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Exit plans deserve more work in down economy

Retaining minority stake offers chance at 'second bite of the apple'

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Business owners who have concluded now is a good — or necessary — time to sell their companies can take a number of important steps to help them obtain a solid return, even in a down economy.

Brad Pursel, a principal at **Brown Smith Wallace** who focuses on exit strategies for business owners, said one option to getting something done without giving away the business for peanuts is to retain a minority stake.

The seller maintains part of the business and has the option to sell the remaining interest to the new majority owner at a later date for the price it would command at that time. This option may be appealing, Pursel said, because it's difficult to project future cash flow during uncertain times.

"It's a chance to take a 'second bite of the apple' and participate in future increases in the business, if the seller believes the company is undervalued today," he said.

Scott Soucy, partner with **Anders Minkler & Diehl** LLP, said another option is an "earn-out" sale, based on the future performance levels of the company, with additional purchase price paid to the seller. This often can bridge the gap between the seller's opinion of the business and the buyer's willingness to pay.

Even in a slumping economy, high-quality companies remain in demand, said Soucy, a former corporate chief financial officer who directs AMD's strategic and technology services groups. He suggested that owners looking to get out act the same way they would if they were selling a house.

"Stage it by using the time on the market to address issues that may need attention," he said. "Do systems need upgrading? Is it time to make product improvements? These are more long-term fixes aimed at a future sale, but if you have to sell now, try for a deal that gives the seller a long-term consulting agreement. This creates a win-win situation, providing additional compensation for the seller and help for the new owner in transition."

Daniel Raskas, partner with Rubin Brown, noted that the type of buyer makes a difference in the sale price of a business. He said finding a strategic buyer (as compared with a purely financial buyer) usually nets the seller more money. For example, a direct competitor may be willing to acquire a company just to take that competition out of play.

“Target your buyers. Your highest value is to sell to a strategic buyer,” said Raskas, who has sold one business and acquired six others during his career.

Soucy said strategic buyers have another reason they’re willing to pay a premium. “Usually they can find some duplication and eliminate it,” he said, thus saving costs on operating the business compared to what a different buyer would experience.

Regardless of the state of the economy, up or down, Raskas also advises business owners to assess the strengths of their companies.

“Determine its strategic assets, and its intangible assets, such as a respected name or brand,” he said. “These can be high value items to a buyer.”

Other practical, immediate steps that business owners can take include items as simple as upgrading their financial statement service, said Adam Herman, who heads the business valuation department of **MPP&W** PC as director of consulting services.

“Buyers are often larger, publicly traded companies,” he said. “A more thorough financial statement will present a better impression to prospective buyers, and adds a comfort level to banks” and others who may be financing the deal.

“Assess your financial condition now; try to get the company on a solid footing,” Herman said. “Focus on what you do best. Sometimes companies get spread too thin and lose sight of the value-drivers. Find inefficiencies and eliminate the products and services that aren’t performing. And don’t panic. Oftentimes, companies cut their sales and marketing efforts too soon.”

Rick Dickson, a principal in Sunbelt Business Brokers, which has two offices in the St. Louis area, said there is a higher number than usual of businesses now available for purchase, but that doesn’t necessarily mean the number of good businesses for sale has changed.

“Some of the businesses now for sale are not legitimately buyable,” he said, referring to companies with a negative cash flow that are going out of business, but are still trying to sell.

Dickson said his business is similar to what CPAs or consultants do in that both entities try to help the owners define the financial benefits of owning a business, and "make that as visible and understandable as possible."

Dickson and others noted that credit for buying businesses now is tight, but capital is available for purchase of successful businesses. "Private equity capital markets are more cautious now, but they're still looking for opportunities," he said.

Dickson foresees a slower time in 2009 as financial markets stabilize, with some economic improvement in 2010. But waiting too long to sell could be detrimental because as the baby boomers retire, the supply of businesses for sale likely will exceed the number of available buyers.

Herman said that 50 percent of small- business owners now are over age 50, and the average age of business owners when they sell their companies is 56.

"We are advising our clients to get ready now to sell," Dickson said. "If they sell in 2011 to 2015, they'll do better than if they wait longer."

For Sale

Tips on Offering a Business for sale:

- Prepare a marketing document describing the company and its industry to interested buyers.
- Do a thorough search for potential buyers. Use an introductory letter without revealing the identity of the firm for sale. This often can go to several hundred recipients or more.
- Suggest operational improvements to make the company more attractive to buyers.
- Conduct a thorough "self-reflection." Ask yourself why you are selling. Put yourself in the buyer's shoes: Ask what you would change if you were buying the company.
- Clean up what you have in terms of equipment, systems and procedures. Improve efficiency. Sometimes, when this is done, an owner reconsiders and decides not to sell.
- Examine whether it is imperative to sell now (realizing that it often can take months, or longer, to close a deal), or whether you should decide not to sell until the economy improves.

Gil Stuenkel is a St. Louis freelance writer.