



The Importance of Knowing What Your Business is Worth

 **MassMutual**

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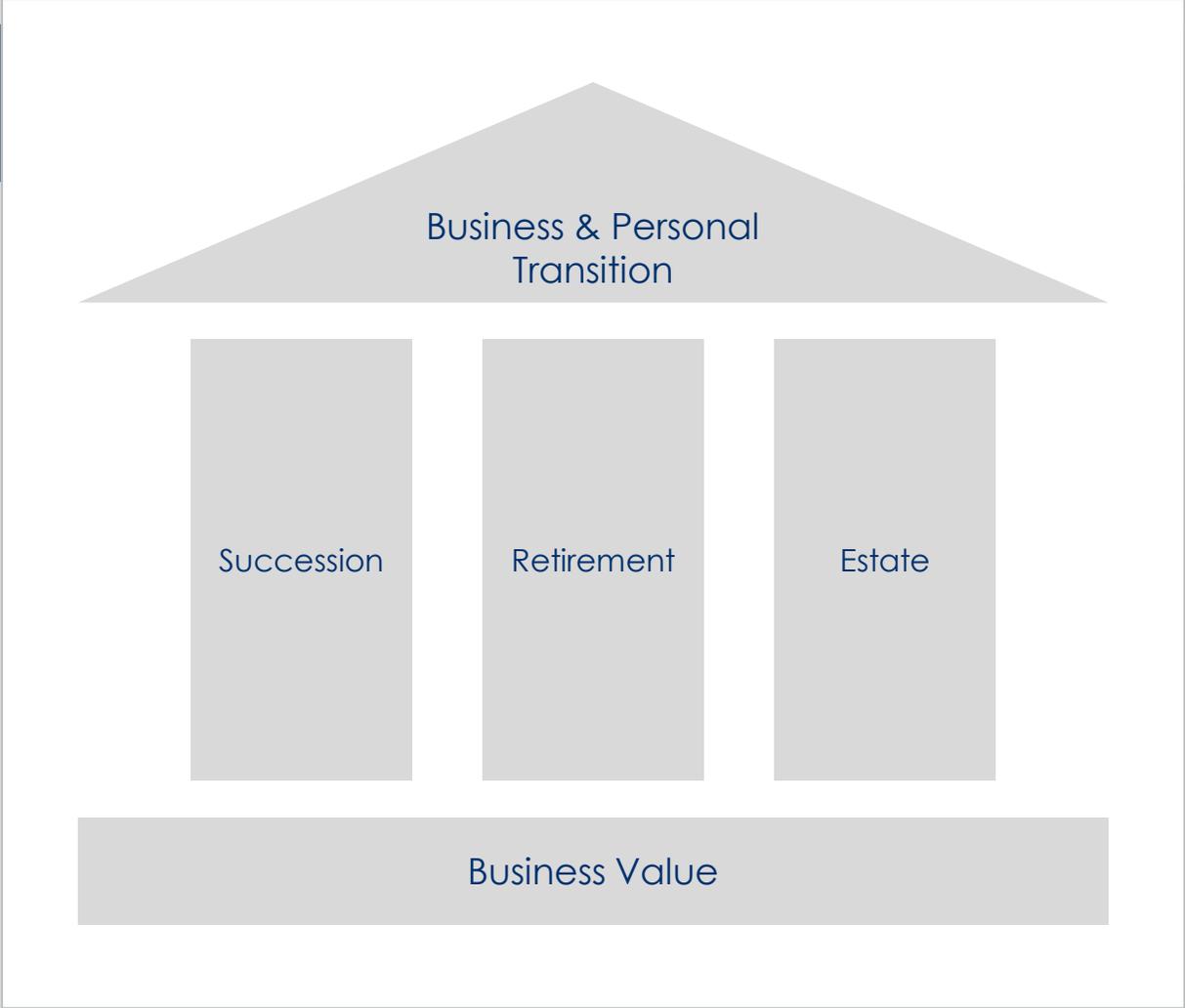
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The foundation of effective business planning

35% of business owners have begun the process of succession planning.

Steps business owners have taken (or not) to prepare for transition:

50% Identified financial needs	34% Built a management team
42% Discussed with family	33% Identified potential successors
41% Discussed with internal parties	17% Set a timeline for exit



Source: MassMutual Business Owner Perspectives Study, 2022



Common Roadblocks

Why do business owners **not have** these plans in place?



