



DEALER EXIT PLANNING ASSOCIATES
PROTECTING FAMILY, BUSINESS & OWNERSHIP

An Estimate of Future Company Cash Flow

Cash flow is one of the most important factors in a business exit. Today, we look at why securing a professional estimate of your company's cash flow is crucial to the success of your Exit Plan. All buyers, whether an outside third party or an insider (family member, co-owner, or key employee), will use cash flow as a way of measuring or confirming the value of the companies they buy.

While there are many definitions of cash flow, the one that we often use is *free cash flow*. Free cash flow is the portion of the annual net cash flow from operating activities that remains available for discretionary purposes after the business has met its basic financial obligations. In this discussion, the "discretionary purpose" is the buyer's purchase of or return on investment for the owner's interest in the company.

If you are contemplating a sale to insiders, remember that they likely do not have enough cash to finance the purchase. *It may be the future cash flow of your business (once you leave it) that funds your buy out.* As you can see, in transfers to insiders, cash flow can be both the measure and the means of ownership transfer. As such, it is important to estimate future cash flow as accurately as possible. This is not a "back of the napkin" exercise; a thorough analysis will give you more confidence in your plans for the future.

Once you have an accurate professional estimate of future cash flow, you can assess various Exit Paths, and your advisors can design an exit strategy that puts as much of that cash flow as possible in your pocket. Accurate cash flow estimates can also minimize the taxes you pay upon an ownership transfer. Remember, every dollar the IRS takes is one dollar less paid to you, regardless of whether the buyer or seller pays the tax.

Let's assume for a moment that the company's cash flow estimate indicates that it cannot support all of your Exit Objectives. You will then explore alternatives to your original plan and answer important questions:

- Should you delay your departure date?
- Should you focus your attention on a third-party sale and, if so, are a higher purchase price and/or more cash upfront possible?
- Should you shift your focus to building cash flow and business value before you begin to sell ownership?

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Securing an accurate estimate of future cash flow can help prevent you from choosing a dead-end Exit Path. It can give you confidence that you are on the right track or uncover areas that require more work before you can exit the business. For most owners, calculating estimated future cash flow is an integral part of creating a successful Exit Plan.

For more information about obtaining an accurate cash flow estimate, contact us today. We can help guide you through the process.

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