



BUSINESS SUCCESSION PLANNING

Begin at the end

What does life *after* a life in business look like?

Here's a surprising but prudent business axiom: No matter your age or how long you've been in business, you should always know how much cash flow it would take to fund your desired lifestyle if you had to exit tomorrow.

Not only is this because "50 percent of all business exits are involuntary and forced on the business owner by external factors."¹ It's also just savvy business management: over time, it could lead you to rethink your business's working capital strategy — or even some of your operational or marketing initiatives.

So what's the first step?

We recommend you begin at the end. Because looking at where you want to end up — the lifestyle you want after you exit, for the rest of your life and perhaps for future generations — will help determine when and how you do it.

Knowing what it will take to fund your post-exit lifestyle allows you to grow and shape your business deliberately, building value steadily and positioning yourself for a strong transaction when the time comes.

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Plan to avoid regret

The harsh reality is that 75 percent of business owners “profoundly regretted” selling their business a year later.² This can be caused by feeling a lack of purpose, a loss of status, or simple boredom after an exit.

But regret often comes from poor planning before a sale and receiving less than expected after the sale to maintain your lifestyle.

Underestimating the amount needed and the overall importance of maintaining material well-being is a common pitfall that many owners fail to think through. While Americans rank family and friends as the top two factors that make life meaningful, they rank material well-being third,³ highlighting its importance.

And “according to most financial advisors, an owner’s business wealth is usually 80 to 90 percent of their overall net worth.”⁴ Given that, imagine the profound regret an owner would feel if the proceeds from selling (or transitioning away from) their business didn’t provide sufficient resources to support their goals and plans for the future.

**Research shows
75 percent of business
owners “profoundly
regretted” selling
their business
12 months after
finalizing the deal.²**

What Makes Life Meaningful? Views From 17 Advanced Economies

| | 1st Choice | 2nd | 3rd | 4th | 5th |
|-------------|---------------------|---------------------|---------------------|--------------------------------------|-----------------|
| Australia | Family | Occupation | Friends | Material Well-being | Society |
| New Zealand | Family | Occupation | Friends | Material Well-being | Society |
| Sweden | Family | Occupation | Friends | Material Well-being/Health | |
| France | Family | Occupation | Health | Material Well-being | Friends |
| Greece | Family | Occupation | Health | Friends | Hobbies |
| Germany | Family | Occupation/Health | | Material Well-being/General Positive | |
| Canada | Family | Occupation | Material Well-being | Friends | Society |
| Singapore | Family | Occupation | Society | Material Well-being | Friends |
| Italy | Family/Occupation | | Material Well-being | Health | Friends |
| Netherlands | Family | Material Well-being | Health | Friends | Occupation |
| Belgium | Family | Material Well-being | Occupation | Health | Friends |
| Japan | Family | Material Well-being | Occupation/Health | | Hobbies |
| UK | Family | Friends | Hobbies | Occupation | Health |
| US | Family | Friends | Material Well-being | Occupation | Faith |
| Spain | Health | Material Well-being | Occupation | Family | Society |
| South Korea | Material Well-being | Health | Family | General Positive | Society/Freedom |
| Taiwan | Society | Material Well-being | Family | Freedom | Hobbies |

Source: Pew Research Center, Spring 2021 Global Attitudes Survey. Q36. “What Makes Life Meaningful? Views From 17 Advanced Economies”

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Plot your future lifestyle

Before focusing on how much you'll need to fund it, decide how you want to live post-exit.

Think about today: What do you enjoy doing in your spare time? What activities do you wish you had more time to pursue? What causes are you passionate about? What is your big dream?

Think about your family and what they will need and want. Do you have children that may need financial support well into adulthood? Think about what kind of legacy you'll want to leave for future generations.

Perhaps making a social impact is important to you and philanthropy is part of your plan.

And although it may be difficult to think about, factor in life's difficulties, such as illness requiring long-term care or a possible premature death. We can't know what the future holds but considering these possibilities now can help ensure you are better prepared to handle them financially later on.

Determine what you'll need to fund it

Once you've figured out what you want life post-exit to look like, the next step is assessing how much you'll need to fund it — and thus what you'll need to make on the sale or transfer of your business.

