

Exit strategy

2014 may be a good year to sell your business

INTERVIEWED BY ROGER VOZAR

When the recession set in a few years ago, companies saw their valuations decline as the money supply tightened and the acquisition market dried up. Business owners who put exit strategies on hold might find that now is a good time to revisit that option.

“Having worked in the private equity space, I’ve noticed that deal making has picked up. Owners should be looking at the values of their companies because they could be back at or even above previous levels,” says Bryan Graiff, CPA, CGMA, principal, Financial Advisory Services at Brown Smith Wallace and a specialist in transactions and business advisory services.

“The expectation from many experts is that 2014 should be a busy year for acquisitions, which makes it a good time to plan an exit strategy,” says Graiff.

Smart Business spoke with Graiff about exit strategies and the first step toward selling a business — a professional valuation.

What is the first thing a business owner should do to ensure a successful exit?

The first step would be to have a professional valuation report done to provide a measuring stick of what the business is worth. For an owner looking to exit in a few years, the valuation analysis is still worth doing since it can help identify value drivers you can focus on to improve the business and increase its future value.

Does that mean owners should have already done this if they want to sell now?

It’s not too late to start the process, have a valuation done and see if you want to sell your company. If the valuation is a number you’re willing to exit for, then you can take the next steps. But you may also find 2014 is a good year to reassess where you’re at and

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look at what can be improved in the next few years.

What if a company is in need of restructuring or on the verge of bankruptcy?

Some companies used resources to weather the storm, adding debt to survive, and could be headed toward restructuring or bankruptcy if sales continue to lag. It’s time to make improvements and bring in an expert adviser to develop a new growth or cost reduction strategy before it’s too late. The right strategy and execution plan will not only add value and increase investment options, but will comfort creditors and banks, showing that the company is serious about making improvements.

Will some owners sell now because values are back to pre-recession levels?

The future is always uncertain and every owner has different goals, but if an owner’s business is back to its pre-recession value or at a valuation level he or she is comfortable exiting at now, they should certainly consider the next steps.

What are the next steps if you decide to sell?

Plan and prepare before moving to market. Sit down with tax and estate planning professionals to discuss the effect a sale could have on the estate, and most importantly, fully understand what your goal

is in considering an exit strategy. If your goal is to exit for a certain amount of money and retire on a beach, that’s one thing. If it’s to sell a portion of your business, but still be involved in some capacity, that’s another. Regardless, if an exit strategy of some sort is desired, have a quality of earnings analysis performed on the historical financial statements that covers the last three years. Although a buyer will conduct its own due diligence, having a reputable firm do a quality of earnings analysis will add credibility and provide more substantiation to the valuation report, which will help support the basis for the asking price. It also might uncover issues that can be addressed before a buyer comes in. If a buyer discovers issues with financial information, it could kill the entire deal. Quality financial statements may not necessarily increase the sale price, but poor quality or inadequate information is almost sure to have a negative impact.

Once your financials are in order, find a reputable broker to market the business — they’ll promote a more competitive bidding process, which will drive up the sale price.

The next year will be pivotal. Business owners will better position themselves for whatever occurs by understanding the value of their company, conducting sound strategic planning and making business improvements. ●