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Early Planning Can Help Owner Live Off Assets From a Business Sale

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Many business owners dream of selling their business at a price that will pay them in retirement what they earned while working. The ones who achieve this goal start planning and preparing well before retirement by saving a portion of personal income from the business in retirement accounts and diverse investments and by managing the business so it's offered for sale at the peak of its success.

Not everyone needs to earn the same amount of money in retirement as he did while working, but many business owners hope to get as much money as possible for their business so they can invest in other income-generating instruments. That requires the business to be valued as high as possible.

Most businesses are valued by multiplying their earning power by a predetermined number that's usually based on the type of business it is; for some industries, it's a multiple of two or three. The earning power is determined by adding to the net profit the non-cash or discretionary expenses not necessary to running the business, such as the owner's wages and compensation package, the loan or lease payment for the company car, depreciation and taxes. The owner derives more cash from operating the business than what the bottom line shows, so she needs to add the value of those items to the net income to measure how much cash the business truly generates.

Because most potential buyers want to see three to five years of the business's financial books, the owner should start grooming his company at least that many years before he sells it. The business sales price is based on past earnings, so the owner wants to demonstrate increasing profit during that three- to five-year period. That often requires a shift in business practices: A business owner who tries to minimize taxes by maximizing expenses and deductions needs to reorient to maximizing profit several years before selling the business. She does this by reducing expenses and increasing efficiency to increase revenue. Capital investments in new products or services, which don't typically turn an immediate profit, should be made before the three- to five-year presale period so losses and big capital expenditures won't skew the business's sale price.

A business can also shed obsolete or slow-moving inventory, write off uncollectible accounts receivables and pay off company loans to the owner to clean up financial statements. If the

owner wants to sell the business without waiting three to five years and wants his accountant to quickly make the books look good, such changes should be transparent so the buyer sees the removal of the owner's personal items as an act of professionalism, not subterfuge. All these actions, along with top-notch personnel and other management practices, should increase what a buyer is willing to pay for a profit-making business.

A business owner who appreciates the value of her business from the start and keeps its growth on track will sell when it's going strong and is most appealing to a potential buyer.

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