By completing a comprehensive financial plan, you can determine the amount of income necessary to maintain your and your family's desired lifestyle. That is, the amount you would need to invest in a portfolio of securities to generate the cash flow necessary to support that lifestyle.

Selling your business may generate a significant amount of cash, but how much do you have now and how much will you actually receive? Will it be enough? How much total will you have to invest in different types of income-generating assets, securities, tax-advantaged accounts, and other vehicles that can help you meet your needs?

It's also important to think about how you'll replace the income the business currently provides, and how it will change your lifestyle and financial plan moving forward.



Pretend it's a Wednesday afternoon, six months following the sale, your perfect day in "retirement": Where are you? What are you doing? Who are you with? What does it cost?

Begin at the end

In the end, you must answer this question: How much must I receive from the sale of my business that, when added to my non-business financial resources, will be sufficient to support my and my family's lifestyle, now and in the future, while also providing for other financial goals and objectives?

How Much Do You Need?

This table indicates how much you would need to invest **assuming a 5.5 percent average rate of return** to support different lifestyle costs. It shows a fixed return on investment (a linear analysis) and does not consider market fluctuation or inflation.⁵

| For an annual income of this... | ...you'd need to invest this |
|---------------------------------|------------------------------|
| \$250,000 | \$5,000,000 |
| \$500,000 | \$9,000,000 |
| \$750,000 | \$13,000,000 |
| \$1,000,000 | \$17,000,000 |
| \$1,250,000 | \$23,000,000 |

Source: PNC Private Bank

Investment returns are hypothetical and may not reflect actual market returns. Your return on investment is dependent upon the assets that you own. For purposes of this illustration, all taxes are included in the lifestyle cost amount. Your tax liabilities are dependent upon many factors, none of which are illustrated. PNC does not provide legal, accounting or tax advice. Consult your attorney, accountant, or other tax advisors for tax advice.

One of the best ways to know how the sale of your business will impact you is to prepare a comprehensive analysis that profiles how your business valuation, revenues, cash flow, and assets combine with retirement income, taxes, and lifestyle today to project the cost of different future scenarios — and how to fund them.

These insights may lead you to rethink your business strategies, for example working capital, potentially relocating some business assets from the company to your personal balance sheet over time. These assets can provide you with more flexibility when the time comes to negotiate the selling price.

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Don't go it alone

Whether you're thinking about selling your company, haven't thought about it yet, or don't even know where to start, we know one thing is certain — whether voluntarily or involuntarily — every business will transition someday.

To get a head start, you can leverage your current Commercial Business team relationship and work with PNC's Business Owner Solutions Group in our Private Bank. A dedicated advisor will lead you through all of these important exercises and steps. By creating a comprehensive plan, you can gauge the sale, income and savings needed to realistically meet your desired lifestyle and other goals. We're here to help all along the journey.

To start the conversation, contact your PNC representative.



Business owners are increasingly realizing they need expert guidance for succession planning.

Percentage of owners who completed a formal pretransition value enhancement or due diligence project:

2013

14%

2023

62%

Source: Exit Planning Institute, 2023 National State Of Owner Readiness Report

1 Exit Planning Institute, The 5 D's, 2020. The 5 Ds refer to certain external factors that can force the transition of a business. The 5 Ds are Death, Disability, Divorce, Disagreement (among various contingencies), and Distress (in the business).

2 Exit Planning Institute, *The State of Owner Readiness Survey 2013 National Survey Final Report* (2013), updated 2016. Also, Exit Planning Institute, *Walking You Through the Perfect Exit*, p. 5.

3 Pew Research Center, Spring 2021 Global Attitudes Survey. Q36. "What Makes Life Meaningful? Views From 17 Advanced Economies"

4 Exit Planning Institute, *Walking You Through the Perfect Exit*, p. 6.

5 To model the potential impact of random variables upon an investment portfolio, including market fluctuation (dynamic investment returns and volatility) and inflation, your financial plan should include a so-called Monte Carlo analysis, also known as a multiple probability simulation.

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