I don't feel like I need to think about these issues yet."



I am too busy with the day-to-day management of the business, I don't have time."



I don't have extra money to put towards addressing these issues."



I would not know where to go for help."



It is an uncomfortable conversation with my family/ business partner."





Common Motivators

Why do business owners **have** these plans in place?

“I want to protect my family.”

“I want to protect my business.”

“I was doing personal planning and it prompted me to think about business planning.”

“I want to protect my employees.”

“A trusted source brought it up to me.”



The great unknown...will my business sell?



Nearly 60% of business owners say they plan to sell their businesses¹

80%

of businesses put up for sale don't sell²



¹ MassMutual Business Owner Perspectives Study, 2022
² Exit Planning Institute, State of Owner Readiness Survey, 2018

The great **known...** will I exit my business?

The one stat we didn't need research to prove:

100% of business owners will exit their businesses!



10%

say they don't plan to ever exit the business.

66%

say they don't know all of the available exit options.

Why business owners never truly leave

The truth probably lies somewhere in between...

“

It's my **baby**

62%

worry about missing their role in the business after retiring

VS

“

It's my **lifestyle**

60%

would exit sooner if their financial security were assured.

Two types of business owners

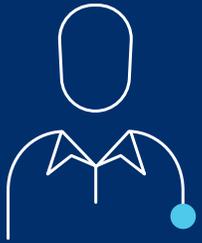
60% of business owners believe they will have to adjust their lifestyles when they exit

Mindset	Lifestyle owner	Value creator
Focus	Current income	Enterprise value
What does success look like?	The business affords my lifestyle today	Value is maximized and business sells at highest multiple possible
Views on exit	Financially driven: “die at my desk” mentality (if I can’t support myself, I can’t exit)	Liquidity driven: build a valuable asset that is easily sellable/transferrable
Views on valuation	A mathematical equation based on historical financial performance	Focus on the intangibles, assess the business based on key operational drivers of value
Valuation technique	Emotional value—“what do I perceive it to be worth”	Income replacement value—“what do I need it to be worth to maintain my lifestyle in retirement”

Source: MassMutual Business Owner Perspectives Study, 2022



Knowing the true business value



About half of business owners (52%) say they've had their business valued, but **1 in 4 valued it themselves!**





Knowing the true business value

When business owners value it themselves, the standard deviation can be 60%

The Four Capitals:



Human Capital



Customer Capital



Structural Capital



Social Capital

Up to 80% of a business's value can be tied to intangible assets.

Knowing the true business value

There are different approaches to valuing a business:



