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# Time to Figure Out What You Need From the Sale of Your Company

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Most owners think they know how much money they will need to “retire” comfortably. Most owners are wrong.

Owners start with the less-than-realistic assumption that they will receive all cash at closing for the sale of their companies. Yes, some owners receive a great deal of cash at closing. Nearly all, however, are subject to various earn-outs designed, by buyers, to make sure that all of the seller’s predictions about growth in future income/profits/margins are correct. Earn-outs also can be used to protect buyers from the downside: e.g. a sudden loss of a major customer or a rejection of a patent application. In addition to earn-outs, most owners must carry back debt — an installment note from the buyer to the seller for a varying portion of the purchase price.

The second miscalculation owners make is the return they will receive on the funds they invest. Perhaps owners, now sobered by the plunge in the stock market, will align their expectations better with reality. That remains to be seen. Over time, however, owners err on the side of optimism (or wishful thinking) when contemplating rates of return.

The third most common error owners make when calculating the amount they’ll need from the sale of their companies is to underestimate the amount they will need, on an annual basis, to live. They expect that they’ll require less cash than they need today. Do those owners plan to stay at home for the rest of their lives? What do they say to their spouses who have a pent-up desire to travel? Few owners are wired to putter around the yard or the house, or are content with television and trips to the library. Few owners work as hard as they must to be successful to be satisfied with anything less than an active post-sale life.

A skilled financial advisor can help owners to avoid these common mistakes. Financial advisors have estimators that take into account fluctuations in a variety of variables so that you can project best, probable, worse, and worst-case scenarios.

Once owners have accurate estimates of their post-ownership needs/wants, they can then determine if the value of their companies support those needs. As the stock market plunges and business values drop concurrently, more and more owners are learning that they simply *can't afford* to leave.

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