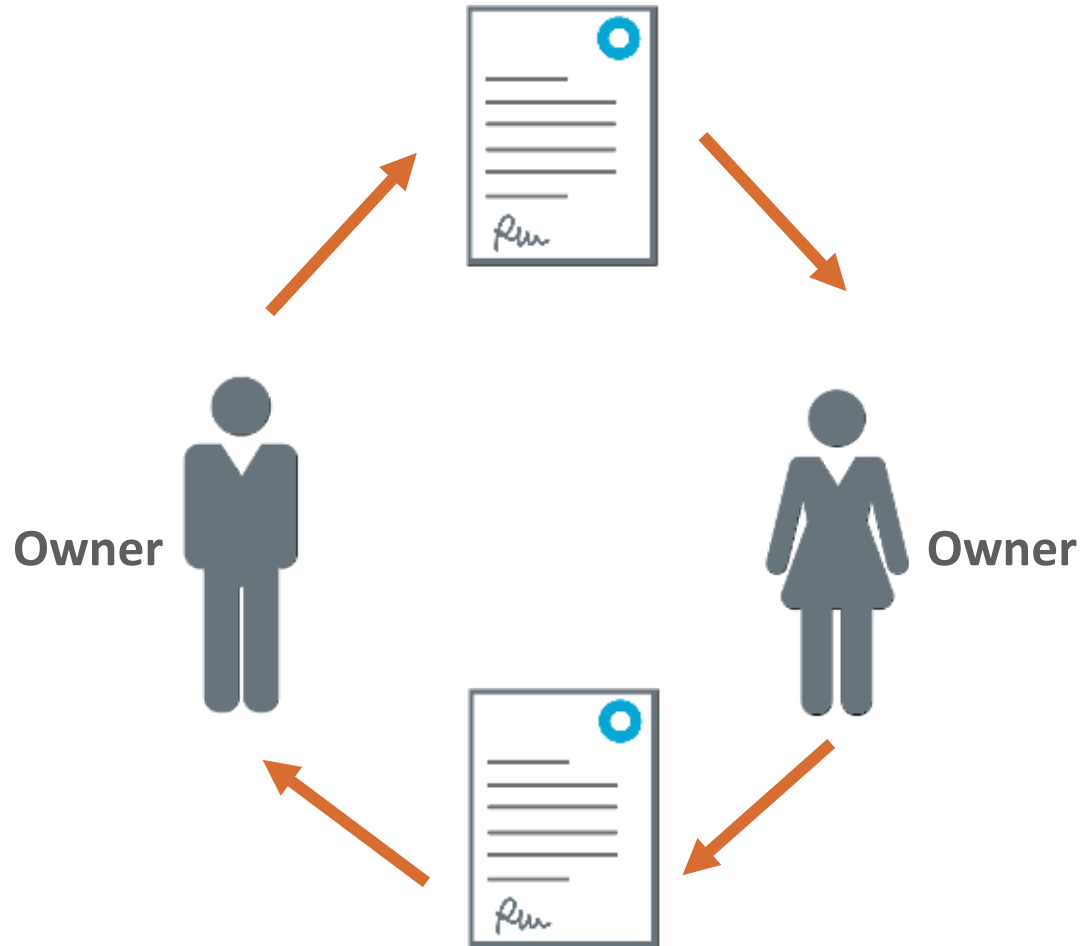




# Redemption Agreement



# Cross-Purchase Agreement



# Buy-Sell Agreement Considerations

## Three requirements:

- Genuine business arrangement
- Cannot pass to family members for less than full value
- “Arm’s length” transaction



