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Many factors go into deciding when to sell company

Start planning strategy early; make operations a focal point before exit

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Much has been written about the American Taxpayer Relief Act of 2012 and its impact on average wage earners. But for business owners nearing retirement, the issues are far more complicated. Tax rates are up, the pace of mergers and acquisitions is still down, and the gross domestic product shrank last quarter, which means many small businesses were less profitable—and are now less valuable.

Baby boomers, who are turning 65 at a rate of 10,000 per day, are estimated to own half of all small businesses in the U.S., and for many of those owners, the family business represents a significant portion of their net worth.


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Many owners in this position can only retire when they are able to complete a management transition that frees them from daily management tasks, and when the company's value is able to convert into sufficient after-tax retirement income to support their desired lifestyle. There are millions of business owners across the country and all around the Pacific Northwest that fit this profile. Right now, they are all asking the same question: "When is the right time to transition my company?"

There are no one-size-fits-all answers to this question. The ideal timing depends on how the company is to be transitioned and how important the resulting proceeds are in funding the owner's retirement, among other factors. In any case, business owners will find value in the following suggestions:

*Start planning now. According to a recent survey by TD Ameritrade, the average baby boomer is a half-million dollars short on retirement funds. To ensure that you are well positioned for the retirement you deserve, start planning early, especially if you are counting on the value of your company to fund a significant portion of your retirement.

•Develop your transition strategy. The financial, legal, and management issues will differ significantly depending upon whether your plans involve passing the company on to family members, transitioning it to employees, or selling it to a third party. Make sure you have evaluated every option because they each have advantages—and even the best laid plans sometimes need to change. Regardless, business owners that proactively develop and execute a transition plan can increase significantly the value of their companies, perhaps by 20 percent to 30 percent or more.

•Build your team. Engage a financial planner or a professional wealth manager to analyze your expected retirement expenses, estate goals, and philanthropic interests. Determine the type and level of assets required to support your goals. And talk to your CPA or tax attorney about the impacts of your transition strategy. If you are considering a third-party sale, start looking for an experienced merger-and-acquisition firm to help you through the process. The leading M&A firms are primarily paid on a success-fee basis and will provide past clients as references.

•Assess value. Make sure you understand the value of the business today, along with the factors that contribute to or detract from value. Recognize that valuations draw on a range of methodologies and often yield divergent estimates. If you plan to sell, the valuation should be based upon firsthand knowledge of the market conditions, which are driven by the acquisition appetites and strategies of acquirers.

•Evaluate taxes. Remember that taxes might take a significant bite out of your proceeds. Then again, they might not, depending on how the company is held and how a transition is structured.

•Don't worry about M&A statistics, even if you plan to sell. U.S. mergers and acquisitions made a historic run from 2002 through 2007, then slowed substantially as the economy softened in 2008. The subsequent recovery has been slow and uneven. Public company transactions, which dominate the published data, have been up and down, driven by the return of credit and economic optimism on the one hand and continued macro uncertainties on the other hand. Although there were fewer deals under $50 million in 2012 than in 2011, there were still thousands of completed transactions. And with fewer good companies for sale, strong companies attract the attention of prospective buyers and receive favorable pricing and tax treatment.

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•Focus on operations. In most cases, a company's own metrics are more important than the broader market conditions in assessing transaction timing. The ideal time to transition is when the business is growing, the team is stable, and the value is sufficient to support the owner's retirement goals. If you have time and energy, invest in business characteristics that add value. Some of these characteristics include established management, diversification of revenue, competitive or strategic advantages, and opportunities for growth.

•Develop a management-succession plan. A smooth transition hinges on reducing your day-to-day involvement while developing a team that's capable of successfully running the company after your retirement. Management succession doesn't happen overnight, so the key is developing and implementing your plan while you are still involved. In particular, consider how employees may be affected by your transition. Good employees are the most valuable assets in most companies. That's why it's so important to think through issues like employee incentives, retention strategies, and non-compete agreements.

•Scrutinize your own records. Company records in general, and financial statements in particular, take on new importance during any ownership transition. The perceived accuracy of your financials can have a significant impact on the value of your company, so make sure they are transparent and follow established accounting principles.

•Be wary of unsolicited buyers. Given the relative scarcity of attractive sellers, private equity firms are aggressively seeking potential acquisition targets. Their goal is to avoid competing with other would-be buyers for your business. And while their interest in your company is flattering, and their promise of confidentiality may sound appealing, your goals are often better served by evaluating other prospective suitors.

Business owners with successful companies and the desire to sell can always find demand. Buyers are attracted to profitable companies with strong gross margins, loyal customers, experienced employees and management, and attractive growth potential.

Manufacturing companies (especially those with proprietary products), business services companies with repeat clients, and distribution companies (particularly those with strong recurring revenue) often meet these criteria and frequently attract multiple offers. The best way to select the strongest buyer and to ensure a successful transaction—under any market conditions—is through a confidential, competitive process designed to engage multiple prospective acquirers.

Developing and executing a successful exit strategy may be one of the most important things an owner does in the life of a company. Regardless of the economic conditions, a successful ownership transition is based upon good planning. Plan ahead, execute your plan carefully, and enjoy your retirement.

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