Book Value



Market Value



Capitalized Earnings Value



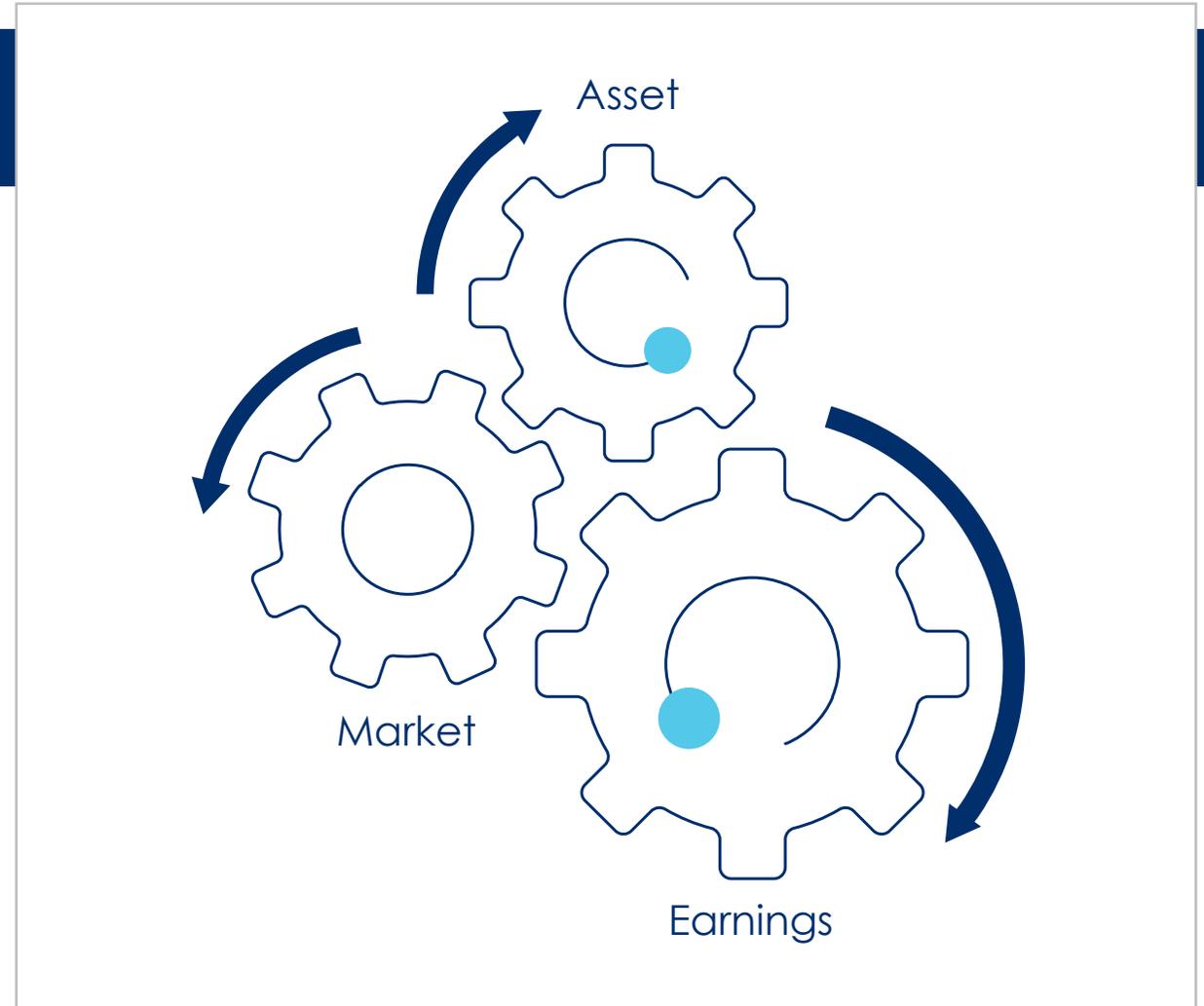
Discounted Cash Flow



Asset Accumulation



Liquidation Value



Knowing the true business value



Underfunded
buy-sell
agreements



Retirement
income shortfalls



Lack of liquidity
in the estate



Inequality in the
distribution of
assets to heirs



Disagreements
among
family/owners

The focus on value growth



About half of business owners (48%) say they believe their business's **value will grow in the future.**



The focus on value growth

Current

VS

Future

Top reasons for knowing current value:



Gauge business's health



Know what I could get in a sale



Apply for loans/lines of credit

Top reasons for knowing future value:



Know its growth potential

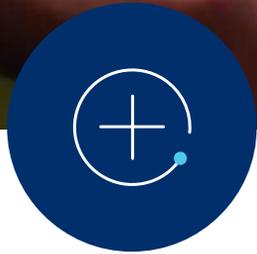


Estimate any future tax obligations



Know if there is sufficient value to fund retirement

The focus on value growth



Added Value:

- Growth
- Dominant market share
- Recurring revenue
- Barriers to entry
- Product differentiation
- Margin advantage
- Innovation
- Brand



Value Neutral:

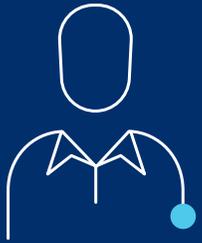
- Sales and Marketing
- Customer Satisfaction
- HR



Value Detractors:

- Senior Management
- Customer diversification
- Legal
- Financial
- Operations
- Large potential market

