

Post-sale cash flow planning

After the exit, how will owners fund their lifestyles and long-term goals? **Interviewed by Kristen Hampshire**

Adjusting to life after the sale of a business requires a mindset shift. First, there is no longer a paycheck if the business was sold in its entirety — and if owners are still collecting a salary, it is likely modest in comparison to previous earnings. Secondly, time dedicated to company matters — which was most of the time — is now free and open for fresh pursuits. Expenses that were once run through the business now fall on personal tabs. Now that the business is sold, owners need a cash flow plan for life.

“There are transitions that are natural after the sale of a business,” says Joel J. Guth, an advisor with Citi Family Office. “Owners may move to a new area, buy a second home, travel extensively or purchase some kind of toy — a boat, a plane, cars.”

What’s more, they will want to continue gifting, perhaps establish a public legacy, and fund trusts for children or grandchildren. All this must be figured into a detailed budget so they can invest assets wisely to ensure adequate cash flow to fund the desired lifestyle.

In the first of four installments on planning after a business sale, Guth addresses cash flow planning strategies.

How do cash flow needs change once a business is sold?

Owners’ lives change dramatically after a sale. While running the business, they did not have as much free time to spend money. That explains why we may see clients’ spending increase 50 to 100 percent a year. They buy vacation homes and spend money decorating them. They buy toys they didn’t have time to use before. They can no longer run expenses through the business, so the \$250,000 they spent each year maintaining their lifestyles jumps to \$400,000 even without adding luxuries. All this adds up.

What common mistakes can owners make when managing their personal cash flow?

Many owners neglect to account for large expenditures, or they make spontaneous purchases, so they must sell assets to pay for them. On the other hand, it’s no better when owners are frugal but maintain so much liquid money that they don’t increase the value of their investments. Owners must strike a



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balance, and doing so requires an accurate estimate of cash flow needs.

Another common mistake is not anticipating the timing of cash flow needs. For example, owners who know they will make a significant gift each October should plan to have the cash on hand at that time. Otherwise, they will scurry to liquefy assets in time.

Finally, as previously discussed, owners must now cover personal expenses that they once ran through the business.

What are the first steps to creating a cash flow plan?

Owners must paint a picture of what their lives will be like after the sale. Will they spend half of their time in Ohio and the other part of the year in Florida? If so, will they fly privately between homes? What will property taxes cost in Florida? Will they hire professionals to manage landscape or housekeeping matters? How much will they donate to various charities, and will they fund trusts for other family members? What lifestyle expenses must they afford each year? What are their new hobbies, and how much will they spend on them?

This process is similar to creating an annual budget for a business, except the line items apply to the owners’ lives. The goal is to come up with a number, so owners can build an annual budget.

What asset management strategies should owners consider?

Some owners are worth nine figures and, because of their lifestyles, they keep their assets very liquid and short-term. Others are worth \$25 million, and they keep little liquid because they don’t spend as much and prefer to grow principals. Owners must base asset management strategies on that magic number they figure after creating a cash flow plan.

Next, owners must consider their level of risk. Typically, clients will divide investments into two groups: one liquid or cash equivalent group to finance immediate cash-flow needs and an ‘at-risk’ group to take advantage of potential opportunities that the market and global economy present. The riskier group is invested over a greater time horizon to fund long-term goals like funding large charitable contributions or assisting children.

The ultimate goal is to help ensure that liquid assets are always available to fund the lifestyles and long-term goals of owners as they pursue the next chapters in their lives.

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