Santorini Financial Planning Ltd

10 things your clients should do in the 5 years before they sell their business

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In your years as an accountant, you will probably have worked with many business owners across various industries.

Many of these clients will likely have expressed a desire to one day sell their company to enjoy a well-earned retirement, or to pursue their next professional or business venture.

However, engineering a successful sale is no easy feat, and can take years of planning and hard work.

In the years before a business owner sells, there are many tasks they can do to make the process easier, increase their potential sale price, and help them build the life they dream of after the sale.

If you have clients who are planning to sell their business within the next five years, it may be beneficial for you to open a dialogue with them now about how they could start preparing.

Five years may seem like a long way off to them, but that time can fly by.

So, this useful guide outlines 10 practical things a client can do now that could pay dividends when it comes to the actual sale.

At Santorini Financial Planning we work with many business owners in the run-up to their eventual exit. If you have clients who you think could benefit from our expertise, then we'd love to hear from them.

To discuss how we can help them complete some of the following 10 tasks:

Email: info@santorini-fp.co.uk

Call: 01509 278620

A happy client

"Matthew is always accessible. He provides me with his mobile number, his landline, there's the secure portal I can contact him through, email, we exchange WhatsApp, he's on social media – I can communicate with him so easily."

Richard Langran, client since 2019

1. Ensure they are emotionally prepared for the sale

While most of the jobs in this guide are practical, and many are useful financial steps your clients can take, the first task is an emotional one. Your clients who are gearing up for a sale should ensure that they are emotionally prepared for the change.

Letting go of a business can be difficult. Your clients have likely invested years of their lives into building their companies, so passing over control to someone else can be a scary prospect. Once their business is gone, it can leave a void that's difficult to fill.

Because of this, it can be important for a business owner to dedicate some serious time to thinking about their life after exiting. You can read more about this in the next section of this guide.

Additionally, as business owners, your clients are responsible for the wellbeing of their clients and employees. They should consider devoting some thought to how both groups will be looked after throughout the selling process.

By thinking about the emotional side of exiting their business now, your clients can confront any potential sticking points, and avoid getting cold feet as the process progresses.

4 questions for your clients to ask themselves to emotionally prepare for their exit

1. Why are they choosing to sell?
2. Other than income, what does your client's business provide them with? Where will they get this after they sell?
3. Do they want to stay on in any capacity once they sell their business?
4. What will they do after the sale?

2. Consider what they want to do after selling

Establishing what your business owner clients want to do after their sale goes through can be key. For some, this may be pursuing a new business venture, for others it could be island hopping in Indonesia.

Others may want to stay on at their business in an employee role without the pressure of captaining the ship so they can dedicate more time to family and hobbies.

Whatever your clients want to do after they sell, they'll likely need a certain amount of money from the sale of their business to pursue these goals.

This "number" represents the capital they will need to retire, set up a new business, or secure their future. This number can translate to the sale price your clients will need to achieve to fund their post-sale life.

Of course, not all this money needs to come from the sale of their business. Your clients may have savings and other sources of income that they can take advantage of.

Working with a financial planner can add value and help clients determine if their number is achievable. By using cashflow modelling, we can analyse your client's assets and future outgoings and make projections about whether they will be able to achieve their goals.

Cashflow modelling explained

Cashflow modelling is used to construct a detailed picture of your client's assets, investments, debts, income and expenditure in the future, year by year. We will use assumed rates of growth, inflation, market uncertainty, and income to build this picture.

For cashflow modelling to be effective, it's important your client knows exactly what they want their life post-sale to look like – it's not enough for them to simply say "I want to live comfortably".

We can also model a range of scenarios based on different variables – for example, different sale prices of the business – to establish whether your client will have "enough" to do everything they want once they exit.

3. Make sure their accounts are correct and up to date

A key aspect of preparing a business for sale is ensuring the business accounts are in good shape.

Potential buyers will want to assess the expenses, income, cashflow, balance sheet and profitability of your clients' businesses. So, they will likely want to see accounts from the previous 5 to 10 years – and potentially even longer.

In addition, buyers may want to see financial projections. This is an area where you may be able to help your clients. By constructing strong, credible financial projections you can help your clients to paint their business in the best light for buyers.

Having tidy books can also help your clients when it comes to getting their business valued.