# Business Continuation Action Items

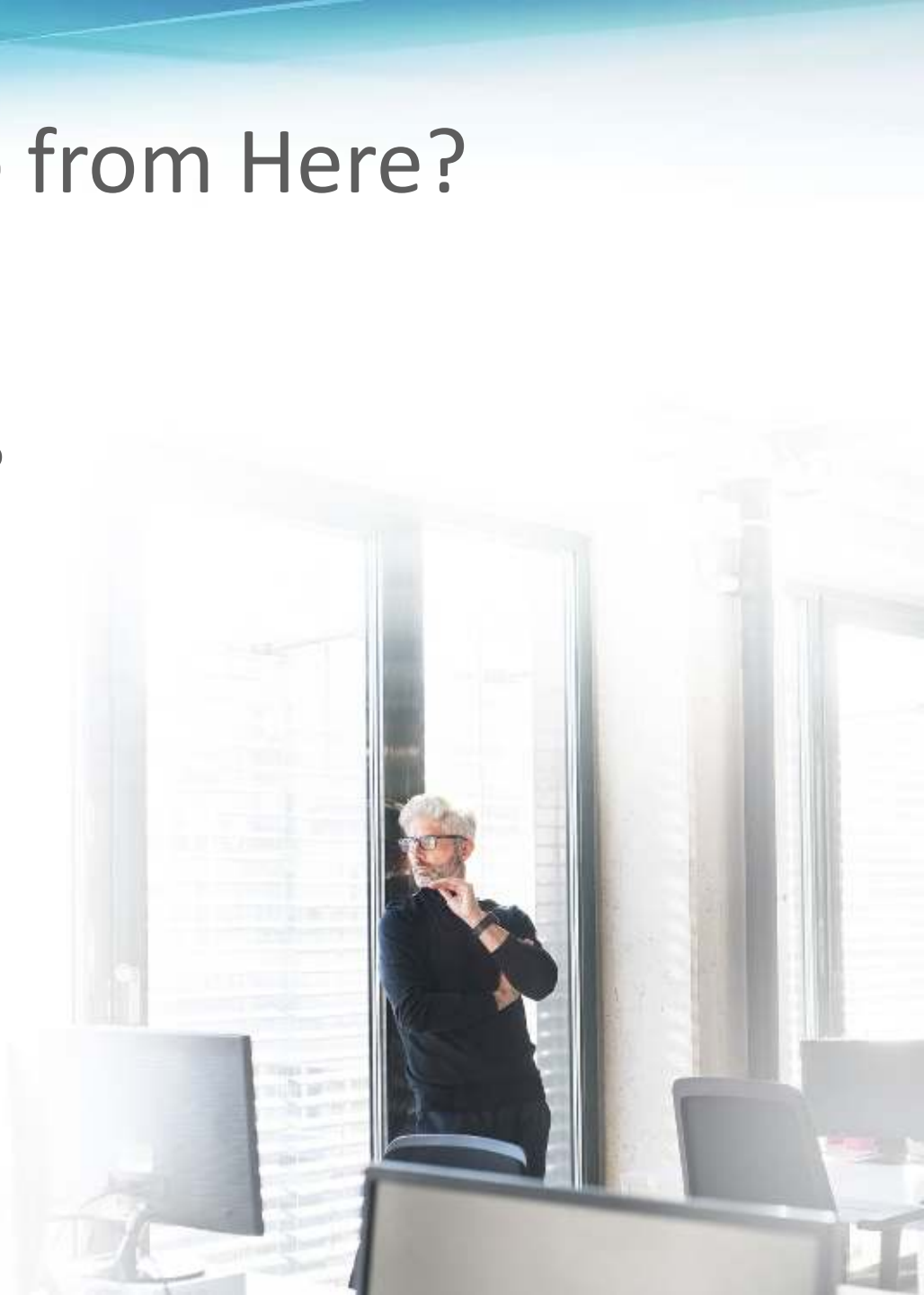
- ✓ Develop a formal plan for continuing your business
- ✓ Select a successor to take over your business  
(and consider having a family conversation first)
- ✓ Have a formal valuation determined for your business
- ✓ Put a buy-sell agreement in place
- ✓ Set up a funding method for your buy-sell agreement



# Where Do You Go from Here?

Are you confident in the preparations you've made?

Could you be doing better?



# Thank You



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