Business Owner Tools

Liquidity Event Readiness Checklist

A practical worksheet for owners considering a partial sale, recapitalization, strategic investment, family transition, management buyout, ESOP, or other liquidity event.

THE OFFER IS NOT THE OUTCOME.

The outcome is what remains after considering taxes, debt, rollover equity, earnouts, escrows, your lifestyle needs, family goals, and the direction you want your next chapter to take.

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HOW TO USE THIS TOOL

1. Check the boxes below that describe your situation and complete the scorecard.
2. Use the worksheet to separate the headline transaction number from the amount that may actually be available to support your life.
3. Share it with your CPA, attorney, banker, transaction advisor, and wealth advisor before signing a letter of intent or making family promises.
4. Print it, save it, and/or bring it to your first planning conversation.

Return on Life Wealth Partners does not provide legal advice. Legal and tax advice should be obtained from qualified legal and tax professionals.

WHAT IS A LIQUIDITY EVENT?

A liquidity event is any event that turns part of your business value into usable capital. It does not have to mean selling 100% of the company. Liquidity events take many forms, each of which carries its own set of risks, potential opportunities, and important considerations.

START HERE: What do you want liquidity to do?

Check all that apply. *(Business owners commonly cite more than one reason.)*

- ☐ Unlock a portion of equity while continuing to work in the business.
- ☐ Diversify personal net worth if too much wealth is tied to the company.
- ☐ Reduce personal guarantees, debt exposure, operational pressure, or business risk.
- ☐ Create a succession path for family, key employees, or management.
- ☐ Bring in growth capital, strategic expertise, technology, distribution, or scale.
- ☐ Fund retirement, lifestyle goals, travel, philanthropy, or family support.
- ☐ Respond thoughtfully to inbound interest from private equity, competitors, customers, or strategic buyers.
- ☐ Retain employees.
- ☐ Preserve company culture, community impact, or family legacy.
- ☐ Separate real estate or other assets from the operating business.
- ☐ Free up more time, attention, and emotional energy.

Three years after a liquidity event, I would define success as follows:

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1. What type of liquidity event are you considering?

Check all that apply.

- ☐ Full sale or majority sale
- ☐ Minority or partial sale
- ☐ Private equity recapitalization
- ☐ Strategic investor or partner
- ☐ Dividend recapitalization or debt-funded liquidity
- ☐ Management buyout
- ☐ Employee stock ownership plan (ESOP)
- ☐ Family ownership transition
- ☐ Shareholder buyout or redemption
- ☐ Sale-leaseback of business real estate
- ☐ New partner buy-in
- ☐ Not sure yet - exploring options

Where are you in the process?

Check all that apply.

- ☐ Just starting to explore options
- ☐ I have engaged in informal conversations
- ☐ A buyer or investor has approached me
- ☐ I have received an indication of value or offer
- ☐ A letter of intent is being discussed
- ☐ Due diligence has started
- ☐ Closing is expected within 6 months
- ☐ The event already happened and I need a plan

BEFORE THE CONVERSATION ACCELERATES

Clarity is critical for making decisions aligned with your goals, values, and business objectives. Take time to document what you would like a liquidity event to accomplish for you, what you are not willing to compromise, and which decisions require input from your spouse, family, partners, or leadership team. Remember, speed is useful only when clarity comes first.

2. The 10-point liquidity readiness scorecard

This is not a pass/fail test. It is a planning map to assist in evaluating personal and business readiness. Check the appropriate box for each answer and use the notes line to elaborate, as needed. See the following page for "how to read your score."

1. **I know my personal "enough" number - the amount needed to support my life after taxes and following the deal.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
2. **I have a recent valuation or realistic range for what the business may be worth.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
3. **My financials are clean, and major add-backs or owner expenses are documented.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
4. **I understand possible deal structures: cash at close, rollover equity, seller note, earnout, or installment payments.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
5. **My CPA has modeled likely taxes and timing scenarios before I rely on a headline offer number.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
6. **My estate, gift, and charitable planning have been reviewed before a potential jump in value or transaction date.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
7. **My operating agreement, buy-sell agreement, shareholder documents, and key contracts have been reviewed.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
8. **My wealth advisor, CPA, attorney, banker, and transaction advisors are coordinated, not working in silos.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
9. **I have a plan for post-event cash flow, tax reserves, investing, debt, and near-term spending.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________
10. **I have thought through family communication, employee impact, my future role, and what I want my next chapter to look like.**
   ☐ Yes ☐ No ☐ Not sure Notes: ____________________

HOW TO READ YOUR SCORE

Yes = 2 points. Not Sure = 1 point. No = 0 points. 16-20 suggests a stronger planning foundation. 9-15 suggests several common gaps to address. 0-8 identifies an opportunity to address fundamentals before a buyer, lender, or family deadline controls the calendar.