A happy client

"If you have been put off from seeking financial advice because you think 'they are all the same', you haven't met Matt. Not only is he a genuinely lovely man, he really, really knows his stuff! He really takes the time to get to know his clients and understand them too, so he can help them achieve their goals, whatever they may be.

"We feel completely comfortable with Matt, trust him implicitly, and are delighted with the service he provides. We cannot recommend him highly enough."

Jackie Clark, via Google reviews

4. Get their business valued

As you previously read, working with a financial planner can help your clients to understand the "number" that they need to hit when they sell.

For a client to establish if they are on track to achieve this number, it can help to get their business valued.

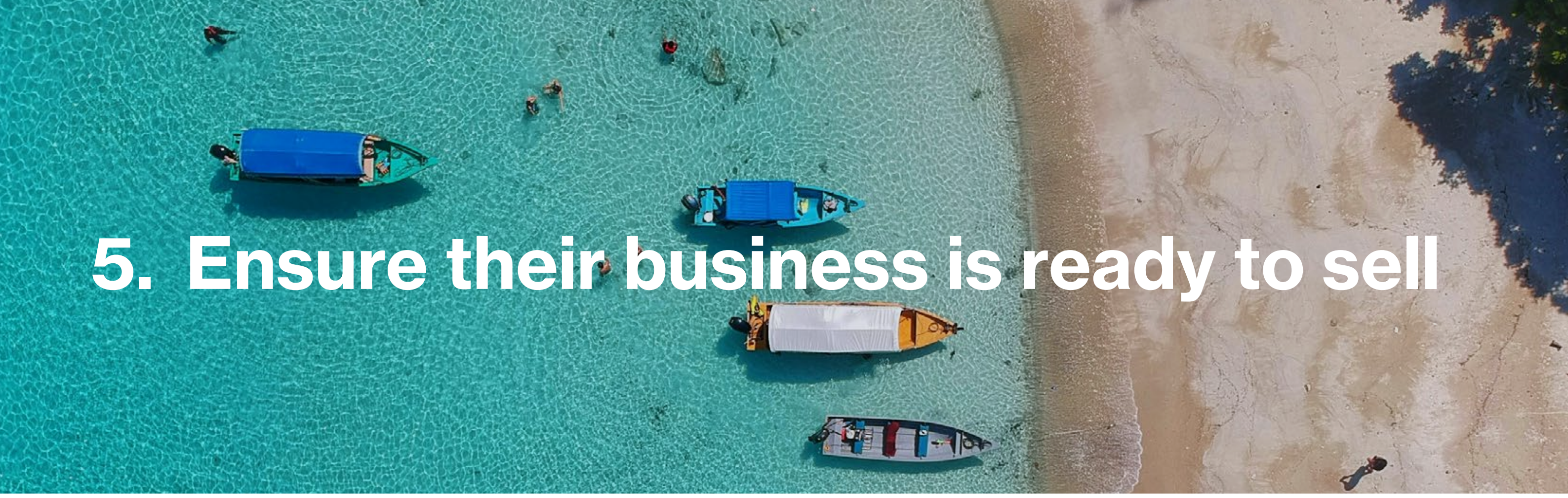
If, after valuation, it transpires that a client's business is not currently worth enough for them to fund their plans, then they may need to consider other routes or how to grow the enterprise.

For example, your client may need to consider delaying their planned exit in order to give themselves more time to build the value of their business.

Alternatively, though the value of their business may not be high enough yet, your client may expect that in five years it will be.

5 common business valuation methods

- Times revenue method – The times revenue method multiplies a stream of revenues over a certain period of time by a multiplier. This multiplier is determined by the industry of the business being valued, and current economic conditions.
- Discounted cashflow method – The discounted cashflow method is based on projected future cash flows. It takes inflation into account to calculate a present value.
- Liquidation value – Liquidation value assigns a value to a business by calculating the net cash a business will receive if all assets were liquidated and liabilities paid off today.
- Entry valuation – The entry valuation method assigns value to a business by calculating how much it would cost to establish a similar company.
- Comparable analysis – The comparable analysis method determines a business's value by comparing it to other similar businesses in its industry.



5. Ensure their business is ready to sell

For your clients to make their businesses as attractive as possible to potential buyers, they must make sure everything is running smoothly and mitigate any potential problems.

There are several ways your clients can do this.

Ensure systems and IT functionality are fit for purpose

Having efficient systems and technology in place will make your clients' businesses more attractive to buyers. If, after a sale, a business can continue to operate without an upheaval of any processes, it can make the transition much easier for the buyer.

