William Blair

Private Wealth Management

Business Owners Focus

Turning Your Wealth Into an Enduring Legacy



You put time, energy, and passion into growing your business.

Let us help you get to what comes next.

At William Blair,our wealth advisors work with business owners to turn that hard work into an enduring financial legacy. Assembling a coordinated team of advisors is essential to achieving a coordinated approach to planning. There are many vehicles and methods that business owners can use to maximize impact, and each approach carries a unique set of advantages and disadvantages.

TRANSACTION PLANNING

- How to Develop the Right Personal Wealth Strategy Before a Business Liquidity Event
- How Annual Lifetime Spending Affects Your Wealth
- Benefits of Personal Wealth Planning Before Selling Your Business

LEGACY PLANNING

- How a GRAT Transfers Business Growth to Future Generations
- Comparing Charitable Giving Strategies
- Navigating Your Way to the Next Level of Wealth

How to Develop the Right Personal Wealth Strategy Before a Liquidity Event

To turn hard work as a business owner into an enduring financial legacy, it is important that you begin talking with your wealth advisor about 18 months before selling your business or completing a dividend recapitalization. Assembling a coordinated team of advisors, including experts in wealth management, estate planning, tax planning, and investment banking, is essential to achieving a coordinated approach to planning for the liquidity event.

Time is your most valuable resource—the earlier you start wealth planning, the more opportunities you have. Conversely, if you wait until the transaction is about to close, you may miss the opportunity to capitalize on some of the most valuable strategies and pay more taxes than necessary. This piece discusses the several considerations to make pre-transaction.

Consideration 1: Establishing Your Vision

How Will a Business Sale Impact My Financial Future?

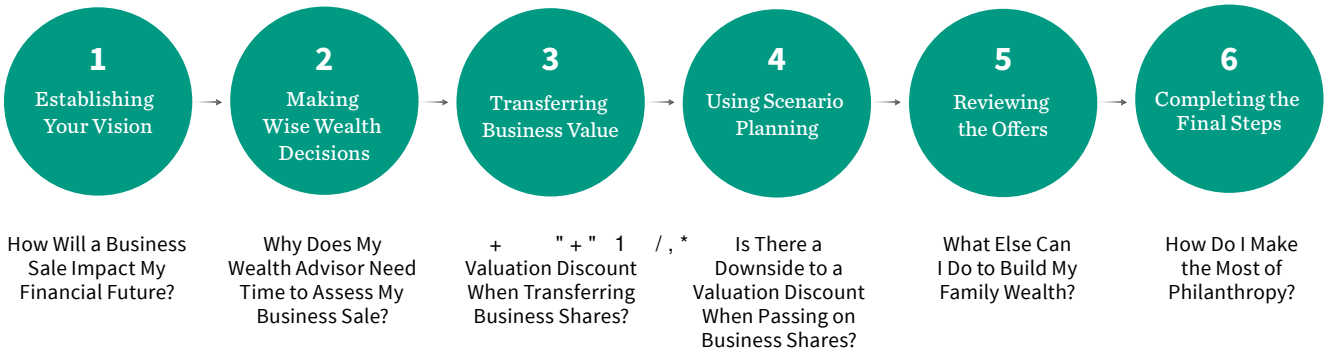
Before you and your advisors can create a strategy for managing the wealth created from a sale, you need to identify your priorities and goals. This includes understanding how much capital is required to fund your lifestyle, as well as whether transferring wealth to loved ones or gifting money to charities are priorities.

A central part of this exercise is thinking about how you will balance your lifestyle needs versus secondary goals of wealth transfer and philanthropy. Another important element is deciding whether you want to continue working after the transaction or whether you will count on your investment portfolio to generate a steady paycheck to support your lifestyle.

You do not want to feel rushed into making decisions that will likely have long-term consequences, and you do not want to be thinking about these things for the first time when you are in the midst of trying to sell or recapitalize your company.

EXHIBIT 1

Considerations for a Business Liquidity Event



How to Develop the Right Personal Wealth Strategy Before a Business Liquidity Event (continued)

Consideration 2 : Making Wise Wealth Decisions

Why Does My Wealth Advisor Need Time to Assess My Business Sale?

You may want to involve your wealth advisor about 18 months before your business sale to allow for time to assess the tax and cash flow timing consequences of potential transactions. This also gives your advisor time to create projections for how much after-tax wealth you will receive under a range of valuations and transaction structures.

