

Implementing a Business Exit Strategy

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Business owners need to have a complete understanding of how to successfully prepare a business for sale, which will save time and reduce the stress that goes along with implementing an exit strategy. The process of selling a business is stressful unto itself, with due diligence activities, negotiations, and the disruption of the daily business operations too.

Realistic Expectations of the Business's Value

Business owners have personally vested interests in their company and therefore believe that their business must be worth an amount equal to their personal expectations. The reality is that business owners always believe that their business is worth more than what the market is willing to pay. When trying to determine the value of a business, owners only want to latch onto the valuation method that will provide them with the highest value. Owners of privately held companies like to compare themselves to multi-billion dollar, multi-national corporations and use the same valuation multiples those larger corporations use to acquire other publicly traded companies. At the same time, business owners often want to adjust or recast income or expenses to get the restated value of their business higher.

When business owners have a reasonable expectation of value, the probability of selling their business the first time they try to sell is greatly increased. Business owners can have a business valuation done to calculate the estimated value of a business years in advance of putting the business up for sale. A business valuation can provide an estimated valuation range and show owners how the value range was determined. If the owners believe that the potential sales price is too low then they can work to increase the business's value.

Business owners should understand that each business is unique and will be judged on its individual characteristics, both positive and negative. There is nothing worse during the sales process than for owners to come to the realization that their expectations of the business's value were unrealistic.

Proper Time Frame for Selling the Business

Selling a business takes time. It can take years to prepare a business for sale and then there is the added time, sometimes a year or more, to find a buyer. Business owners often mistakenly believe that there is a ready market for their company and that a potential buyer is just waiting for their particular business to come on the market. The idea of a quick time frame for selling a business may be fostered by the fact that

over the years owners have received numerous calls, inquiries, and letters in the mail offering to buy their business, or a competitor has just been sold.

The sale of a business can be influenced by many factors that are out of the owners' and the business's control. Outside factors may include a drop in the stock market, the lack of available credit to finance transactions, or the industry in which the business operates may be in turmoil. These types of factors and current market conditions can cause business owners to delay their plans to sell the business. A delay can provide additional time for owners to prepare their business for sale and receive a higher value in the future.

Owners of a small to mid-sized business need to understand that it costs just as much, or more, to sell their business and it may take longer to find a buyer as compared to a business with larger revenues. Large companies want to buy other large companies for the instant effect that the transaction will have on their revenue and the value of their business. Large businesses are very aware of the fact that it often takes the same amount or more of time, effort, and administrative expenses to buy a small business as compared to a larger business. Owners of small to mid-sized companies need to know that their business will sell with time, and that their time on the market can be twice as long as for a larger business within their industry.

Keep the Equity in the Business

Business owners want to have it both ways when selling their business: high value when they sell the business and to take all the cash out of the business during the years they operate the business. Some owners distribute a majority of the equity in the business on a routine basis through dividends or owner's draws and have the business pay for their personal expenses too. What these owners neglect to realize is that various methods of taking money out of the business are actually early distributions of their equity and reduce the business's value. Retaining working capital in the business is what adds value to the business over the long term.

When a business owner keeps the working capital (cash) in the business, it makes the business easier to run on a day-to-day basis. In turn, this allows the business to grow by having the working capital in the company to continually reinvest in the business's infrastructure and future growth. A business owner who has kept the working capital in the business will have good liquidity ratios and a strong balance sheet, thereby increasing the value of the business. Simply stated, a well capitalized business is easier to run and will sell for a premium, no matter what the economic conditions.

Own the Assets of the Business

A business that owns its assets, both capital assets and intellectual property, will be easier to sell. When a business leases its equipment or licenses its intellectual property from third parties, it can have problems selling because a third party actually owns the assets of the business. In addition, when companies that have large amounts of leased equipment or have licensed intellectual property liquidate their business, the value of the business will be substantially lower.

While leasing can be a viable option for a business, especially during the early years of operation, owners need to be aware that leasing equipment can mean paying for an asset twice: once during the term of the lease agreement and a second time to buy the asset at fair market value at the end of the lease term. Capital and operating leases can be difficult to transfer during the sale of a business without the lessor's approval, making the value of a business lower and harder to sell.

Intellectual property such as trademarks, patents, and copyrights which are owned by the business are easily transferred during a sale. Licensing agreements and contracts related to intellectual property that lack assignability clauses can be very difficult to transfer and may even require third party approval to transfer the rights so that an owner can sell the business. Therefore, it is important for an owner of a business with third party licensing or intellectual property agreements to have the rights to be able to transfer those rights during the sale of a business.

Have Professional Management in the Business

Some business owners erroneously believe that if their business is tied to them personally and is unable to operate without them, that they have a good business to sell. The problems start when the owner dies, has a long-term illness, or there is some other type of disruption that takes the owner away from being able to run the daily operations. A business can have very limited value when it is too closely tied to the owner. This is especially true of a professional service business that is known by the owner's name and reputation.

When a business has professional management throughout all levels of the organization it has a better chance of surviving and being sold in the event something happens to the owner. Buyers want to know that, if the business owner leaves after the sale, the business will still be able to operate. Professional management throughout the organization provides buyers with a safety net that will protect their investment after purchasing the business.

Prepare the Business in Advance of the Sale

A business that is run as if it is for sale every day has a great probability of selling and for a higher value. The business owner who has identified and resolved the problems that could prevent the business from selling or having its value reduced has a business that is prepared for sale.

Owners who have had their exit strategies in place for years in advance of selling the business have had a goal to work towards – selling their business for the highest value. Business owners who are well prepared to sell their business have a realistic expectation of their business's value because they have been able to determine the value numerous times over the prior years and understand how buyers will value their business. These owners are aware that selling their business can take a long time, so that time has been accounted for in their exit planning. The equity has been retained in the business, which has allowed the business to own its assets and take advantage of opportunities to grow. First and foremost, the business is ready to sell.

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