Check the state of the business premises

If a buyer would have to carry out extensive repairs or refurbishments to business premises post-sale, they are less likely to go through with a purchase. Or, at the very least, they will probably offer a lower price.

By checking the condition of their business premises and carrying out any necessary work, your clients could attract more interest from buyers, and achieve a higher sale price.

Resolve outstanding governance and regulatory issues

If you have a client whose company is currently dealing with governance or regulatory issues, it could be important to resolve these before going to market.

A buyer is unlikely to want to have to deal with these types of legal issues. If they are willing to buy a company with outstanding legal issues, it may result in a lower purchase price, making it harder for your clients to hit their number.

Resolve future employment and other staffing issues

When a buyer is looking at purchasing a business, one of the most important factors is the team in place. For your clients' businesses to be attractive to buyers, it's important they have an honest look at their management teams and identify any gaps.

While they still have time to go before they sell, they can fill these gaps by training existing staff members or hiring new employees.

People are potentially even more important if your clients are hoping to pursue internal sales. Many exit specialists would say that the team is the most important factor in determining the success of an internal business sale through either a management buyout or Employee Ownership Trust (EOT).

In the years before their planned sale, clients looking for an internal exit should start talking to their team to determine if there is an appetite for an internal takeover.

An internal sale could be right for your client

The dream sale scenario for many business owners is to sell to existing team members through either a management buyout or EOT. The types of internal exits have benefits but aren't right for everyone.

For an internal sale to be successful, your business owner clients must be sure they have a team in place who can continue to move the business in the right direction.

If they're confident they can achieve this, then the benefits of an internal sale are numerous:

- Company culture can be preserved
- The process can be quicker and have less due diligence than an external sale
- Often the seller will not have to provide warranties, indemnities or contractual protections, reducing their risk
- It can feel like a natural progression for the business.

6. Make sure they have the right protection – for themselves and their business

Even with years of preparation, external factors out of your business owner clients' control have the potential to derail their exit plans.

For example, if an owner falls ill, they lose their spouse, or one of their key employees dies, it may stop them from achieving the business sale they dream of.

To protect against such unfortunate circumstances, your clients need to consider whether they have the right cover in place.

Losing a loved one

If one of your clients suffers the loss of their spouse or partner in the run-up to their business sale, not only will this be emotionally difficult, but it could financially disrupt their plans.

Your client could need to take some significant time off to grieve or to care for family. This could affect the performance of their business, reducing your client's income as the owner, and potentially the company's eventual sale price.

Your client may also be dependent on their spouse's income to make the sale of their business possible, or partially fund their lifestyle after the sale. Without this income, the sale of the business may become untenable.

Taking time off due to illness or injury

If a business owner client falls ill, it could mean that they lose their income for an extended period. This may alter their financial position in the run-up to the sale of their business meaning they might not be able to achieve everything they want during and after their exit.

If they receive a serious diagnosis, they may also feel the need to step away from their business while they undergo treatment. This could negatively affect the performance of their business, reducing your client's income and the amount they can expect to sell their company for.

If a client has to pause savings or pension contributions during a period away from work, their pot may not be as large when they come to retire. This could mean they have to work for longer or compromise on their future plans.

Losing a key person in the business

Research from Legal & General found that 59% of businesses believe they would have to stop trading in less than a year after the death or critical illness of a key individual.

Clearly, a situation like this could be devastating for a business owner who is just years away from exiting. After years of building a business, to lose a colleague, and to have their dream of a sale taken from them through circumstances out of their control, could be heartbreaking.

By putting the right protection in place, your clients can ensure that unexpected events like the ones outlined above don't stop them from achieving the sale they want, protecting their plans after exiting, and their legacy.

We can help your clients decide which forms of protection could serve them best as they work towards selling their business.

7. Maximise their pension contributions, tax relief and ISA savings

Some of your clients may intend the value of the sale of their business to become their retirement fund. Meanwhile, others will have been building a pension and investment portfolio throughout their career.

While your clients are still earning income from their business, it could be a good idea for them to make the most of their pension and associated tax relief.

This can have a double benefit for business owner clients.

Pension contributions attract tax relief based on your clients' Income Tax band. Most people receive basic-rate tax relief at source, while higher- and additional-rate earners can claim 40% and 45% tax relief respectively through self-assessment.

