

SAVVY ENTREPRENEURSHIP

13

Time to Move On

LEARNING OBJECTIVES

- Determine the value of a business
- Transfer ownership of a business to a buyer
- Transfer ownership of a business to a family member
- Close out a business completely

Case Study: Willa Decides to Sell Cone Crazy



Cone Crazy, under the ownership of Willa, has been running for five years. Willa has learned much about business, about the ice cream industry, and what it means to be a business owner.

This experience has exposed Willa to new opportunities. She's decided to start looking for buyers for Cone Crazy.

What Is a Business Worth?

Many ways to value a business:

Market Capitalization	Book Value	Times-Revenue
<ul style="list-style-type: none">• Corporations• Sum of the value of outstanding shares• Downside: Doesn't account for intangible assets (goodwill)	<ul style="list-style-type: none">• All business structures• Removes value of liabilities from value of assets	<ul style="list-style-type: none">• Determines value as a factor (multiple) of sales revenue for a set period• Negotiable• Factor is computed from trends, data, intuition

What Is a Business Worth? (cont.)

Many ways to value a business:

Earnings Multiplier

- Similar to times-revenue
- Determines value as a factor of net income for a set period

Discounted Cash Flow

- Projects future cash flow earnings based on historic cash flows
- Uses a time-value-of-money multiplier

Liquidation Value

- Common for retailers
- Value of assets, inventory, and equipment that can be sold immediately, minus the value of liabilities

Goodwill

- Important factor when determining the value of a business
- Assumed value of:
 - Existing customers
 - Brand recognition
 - Supplier relationships
 - Value to the local community and beyond

Listen to the discussion
“Vermont Glove
Company.”



Transferring Ownership to a Buyer

Business structures transfer ownership differently

- LLCs
 - Via operating agreement
 - Or dissolve and start anew
- Corporations
 - New equity owners buy all shares
- Sole Proprietorships
 - New owner buys the inventory and equipment and perhaps goodwill

Transferring Ownership to a Buyer (cont.)

1. Determine a value for the business
2. Craft a buy-sell agreement
 - List assets
 - Include all LLC members' (or similar) signatures, other relevant information
3. Notify registration agency of sale
 - Secretary of state (usually)
4. Notify IRS
 - EIN with LLC ceases to exist
5. Inform banks, suppliers, stakeholders

State of _____

BUY-SELL AGREEMENT

This Buy-Sell Agreement (this "Agreement") is made as of this ____ day of _____, 20____ (the "Effective Date"), by and among _____ [Company name], a _____ [State] corporation located at _____ [Address] (the "Company") and each of the individuals listed on Schedule A attached hereto (each a "Shareholder" and collectively, the "Shareholders").

ARTICLE I PURPOSE

1. **Shares.** The Shareholders own all of the outstanding shares of the Company (the "Shares") in the amounts outlined in Schedule A.

2. **Purpose.** The Shareholders have entered into this agreement to: (Check all that apply)

- ☐ Restrict the transfer of the Shares by Shareholders
- ☐ Ensure any sale of the Shares is in accordance with established procedures
- ☐ Provide stability and continuity in the management of the Company
- ☐ Maintain ownership or control of the Company
- ☐ Create a market for Shareholders to sell Shares
- ☐ Determine how Shares will be transferred in the event of a death, disability, or other involuntary transfer of Shares
- ☐ Set an estate tax value for a deceased Shareholder's Shares
- ☐ Establish an accepted purchase price for Shares
- ☐ Other: _____

ARTICLE II RESTRICTIONS ON TRANSFER

1. **Restriction on Transfer.** Except as permitted in this Agreement, the parties will not sell, transfer, pledge, assign, hypothecate, encumber or alienate (each a "Transfer") any of the Shares. Any Transfer not in accordance with this Agreement shall be void.

2. **Certificates.** (Check one)

- ☐ Not applicable.
- ☐ All certificates representing the Shares now owned or hereafter acquired by each Shareholder shall have the following legend conspicuously printed on its face:

Transferring Ownership to Family

Many businesses have transferred this way:

- Walmart
- Nike
- L'Oréal
- Ford



Transferring Ownership to Family (cont.)

- Sale method
 - Most lucrative for seller (usually the older generation)
 - Sale can be done in lump sum or over time
- Gift method
 - Via stock shares, business assets, inclusion in LLC
 - Seller does not receive capital
 - There can be tax implications for the gift giver

Transferring Ownership to Family (cont.)

- Employee stock ownership plan (ESOP)
 - Family gains ownership via retirement accounts
 - Shares held in trust
 - Ownership not limited to family employees
 - Company still run by a board, but ultimate ownership is transferred
- Trust method
 - Older generation retains ownership until death
 - Or at a set time in the future
 - Involves buy-sell agreements, tax implications, etc.

Closing the Doors



Closing a Corporation

- Obtain written consent from IRS
- File a certificate of dissolution
 - Dissolution can be forced on shareholders if corporation does not file taxes for two consecutive years

 **NEW YORK**
STATE OF OPPORTUNITY.

**Division of Corporations,
State Records and
Uniform Commercial Code**

New York
Department of
DIVISION OF CORPORATIONS,
STATE RECORDS AND
UNIFORM COMMERCIAL CODE
One Court
99 West
Albany, NY 12242
https://www.dos.ny.gov

**CERTIFICATE OF DISSOLUTION
OF**

(Insert Name of Corporation)

Under Section 1003 of the Business Corporation Law

FIRST: The name of the corporation is:

If the name of the corporation has been changed, the name under which it was formed is:

SECOND: The certificate of incorporation was filed with the Department of State on:

THIRD: The name and address of each officer and director of the corporation is:

Closing a Limited Liability Company

- Obtain agreement from all LLC members
- Settle all debts
- File a certificate of dissolution
- Notify banks, lenders, and other formal agencies
- Liquidate all assets
- File final tax return

CHAPTER SUMMARY

- There are different ways to determine the value of a business: market capitalization, book value, times-revenue, earnings multiplier, discounted cash flow, and liquidation value.
- How ownership can be transferred to a new buyer depends on the business structure.
- Transferring ownership to a family member can involve sale of the business, gifting, establishing an ESOP, or forming a trust.
- Similar to the steps for selling a business, the steps for closing a business depend on its structure.