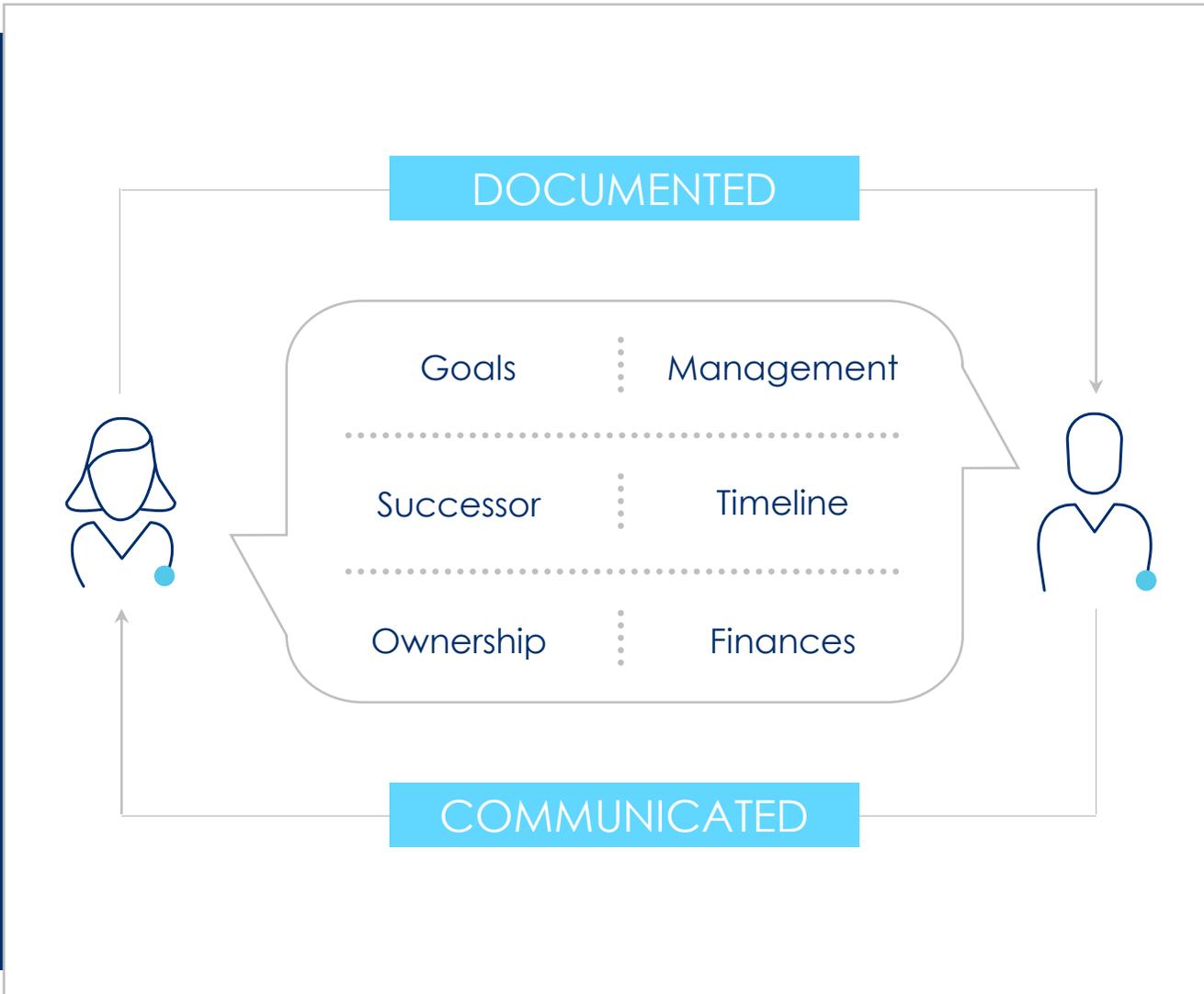
Business value and succession planning



Only one-third of business owners have a **buy-sell agreement** in place, and of those who do, **over half may not be properly funded.**



What goes into a good succession plan?



Goals:

What do you want out of the business when you exit?



Successor(s):

Who will take over and are they prepared?



Ownership:

What will future roles and percentages look like?



Management:

How will you keep them onboard through the transition and beyond?



Timeline:

Have you documented the steps with specific milestones?



Finances:

Where will the funds come from for a buyout or to pay taxes?