Most clients will be able to contribute up to £60,000 in 2024/25 (or 100% of earnings, if lower) without facing an additional tax charge. This can enable them to tax-efficiently build up a significant retirement fund that they can draw on in later life.

Additionally, by contributing to their pension through their business while they still own it, your clients could bring down their National Insurance and Corporation Tax bills.

As well as making the most of their pension, your clients should also consider maximising the benefits of their ISAs by contributing as much as they can. They can contribute up to £20,000 a year to ISAs (2024/25), and all profits from investments held within ISAs are free of Income Tax and Capital Gains Tax (CGT).

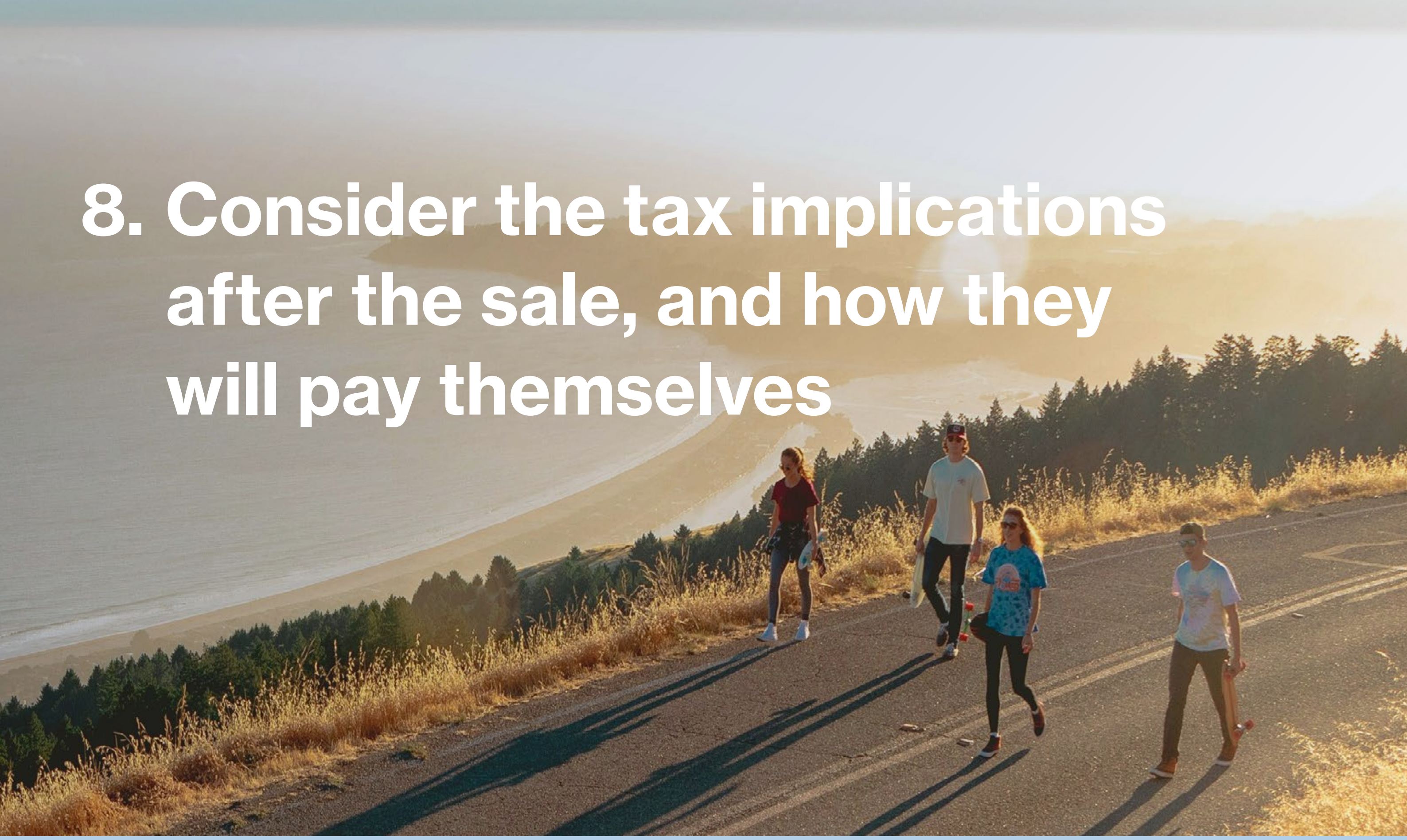
ISA rules changed on 6 April 2024

From the start of the 2024/25 tax year, your clients have been able to contribute multiple ISAs of the same type in a given tax year. Previously, the rules did not allow this.