Your advisors' work to assess the deal structure is especially important for transactions that are not all-cash deals and involve equity compensation or earn-outs. You also want to give your wealth advisor adequate time to lay the groundwork for establishing any trusts, foundations, and other legal structures that will be used in executing your wealth-management strategy.

Whether the proceeds from a transaction are treated as long-term gains or ordinary income will have a significant effect on the overall tax exposure for the owners. The top federal long-term capital gain rate is 20% plus potential exposure to a 3.8% tax on investment income. In contrast, the top federal rate for ordinary income is currently 37%.

Wealth advisors can also help you understand elements of a purchase agreement that affect the ultimate value and timing of the liquidity, such as rollovers, vesting, and earn-outs.

Consideration 3: Transferring Business Value

Can I Benefit From a Valuation Discount When Transferring Business Shares?

One of the most powerful wealth-transfer strategies for owners of growing businesses is taking advantage of the pre-transaction "valuation discount," an important consideration. The valuation discount is based on the premise that the value of the business before a transaction is often less than the value at which the company is sold.



When transferring shares of a company to children or other loved ones, the size of the gift for estate-tax purposes is based on the value of the shares at the time of the transfer. Any appreciation in the value of the shares that occurs after the transfer is not subject to estate or gift taxes. Thus, for companies that are growing, the earlier the shares are transferred, the more wealth the owner may be able to give to loved ones tax-free.

Timing is critical when it comes to taking advantage of a valuation discount. Often, when a company is sold through a merger or acquisition, or shares are sold through an equity recapitalization, the valuation used for the transaction is significantly higher than the pre-transaction valuation. If the owner wants to use the pre-transaction valuation for the gifts to loved ones, the transfer must have been completed before the owner signs the letter of intent for the business sale or recapitalization. After that letter has been signed, the valuation that is used for the transaction is likely the valuation that must be used for the gifts.

Consideration 4: Using Scenario Planning

Is There a Downside to a Valuation Discount When Passing on Business Shares?

Although the valuation discount can be a powerful way to minimize wealth-transfer taxes, it is important to remember that transferring wealth before the transaction closes carries risk. To take advantage of the tax benefits of the valuation discount, the transfers need to be irrevocable—you can not undo them if the valuation or timing of the transaction end up being significantly different than what you had planned.

Market conditions may deteriorate, causing the buyer to lower the company's valuation significantly or perhaps walk away from the deal altogether. In these situations, business owners may end up with much less wealth or liquidity than what they were anticipating. Conversely, a highly competitive sale process may result in a valuation that is significantly higher than what the owners had predicted when deciding how many shares to give to loved ones before the transaction. William Blair advisors have seen situations where owners' efforts to limit the wealth transfer to their children were undermined when the valuation of the company skyrocketed during a highly competitive sale process.

Using scenario planning to see what the outcomes may look like under various sale prices can be an extremely valuable part of the pre-transaction planning process. Creating a dynamic financial model that allows you to adjust variables such as purchase price, tax treatment, rollover equity amounts, and return assumptions will serve as a useful tool in estimating net proceeds and how much, if any, excess wealth is available for secondary planning objectives.

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What Else Can I Do to Build My Family Wealth?

In addition to tax considerations and the valuation discount, there are other ways to strengthen a family wealth legacy.

Teach Family Members to Be Good Stewards of Wealth

Creating an enduring family financial legacy is about much more than the amount of wealth that is passed to younger generations. It also involves teaching children and their offspring to be good stewards of the wealth and teaching them about the values that have defined the family and the history of the company. Bestowing these lessons does not happen by accident. The most successful families take a proactive approach, which can be as formal as holding annual family meetings and forming a family foundation or as informal as having regular conversations about the history of the company and explaining the family's role in contributing to the community.

Consider a Grantor Retained Annuity Trust

A grantor retained annuity trust (GRAT) is one of the most common vehicles used to transfer the future appreciation of the shares of a business to children without that appreciation being subject to estate or gift tax.

How to Develop the Right Personal Wealth Strategy Before a Business Liquidity Event (continued)

Consideration 6: Giving Back

How Do I Make the Most of Philanthropy?

Many business owners are committed to investing in their communities. When philanthropic business owners are ready to sell their companies, charitable giving may be a central part of their long-term wealth planning strategies.