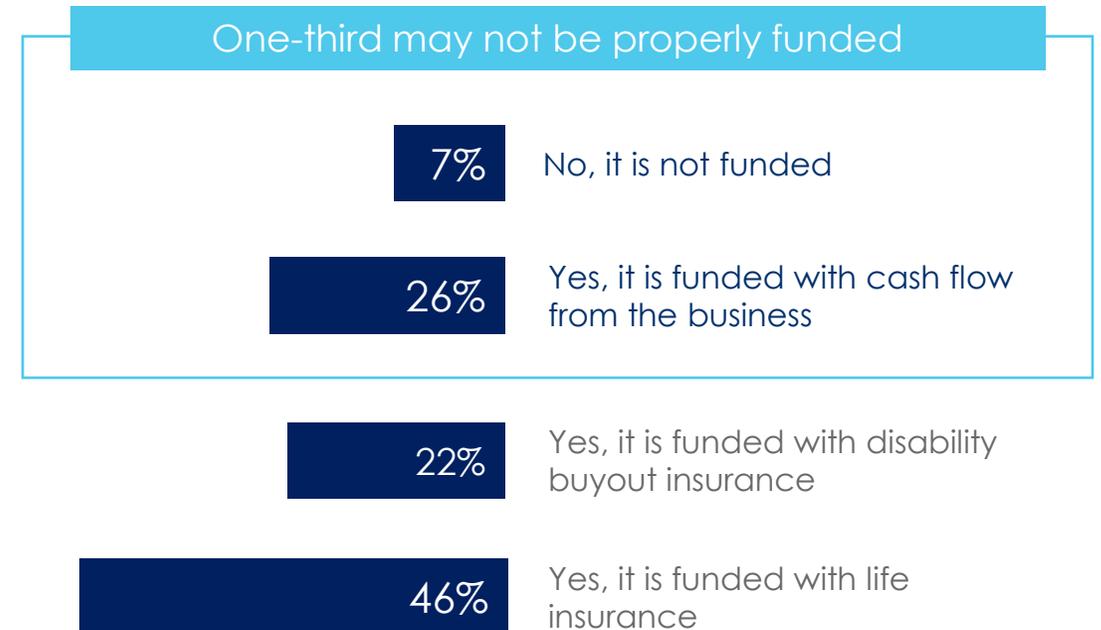
Business value and succession planning

Business owners have stale agreements in place, leading to underfunded agreements.

When was the last time your buy-sell agreement was reviewed?



Is your buy-sell funded?