The scorecard framework is provided for illustrative purposes only and should not be interpreted as predictive of transaction success, business value, liquidity outcomes, or planning effectiveness. It is solely an educational planning tool and not an assessment, rating, certification, or indication of transaction readiness.

3. Gross-to-net proceeds worksheet

A common mistake business owners make is treating the headline offer as the amount available for retirement, family, philanthropy, and/or lifestyle goals. Use this worksheet to help determine the likely spendable, investable, and flexible capital.

Line Item	Estimated amount	Notes / questions to ask
Headline transaction value	$	What assumptions are included in the proposed top-line number?
Less: business debt or required payoffs	$	What, if any, debt must be repaid at closing?
Less: transaction expenses	$	What are the proposed legal, accounting, investment banking, valuation, advisory, and related transaction costs?
Less: estimated taxes	$	Federal, state, local, payroll, depreciation recapture, and other tax considerations may apply.
Less: escrow, holdback, working capital adjustment or indemnity reserve	$	Consider how much may be delayed or at risk after closing.
Less: rollover equity or proceeds not liquid today	$	Will a portion remain tied to future company performance?
Less: seller note, earnout, or installment payments	$	What is guaranteed, what is contingent, and when should you expect payment(s) to begin?
Less: personal tax reserve and near-term cash reserve	$	How much must remain in reserve to pay taxes, prior to investing or spending?
Estimated net available liquidity	$	Does this number align with your expectations for the transaction?
Amount needed for financial independence	$	Does this number adequately address your personal lifestyle needs and goals?
Potential gap or surplus	$	Overall, how does the transaction support the life you envision?

HYPOTHETICAL: THE $10 MILLION DEAL THAT WAS NOT A $10 MILLION PAYDAY

In this hypothetical example, an owner receives a $10 million headline offer. The deal is structured as follows: $2 million is rollover equity; $1 million is an earnout; $1.2 million pays debt and transaction costs; $1.8 million is reserved for taxes; and $500,000 is held back in escrow. As a result, the liquid amount available at closing may be closer to $3.5 million than $10 million. That doesn't mean the deal is bad. It simply means planning must be based on the net number, not the headline number.

Hypothetical examples are for illustration only and are not representative of any specific client, transaction, or outcome. There is no guarantee that any planning strategy will achieve its objectives or avoid losses.

Questions to ask before relying on any offer number

- How much cash is actually paid at closing?
- How much is contingent on future company performance?
- What taxes are due, and when are they due?
- What risks remain after closing through indemnities, escrows, guarantees, or seller financing?
- What portion of my wealth will still be concentrated in the same business, industry, or buyer?
- How much is left to support my future lifestyle goals?

4. Advisory team and document organizer

Liquidity events often move quickly and can be highly emotional. A valuable step you can take early in the process is to assemble your team of professional advisors, such as the specialists listed below. By bringing professional legal, tax, financial, and other advisors into the conversation before a transaction is imminent, owners may have more flexibility to explore options, evaluate risks, and consider strategies that may not be available later in the process.

Advisor / specialist	Name / firm	Key questions they should help answer
Wealth advisor / financial planner		Does the liquidity event support my personal goals, cash flow, risk tolerance, and next chapter?
CPA / tax advisor		What is the likely tax impact? What planning should occur before closing and when will taxes be due?
Transaction attorney		What terms, liabilities, warranties, escrows, indemnities, and deal protections require review?
Estate planning attorney		Should trusts, gifting, charitable planning, or family governance be reviewed before value changes?
Investment banker / M&A advisor		What is the market value, who are likely buyers, and what deal terms are realistic?
Banker / lender		How will debt, covenants, guarantees, or future borrowing capacity be affected?
Insurance / risk advisor		Do buy-sell, key person, liability, disability, life, and/or umbrella coverages need to be updated?
Family or business coach		How will family roles, employee communication, identity, and leadership transition be handled?

Documents to gather before the process accelerates

Business documents	Personal planning documents
☐ Last 3 years of financial statements and tax returns	☐ Personal balance sheet and cash flow needs
☐ Year-to-date financials and forecast	☐ Estate plan, wills, trusts, and powers of attorney
☐ Quality of earnings or add-back support	☐ Insurance summary and beneficiary designations
☐ Operating agreement, bylaws, shareholder agreements	☐ Charitable goals and donor-advised fund information
☐ Buy-sell agreement and key contracts	☐ Family governance notes or succession goals
☐ Debt schedules, guarantees, leases, and covenants	☐ Existing investment accounts and outside holdings
☐ Customer/vendor concentration and key employee summary	☐ Personal debt, real estate, and lifestyle commitments
☐ Intellectual property, licensing, and real estate records	☐ List of major goals for the next 3, 10, and 20 years

5. Planning timeline: What to do and when

Ideally, the time to plan for a liquidity event is before a buyer, lender, or family deadline creates urgency. Planning well in advance of a liquidity event allows business owners to evaluate potential outcomes before key decisions are made.