Business owners considering a sale should discuss their long-term philanthropic goals with their wealth advisor. The proceeds from the sale can be used to fund charitable vehicles that generate a tax deduction for the donor, such as donor-advised funds, private foundations, charitable trusts, or outright gifts of stock.

There may also be an opportunity to establish charitable vehicles ahead of a business sale or transaction that can avoid or reduce exposure to capital gains tax. Accelerating the donations into the year of the sale can help offset the taxable income generated by the sale of the company.

By contributing low-basis stock instead of making cash gifts, business owners are able to avoid recognizing capital gains on this stock. It is important to note, though, that the gift of stock must be made before a letter of intent to sell the company has been signed; otherwise, the owner may violate the anticipatory assignment of income doctrine, and the full tax benefits of the gift may not be realized. There are many vehicles and methods that business owners can use to maximize the impact of their charitable gifts. Each approach carries a unique set of advantages and disadvantages.



How Annual Lifetime Spending Affects Your Wealth

Determining the relationship between annual lifetime spending and remaining wealth is extremely valuable. Before you think about wealth-transfer or philanthropic opportunities, you must first determine your annual lifetime spending needs.

Quantifying your lifetime spending includes budgeting for annual recurring needs as well as any large purchases, such as vacation homes, boats, and travel.

Consider the example of a business owner who receives $40 million in after-tax proceeds from selling his business at age 55 and then invests the proceeds in a diversified portfolio.

If the client spends $500,000 annually, he is projected to have $78 million remaining upon reaching age 75. If he instead spent $750,000 annually, his projected net worth at age 75 would be $69 million, and if he spent $1 million annually, his projected net worth at age 75 would be $59 million.

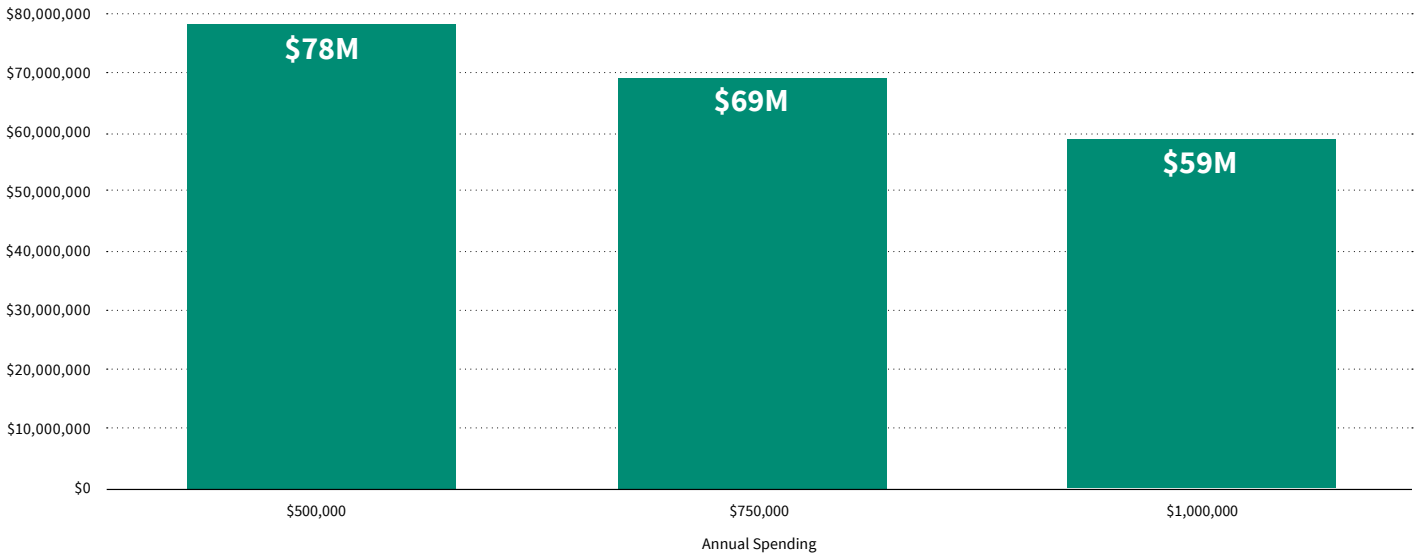
EXHIBIT 2

Net Worth at Age 75

Example: A 55-year-old business owner's projected net worth at age 75 based on $40 million in after-tax proceeds and various annual spending levels.