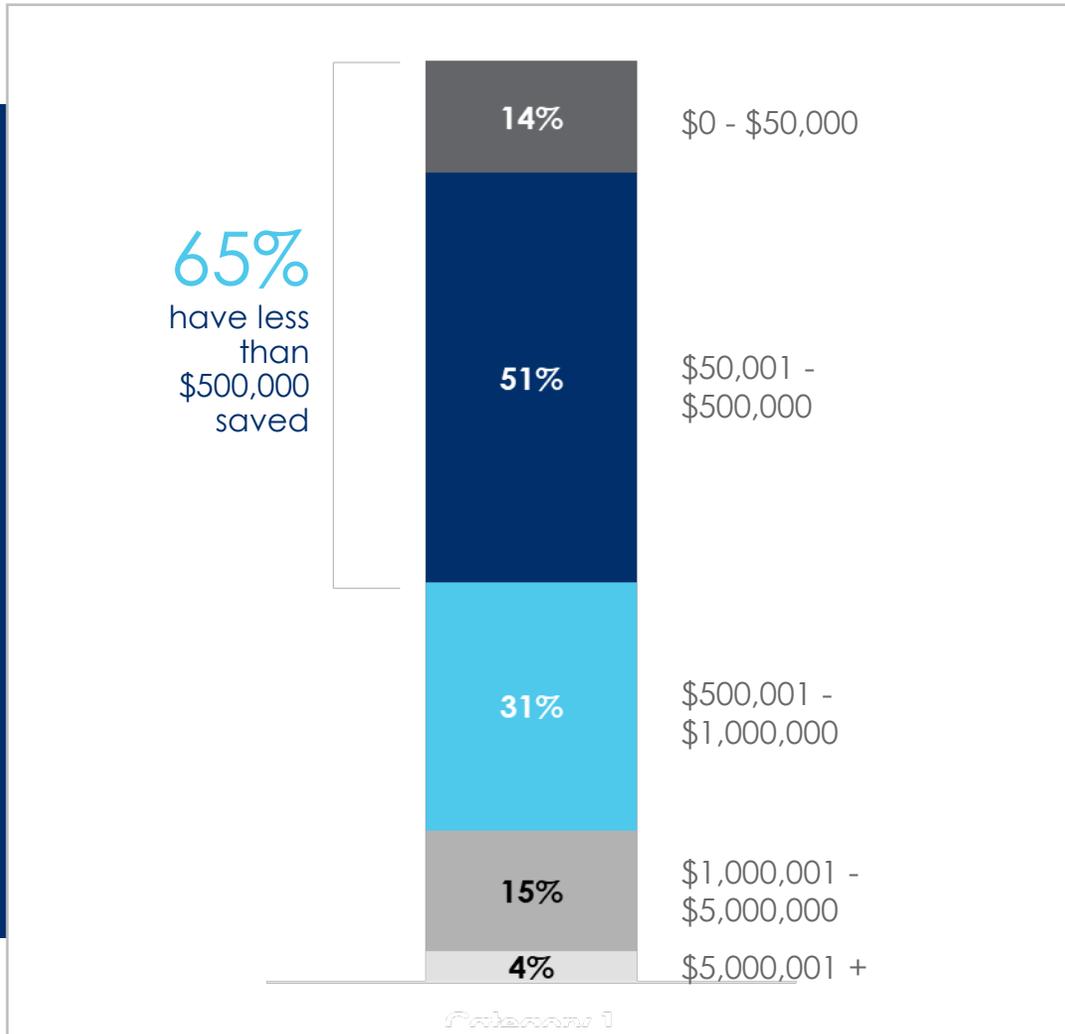
Business value and retirement planning



Most business owners have no idea when they plan to retire, and less than half (46%) believe they are on track with their retirement funding.

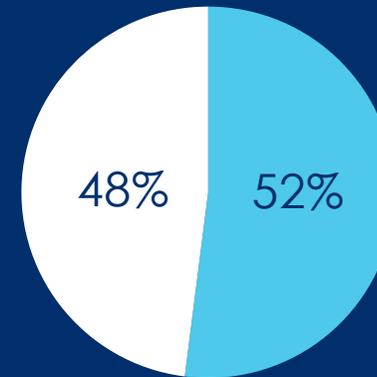


Business value and retirement planning



How will you fund your retirement?


Income from the business/proceeds from the sale



Assets outside the business (qualified plans, investments, etc.)

Source: MassMutual Business Owner Perspectives Study, 2022

Business value and retirement planning

What is the personal value you receive in the form of compensation and benefits?

Income Replacement value is most important to you, the owner:



Salary



Pension, profit sharing, etc.



Employee benefit programs (insurance)



Company paid car, travel, meals, etc.