Timing	Business focus	Personal planning focus	Watch-out for
12-24 months before	Make sure financials are clean (accurate, organized, and up to date), document add-backs, reduce owner dependency, review customer concentration, update valuation range.	Clarify your "enough" number, update estate plan, review insurance, discuss family and charitable goals.	Waiting until an offer arrives may limit tax, estate, and deal-structure flexibility and options.
6-12 months before	Assess buyer or investor options, organize due diligence files, review contracts and debt, identify key employee issues.	Build a gross-to-net model, stress-test retirement and cash flow, align advisory team.	A high valuation can distract from structure, risk, and how much is actually liquid.
Offer or letter of intent (LOI) stage	Compare price, terms, holdbacks, earnouts, rollover equity, employment agreements, and post-close obligations.	Model after-tax proceeds, decision points, reserves, family commitments, and transition timing.	The LOI can set the tone. Do not assume "we will fix it later" is harmless.
0-90 days after closing	Clarify your ongoing role, reporting obligations, and earnout requirements.	Park cash safely, reserve for taxes, avoid major lifestyle decisions, update estate and insurance documents.	The first 90 days are not the time to fund every dream at once.
First year after	Monitor retained equity, seller notes, employee commitments, and post-close business risks.	Implement investment plan, revisit purpose, philanthropy, family governance, and next-chapter goals.	A liquidity event can solve one concentration problem while creating new tax, identity, and decision pressures.

HYPOTHETICAL: PLANNING BEFORE THE PHONE RINGS

In this hypothetical example, a second-generation manufacturer was not actively for sale, but an industry buyer started calling. Because the owner had already organized the company's financials, updated estate documents, clarified her cash flow target, and built a planning team, she was better positioned to evaluate the offer in a calm, clear, and disciplined manner. The deal still required negotiation, but the owner was not making life-changing decisions under duress.

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The one-year rule of thumb

If a transaction could potentially take place within the next year, treat planning as current – not someday. Generally, the earlier valuable conversations take place about taxes, estate planning, entity structure, family goals, and deal terms, the more options may be available to address these and other considerations before documents are signed.

6. What to avoid

Avoiding costly mistakes is critical when it comes to liquidity events. Fortunately, many common pitfalls can be avoided when business owners plan early and proactively. Below are common missteps business owners encounter and alternative practices to help head them off.

Common pitfalls	Why it matters	Alternative considerations
Confusing headline price with net proceeds	Taxes, debt, escrows, fees, rollover equity, and earnouts can change the real number	Build a gross-to-net worksheet before making life or family commitments.
Waiting to consult advisors until after the LOI is signed	Some planning options become harder once key terms and timing are locked in.	Bring wealth, tax, legal, and transaction advisors together early.
Letting the buyer control the calendar	Urgency can cause owners to accept terms without understanding personal impact.	Create your own decision framework and walk-away points.
Over-focusing on taxes alone	Saving taxes is valuable, but the lowest-tax deal is not always the best life outcome.	Seek to balance tax, control, risk, cash flow, family, employees, and future flexibility.
Ignoring emotional transition	Owners often underestimate the identity shift after taking equity off the table.	Plan for post-transaction role, purpose, schedule, family communication, and next-chapter leadership.
Making major purchases immediately	Liquidity can create decision fatigue and lifestyle whiplash.	Build in a cooling off period, establish a dedicated tax reserve, and commit to a written plan for both investing and spending.

7. Questions to answer before signing anything

1. What am I trying to accomplish: freedom, family transition, diversification, growth of capital, risk reduction, retirement, or other goals?
2. How much do I need after tax to feel financially independent, and how was that number calculated?
3. What portion of my proceeds is truly liquid at closing versus delayed, contingent, or reinvested?
4. What risks remain after closing, including guarantees, indemnities, earnouts, employment obligations, or customer concentration?
5. What should be done before closing for estate, gift, charitable, tax, and family planning?
6. How will this affect my spouse, family, employees, leadership team, and community commitments?
7. What decisions should I intentionally postpone until after the transaction settles?

8. My 90-day action plan

Action item	My answer / next step
One number I need to clarify	
One advisor I need to call	
One document I need to gather	
One family, partner, or leadership conversation I need to have	
One decision I should not rush	
Target date for a coordinated planning meeting	

9. How to use this checklist with us

This tool is designed to help organize our initial, no-obligation meeting and conversation. It is especially useful if you:

- Have been approached by a buyer, investor, private equity group, competitor, or family member.
- Are considering taking some chips off the table but do not want to exit completely.
- Want to know whether a partial sale, recapitalization, ESOP, or management buyout could support your personal goals.
- Are unsure how much you would actually keep after taxes, debt, fees, rollover equity, earnouts, and reserves.
- Want to prepare before the business, family, or market forces the timing of a transaction.

NEXT STEPS

Include your completed checklist or a short note about where you are in the process, and we can help you organize the right planning questions. Whether a liquidity event is years away or already under consideration, thoughtful preparation may help better position today's decisions to support tomorrow's objectives.

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