The projections are based on the following assumptions:

- 85% probability of success
- The annual spending rate is after taxes and adjusted for a 2% annual inflation rate
- The investment portfolio is invested in 60% stocks and 40% bonds, and all proceeds are invested at the same mix
- The portfolio's projected returns are based on William Blair's long-term investment expectations



Benefits of Personal Wealth Planning Before Selling Your Business

Selling a business or generating liquidity through a dividend recapitalization offers business owners the opportunity to turn years of work into an enduring financial legacy. However, planning with a wealth advisor must begin far in advance of the business transaction to realize the greatest wealth benefits. Below is a case study showing how the right approach to wealth planning can result in substantial gains.

Client Background

Maria and her husband, Thomas, founded a biotechnology company in 2004, and today their shares in the private company have a book value of $10 million. However, the company's investment bankers project that if the company were acquired by a strategic buyer in a competitive process, the shares would be worth $100 million. Maria and Thomas, who have three children, have an additional $15 million in other assets and no debt.

Client Priorities

Because Maria and Thomas have accumulated enough wealth outside of the company's stock to support their lifetime spending needs, their primary goals are:

- Passing wealth to their three children in a tax-efficient manner
- Supporting several charities and giving their children an opportunity to be involved in deciding which charities to support
- Minimizing income and estate taxes

Recommended Strategy

To accomplish these goals, their wealth advisor recommends transferring 30% of the company stock ($3 million based on the stock's pre-transaction book valuation) to trusts for the children and another 30% to a donor-advised fund (DAF) for charitable giving before the transaction closes.

By transferring the stock to the children's trust, any subsequent appreciation in its value will be excluded from the couple's taxable estate. By making the transfer to the DAF, they avoid paying capital gain tax on that portion of the stock. They will also receive a charitable income tax deduction, which will make the sale transaction more tax efficient. Maria and Thomas plan to fund their future charitable giving from the newly created DAF and incorporate the DAF into their estate plan.

Projected Outcome

As depicted in the projection below, these effective pre-transaction planning strategies are projected to save Maria and Thomas $7.1 million in income taxes on the sale and $21.14 million in estate taxes.

EXHIBIT 3

Illustrative Proceeds Maximization Case Study

WITHOUT PLANNING	
Gross Estate]	$115M
Income Tax on Sale ^	($21.4M)
Estate Tax Exclusion _	($27.9M)
Taxable Estate	$65.60M
Estate Tax (40%)	$26.24M

WITH PLANNING	
Gross Estate	$115M
Income Tax on Sale ‘	($14.2M)
Transfer Stocks to Trusts a	($30M)
Funding DAF Pre Transaction	($30M)
Estate Tax Exclusion	($27.9M)
Taxable Estate	$12.74M
Estate Tax (40%)	$5.09M

$7.1 million in income tax savings

$21.14 million in estate tax savings

SALE OF COMPANY - $100MM INTEREST

Wealth Transfer - Prior to Transaction
- Fund trusts for three children

Charitable Planning - Prior to Transaction
- Fund charitable entity with company stock

Realize Income and Estate Tax Savings
- Maintain desired lifestyle while also accomplishing 4")1% 1/ +0#"/ +! % /&1)" $,)0 1

1 Assumes shareholder has $10mm basis in company and value of $100mm at the time of the transaction. Also assumes that shareholder has $15 million in other assets.
2 Assumes 20% Long Term Gain Tax on $90 million plus Medicare Surtax at 3.8%.
3 2025 estate tax exclusion amount is $13,990,000 per individual.
4 Assumes avoiding $27 million realized cap gain and obtaining a fair market value charitable deduction for 30% of company stock transferred to DAF pre transaction.
5 Post transaction value off stock transferred to Children's trusts through a grantor retained annuity trust ($3mm pre-transaction value).

How a GRAT Transfers Business Growth to Future Generations

If you are a business owner interested in building a financial legacy, a grantor retained annuity trust may be very helpful.

What is a GRAT? It is one of the most common vehicles used to transfer the future appreciation of the shares of a business to children without that appreciation being subject to estate or gift tax.