Rent paid to owner's real estate entity



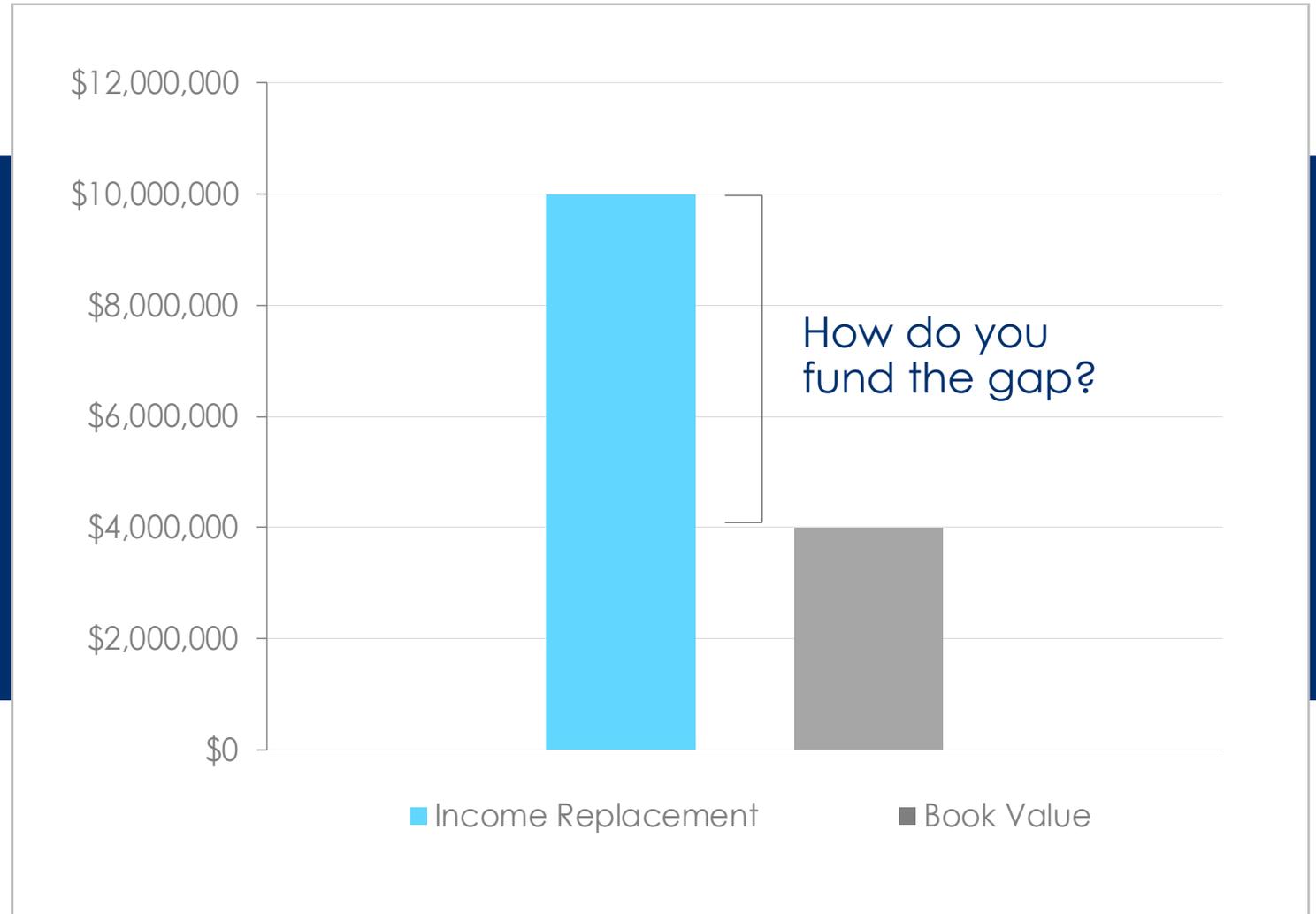
Other company paid benefits not listed above (stock options, etc.)

51% believe their chosen exit strategy will maximize their future income.

Business value and retirement planning



Income replacement value is about what you **need** the business to be worth vs. what you **think** it is worth.



Business value and retirement planning

The Business Owner's Hierarchy of Involvement



Exit with no ties

Generally best for everyone



Act as a "silent" partner

May be good for outgoing owner, and new ownership if structured properly



Exit but earn a "consulting fee"

May be good for outgoing owner, but not for new ownership



Stay active indefinitely

Potential landmines for everyone

Business value and estate planning



Two-thirds of business owners say the business is their largest asset, yet only 1 in 3 estate plans include a business valuation.



Estate planning for business owners

As a business owner, there are special estate planning considerations:



Estate Reduction:



Gifting of business ownership while you are alive.



Estate Liquidity:



Avoiding forced liquidation of business assets to raise cash.



Estate Equalization:



Being fair when not all family members are working in the business.



Business Valuation:



How, and by whom, will the business be valued at your death?