This could allow your clients to:

- **Pay into multiple Stocks and Shares ISAs from different providers to take advantage of varying exposures and fees.**
- **Open a new Cash ISA when better rates become available without waiting until the new tax year.**

8. Consider the tax implications after the sale, and how they will pay themselves



Your clients may not be aware of the tax rules around selling their business. It's important that they understand these rules so that they can receive the proceeds from their sale as tax-efficiently as possible.

Assuming the client has owned the business for two or more years, claiming Business Asset Disposal Relief allows the first £1 million of proceeds from a sale to be taxed at 10% rather than the 20% rate of CGT.

As a client's spouse or civil partner can claim the same relief, they can potentially limit their CGT rate to 10% on proceeds up to £2 million.

A trading business can also qualify for 100% Business Relief for Inheritance Tax (IHT) purposes.

Speaking with a financial adviser can help your clients to reduce their IHT liability in other ways such as through gifting from income or a trust.

A happy client

"Matthew is always calm and reassuring and gives clear sound advice!"

Susan Johnson, via Google reviews

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9. Write a will and make a Lasting Power of Attorney

When one of your clients successfully sells their business, they will likely be sitting on a large sum of cash. As a result, it is important to make sure they have created or updated their will.

If your client dies without having made a will, their estate will be shared according to the rules of intestacy.

According to research by Canada Life, 50% of adults in the UK don't have a will. The same research also found:

- 33% of adults aged 55 or over don't have a will
- 14% of adults don't ever intend on making a will
- 41% have no concerns about not having a will.

However, members of that 41% are probably wrong to not be concerned.

The rules of intestacy state that if your client has a partner who they are not married or in a civil partnership with, they cannot inherit their estate. There are also strict rules over how wealth is handed down to any children.

So, if your clients want their estate to be distributed in a specific way upon their death, it could be very important to make a will. Making a Lasting Power of Attorney (LPA) can also be worthwhile.

An LPA is a legal document which assigns the power to a designated attorney to make decisions about your client's affairs if they become unable to do so. If a client falls ill before their sale goes through, their designated attorney can ensure the sale continues as they intended.

A happy client

"Matt has been helping me plan for my retirement for a number of years – he is always professional and helpful.

"His information and advice is clearly expressed and has adapted well to changes in my requirements, both financial and personal."

Gregg Collingham, via Google reviews

10. Seek financial advice

As your clients work towards selling their business, they will probably need to assemble a team of professionals including, but not limited to:

- Solicitors
- An accountant
- An exit specialist
- A financial planner.

A financial planner can be an indispensable member of this team, advising on protection, LPAs, valuation, calculating a "number" and more.

Led by Certified Financial Planner and Chartered Wealth Manager, Matthew Walne, Santorini Financial Planning has been a VouchedFor Top Rated firm since 2021.

We are also one of just 58 Accredited Financial Planning Firms across the UK, an accolade that recognises excellence in everything we do and places us among the most trusted financial planning firms in the country.

Recently, we were proud to become RQ Certified, a process that required us to prove our regulatory track record and reputational standing across a range of categories.

Our excellence has also been recognised by numerous awards including:

- Financial Planning Service of the Year – Central England (Leicestershire) in the Prestige Awards
- Retirement Planning Firm of the Year in the Corporate LiveWire Innovation & Excellence Awards 2022
- Most Client-Focused Retirement Planning Firm – East Midlands in the SME Finance Awards 2021.

At Santorini Financial Planning, we believe in building strong and meaningful connections with our clients, helping them to achieve their life goals – an approach that has seen us recognised as Registered Life Planners (RLP).

By earning our RLP designation, we have shown we're trained to listen deeply and to help clients discover, articulate, and achieve their life dreams using expert financial planning.

If you feel your clients could benefit from this type of support, we'd love to hear from them.

Get in touch today by emailing info@santorini-fp.cp.uk or call us on 01509 278620.

A happy client

"Matthew always keeps us up to date and informed and he's always there if we need to talk to him. He imparts his knowledge to us, which is what you want.

"It's very confusing knowing what the right thing is to do when it comes to something like pensions and finances. So, to know you have someone who'll help you with all that and who you can trust is great."

Phil and Sharon Middleton, clients since 2018