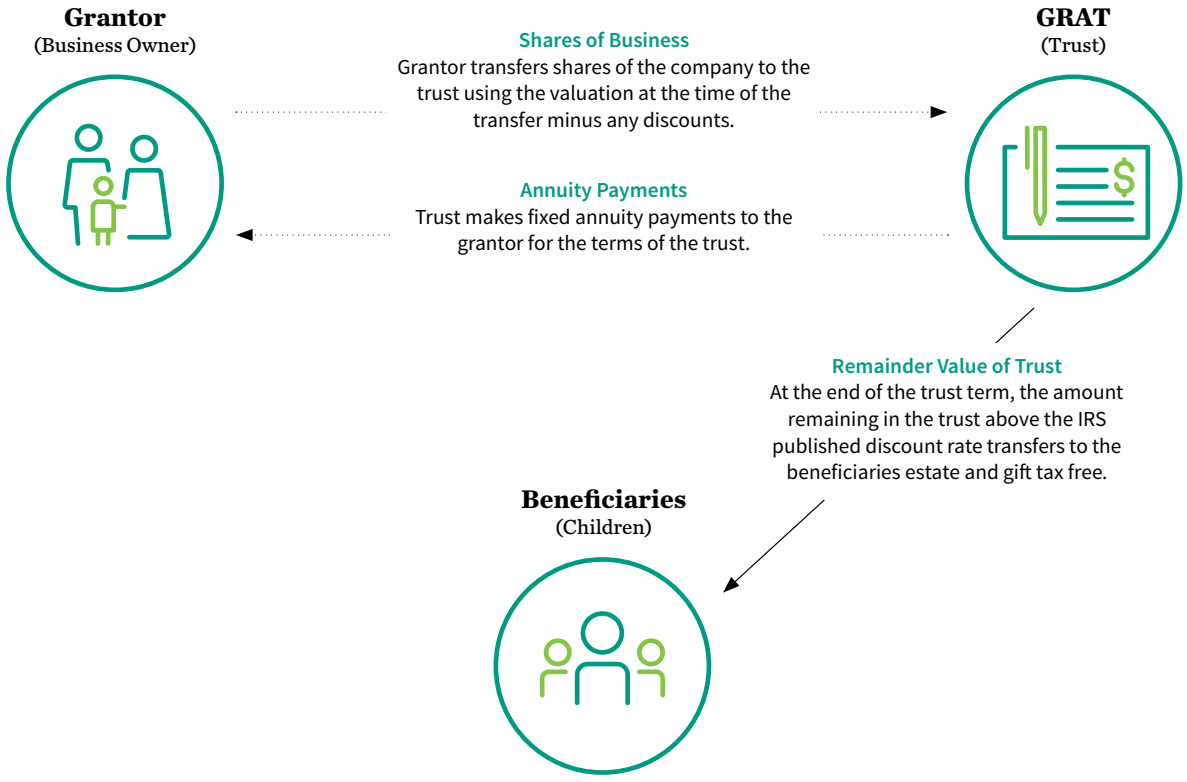
Interested in learning more about GRATs?

Read our whitepaper: *Using a Grantor Retained Annuity Trust for Wealth Transfer Purposes.*

EXHIBIT 4

How Does a GRAT Work?

Income taxes are paid by the grantor, which further shifts wealth to the beneficiaries.



Comparing Charitable Giving Strategies

At its simplest, charitable giving involves donating a sum to an organization all at one time. This direct approach works well when a donor wants to make an impact immediately. However, it does not allow the donor to increase cash flow, diversify assets, or transfer wealth in a tax-efficient manner, which other giving strategies can.

There are many vehicles and strategies you can use to maximize the impact of your charitable donations. As outlined below, each approach carries a unique set of advantages and disadvantages, depending on your situation.