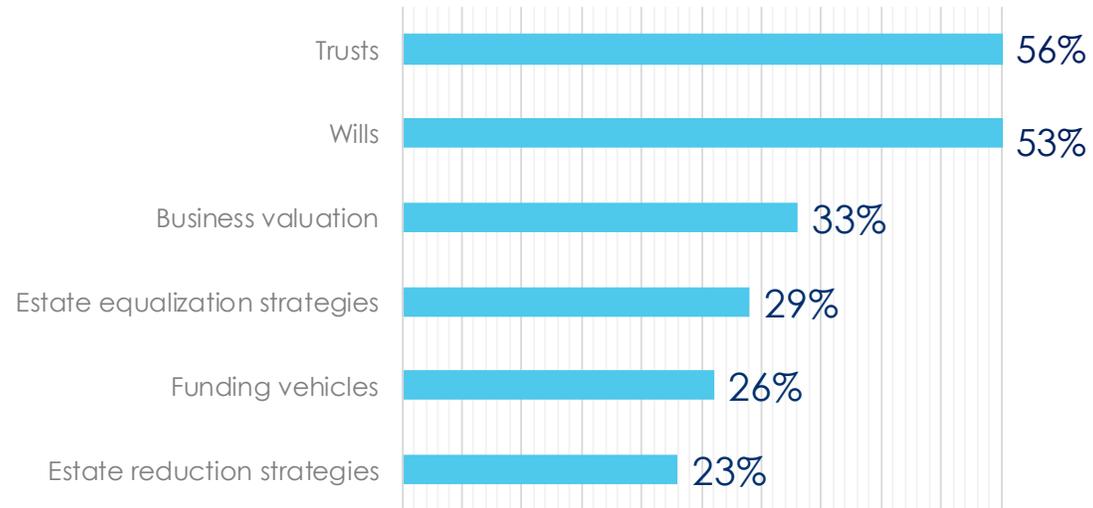
Estate planning for business owners

Ways to meet a liquidity shortfall

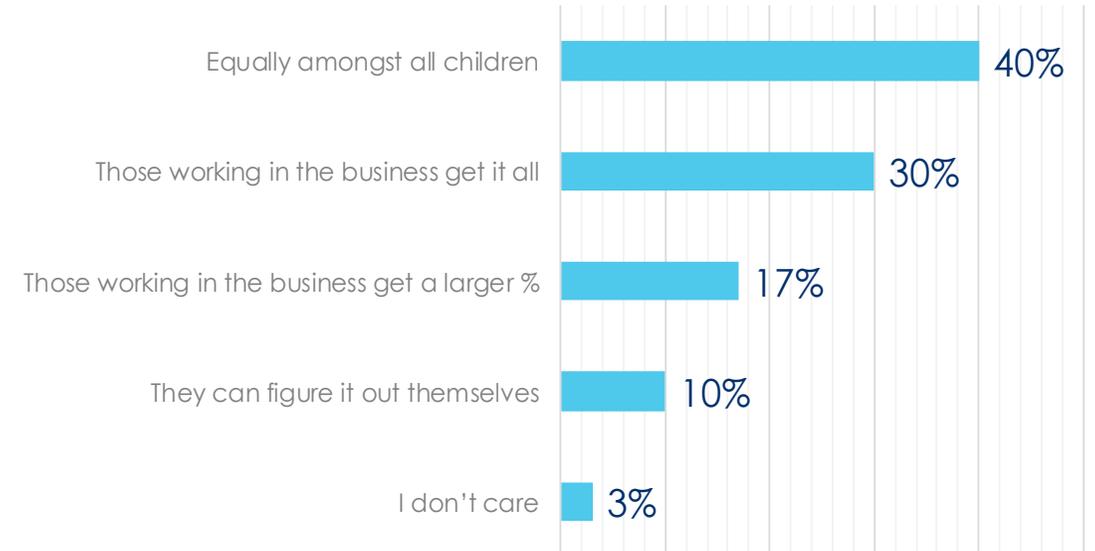
	Liquidate assets	Borrow	Life insurance
Source of Funds	Immediate sale of business assets	Immediate loan repaid by the sale of business assets or by the heir's own assets	Life insurance death benefit
Disposition of Assets	Business assets are gone	Business assets or heir's equivalent assets are gone	Assets are preserved
Direct Cost	Discounts on asset value due to forced sale	Debt service	Life insurance premiums

Business value and estate planning

What components of an estate plan are in place?



How will you divide the business assets in the estate?



Source: MassMutual Business Owner Perspectives Study, 2022



Estate equalization

Distributing ownership in the business to the next generation fairly.



When it comes to the business, fair does not always mean equal.

Estate equalization involves making some hard decisions:



The treatment of children in the business versus children not in the business.



The difference between liquid assets and illiquid assets.



The distribution of business assets versus non-business assets.



The timing of assets distributed today versus at your death.

The paradigm shifts

Old



Know the value.

It's not solely a mathematical equation



Be a lifestyle business owner.

Don't focus on income



Focus on the “emotional” or “intrinsic” values.

It's not about your perceived value

New



Understand the value.

Understand the value drivers



Be a value accelerator.

Focus on enterprise value



Focus on the intangible assets.

These drive a business's attractiveness and transferability



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