EXHIBIT 5

Comparing Strategies

	ADVANTAGES	DISADVANTAGES	SUITABLE FOR
& / " 1 & 0	& * -) & & 1 6 + ! & * * " ! & to the charity	No involvement in grant-making decisions	Individuals who have & ! " + 1 & " ! % / & 1 6 1 % " 6 4 to support and want to make an immediate impact
Charitable Remainder Trust	Donor receives current or ! " # " / / " ! 0 % , 4 + ! + diversify concentrated holdings without incurring immediate recognition of capital gains	Requires annual administration	Individuals who own low-basis, highly appreciated securities and would like to increase cash , 4 + ! ! & 3 " / 0 & # 6 0 0 " 1 0 & + " & & " + 1 * + + " /
Charitable Lead Trust	Charity receives current cash , 4 ! , + , / , / ! " 0 & $ + 1 " ! heirs receive assets at trust 1 " / * & + 1 & , +)) , 4 0 # , / 0 & $ + 1 5 ! " ! 2 1 & , + , / 1 5 " & & " + 1 wealth transfer	" . 2 & / " 0 + + 2) ! * & + & 0 1 / 1 & , must be established as a grantor trust to qualify for income tax deduction	Financially secure individuals who wish to transfer wealth to % " & / 0 & + 1 5 " & & " + 1 * + + ! - / , 3 & ! " 2 / / " + 1 0 % , 4 a charity
Donor-Advised Fund	Easy to establish and * & + 1 & + &) & 1 6 1 , - / 1 & 2 &) & 1 " ! % / & 1 & " 0 # , / & + ! & 0 1 / & 2 1 & , + ! " & 0 & , + 0 treated as a public charity for deductibility purposes	Requires donors to recommend grants, limiting control over management and administration	Individuals who do not require income from donated assets and would like to avoid the cost and administration of a private foundation
Private Foundation	Creates an entity that can be + * " ! " / 1 % " # * &) 6 # , 0 1 / 0 continued family involvement and control	" . 2 & / " 0 + + 2) ! * & + & 0 1 / 1 & , investment income may be 0 2 ' " 1 1 , " 5 & 0 " 1 5 limitations are more restrictive 1 % + 4 & 1 % $ & 0 1 , - 2) & % / & 1 & " 0	Individuals who do not require income from donated assets and are interested in fostering family involvement with greater control

Navigating Your Way to the Next Level of Wealth

The sale of a business or a recapitalization can often elevate an entrepreneur to a dramatically higher level of wealth. This transition creates a new set of opportunities, as well as some challenges that need to be addressed.

Completing a transaction involves a significant amount of planning and effort by you and your team of advisors. But what happens once a transaction has been closed and the proceeds have been received? Then, it is time to shift your attention to managing your wealth in a way that allows you to achieve your goals.

Planning Ahead to Post-Transaction

After a transaction closes, one of the biggest priorities you face is using the proceeds to create a diversified portfolio that generates a "paycheck" that will support your lifestyle needs and provide adequate growth. If you still have an equity stake in the company, your asset allocation should account for this concentrated equity exposure. If the transaction has an earn-out component, the range of potential cash flows generated by the earn-out needs to be forecasted and factored into the liquidity planning. Depending on the timing of a close, there may be an opportunity to generate some interest on the amount earmarked for taxes. Your planning also needs to account for any large one-time purchases you wish to make soon after the transaction.

Assessing New Investment Opportunities

When you reach the next level of wealth, you may have more opportunities to invest in institutional-level asset classes, such as private equity, venture capital, real estate, or investing directly in start-up businesses. Relative to traditional asset classes, these alternative investments are much less liquid and require a more rigorous level of due diligence and tax planning. Similarly, at larger asset levels, pre-packaged investment products, including mutual funds, may be less desirable relative to customized portfolios of securities, which offer improved tax efficiency and lower expenses.

Managing Greater Personal Risk

In addition to increasing your family's net worth, a large liquidity event may also increase your family's risk profile. After a transaction, you should conduct a comprehensive review of your insurance policies to ensure that the coverage, particularly in terms of liability, aligns with your new financial position. You should also review and enhance your personal security and cybersecurity protocols because a high-profile transaction may make your family more vulnerable to identity theft and other crimes. Conversely, certain insurance coverage, including life insurance policies, may no longer be needed due to the net proceeds from the transaction.

Choosing the Right Advisor to Help You Manage Personal Wealth

The vast majority of business owners already have an established relationship with a financial advisor by the time a transaction occurs. In many cases, however, the wealth-management, risk-management, and tax-management considerations that come with a major liquidity event require a higher level of sophistication and the ability to take a comprehensive view of your total wealth profile. It may be beneficial to work with a wealth advisor who can coordinate the efforts of your tax, legal, and insurance advisors. It is also important to seek the counsel of an advisor who has experience working with business owners to help them navigate the many decisions that go into managing the wealth generated by a liquidity event.

At William Blair, we are committed to helping business owners evaluate their options and capitalize on the opportunities created by the success of their companies. As a privately-owned global asset management and investment banking firm, we are uniquely positioned to guide business owners through the investment banking and wealth planning aspects of selling a business or completing a dividend recapitalization. Contact your William Blair wealth advisor to get started. Visit to learn more.

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