

# The Final Sale

Make sure you're prepared before seeking a buyer for your business.

By JEFF BELL + Photo by ROB HARDIN

**T**here is no one-size-fits-all approach to selling a small to mid-sized business, but Columbus attorney Thomas Washbush says the process often involves owners asking themselves hard questions about whether the time is right to start looking for a buyer.

"It takes some internal honesty," he says. "You say to yourself, 'I think I still have the ability to drive as hard as I used to, but I just don't want to put in the same effort.'"

That is especially the case for baby boomers who might be reaching the point where Washbush says "they're getting tired, see life is finite, want to do more fun things and realize the benefits of their hard work."

A succession plan can help an owner prepare for that day, whether it is looking for a third-party buyer, transitioning ownership to family members or selling to employees.

"You want to start early with a succession plan," says Washbush, who devotes about two-thirds of his practice at Washbush Business Law LLC to advising clients on sales and purchases of privately held companies. "The more preparation there is, the better they tend to do."

That means starting to plan at least two years in advance of seeking a



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buyer. The process includes getting the company's financials in order; possibly spending some money on capital improvements to benefit the business long-term; and working with an attorney, accountant, business broker and investment banker experi-

enced in business sales.

The good news, according to Washbush, is the timing is right in central Ohio for those positioned to sell.

"Everything is selling relatively high," he says. "And there is really good capital to finance acquisitions of these businesses."

One of his first questions for new clients is if they want to explore an internal sale to family members, business partners, managers or other employees. Such sales can involve a gradual transition of ownership—five to eight years for instance—with the owner selling his or her shares over that time. That can provide tax benefits for the seller and make the

purchase more affordable for the buyer.

“But I also have people who say, ‘Honestly I don’t care about any of that. I just want the highest (sale) price possible,’” Washbush says.

Getting a good price is important, but that’s not the only thing that should go into determining what the best sale is for a company, says Randy Gerber. He is the founder and principal of Gerber LLC, a Columbus firm whose focus is on advising first-generation entrepreneurs on how to connect and achieve their goals in life, business and finance.

“You can sell to a buyer who’s willing to pay a premium but will have little consideration for your employees or the legacy of your business,” he says. “The best sale is when the entrepreneur and buyer consider everything from what’s a good price to if your employees will be taken care (of) and will the business be successful down the road.”

## TAKE NO CHANCES

Gerber says his firm helped 27 clients sell their businesses over the past five years, and all have been financially successful transactions for the sellers. One of the keys to that is building a business that’s already prepared for a sale when the timing becomes right.

“You have to think all the time—even if it’s going to be a management buyout or sale to your kids—about the business being prepared to pivot to the transition for a sale to a third party,” he says. “An owner who’s not really thinking about succession may treat the business as an ATM machine. He’s not thinking that every dollar that’s pulled out has an impact on the profit-and-loss statement and balance sheet and how a (potential buyer) will look at that.”

Gerber says his firm advises clients to strike a balance between pulling money from the business to improve their personal balance sheets and reinvesting capital in the company to get a better return on investment.

Clients usually have developed liquidity that can be turned into income-producing assets with the least amount of risk to meet their cash-flow needs going forward.

“You don’t want to go to Vegas and roll the dice,” Gerber says.

Another no-no for sellers is to go with an attorney, accountant or financial adviser who has not helped clients sell their businesses. That typically results in lost value for the seller, according to Gerber.

The same holds true when hiring a business broker, says Emmet Apolinario, a broker with Sunbelt Business Brokers in Columbus and president of the Ohio Business Brokers Association. “Hopefully it’s a broker who had previously owned his own business or operated a significant enterprise with their own P&L budgeting,” says Apolinario, who once owned and eventually sold a Columbus-based software company. “How could someone who has never owned a business before relate to you as the business owner and understand all the headaches and rewards (that go with that)?”

Apolinario also recommends hiring a commercial broker who carries errors-and-omissions insurance to protect all parties in a sales transaction. That tells you there are standards and policies the broker needs to comply with—something that is especially important since Ohio does not regulate business brokers.

It is also important to ask brokers about their professional certifications and credentials, if they are part of a national or even international sales network to connect with potential buyers, their relationships with banks and other financing sources, and the confidentiality of their sales process.

Apolinario says central Ohio is an attractive place when it comes to the sale of small to mid-sized companies, including to potential buyers from outside the region, state or country. He finds sellers are often baby boomers looking to step aside from the companies they founded and built into successful enterprises.

To get the best price, Apolinario says owners need to make sure their books are in order, including how they are reviewed internally or by an outside

auditor. The company’s value also increases if the owner doesn’t need to be there to oversee daily operations. That shows potential buyers they will inherit managers and employees who can help with a seamless transition after the sale.

At the same time, Apolinario says it helps the seller if those key employees have signed non-compete and non-solicitation agreements in the event of a sale. That way, they can’t launch a competing business and solicit customers after the sale.

Sale value is also boosted for companies that receive recurring revenue such as maintenance contracts with clients, can demonstrate savvy cash management, and have diverse customer and supplier bases.

“Selling a business is a very complicated process, so you need to make sure all your ducks are in a row. You need to be prepared to devote enough time (to the sale process); don’t expect to decide to sell today and go to market next week. A business sale does not happen overnight.”

## FOR ALL ITS WORTH

Besides pulling together an experienced team of advisers, business owners need to hire an appraiser to determine what the company is worth in the marketplace, says Bea Wolper, a Columbus attorney who works with family businesses on succession planning and advises them during the sale process. She is also cofounder of the nonprofit Conway Center for Family Business in Columbus.

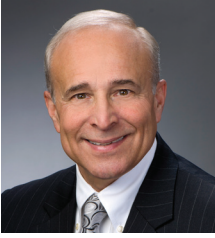
“Family business owners historically overvalue or undervalue their business,” she says. “They’re not sure what the fair market value is.”

She recommends that owners have their attorney hire the appraiser and investment banker. That way, all information about the value of the company must be kept confidential among the parties involved in the sale.



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Once a decision is made to sell, owners need to go over their tax and liquidity plans for the proceeds from the sale. Wolper says owners are often shocked when they see that the income they will earn from investing the sale proceeds could be considerably less than what they were drawing in salary and benefits from the business.

“(The idea of) selling is sexy to people,” she says. “They think, ‘I’m going to grow my business and make a lot of money when I sell it.’ But you have to run the numbers.”

Wolper also says she “leans strongly” toward having family business owners set up trusts for their children and grandchildren to protect the money coming to them from a sale to a third-party.

“Succession (in a business) is also the succession of wealth,” she points out. “If it goes into someone’s pocket, it’s susceptible to ex-spouses, lawsuits and bankruptcies. ... You also have to think about the lifestyle changes when (family members) have cash.”

Life after the sale is also something business owners should plan for, says Jack Frencho, a wealth management adviser with the Private Client Reserve at U.S. Bank in Columbus. He helps clients look at not just the financial factors in a sale but also the emotional ones.

“We’ve come to learn there is so much more to a wealth plan than just the quantitative numbers,” he says, noting he asks clients questions that include the values that are important to them, how they envision themselves without their business and the type of exit they want.

He says U.S. Bank has seen research that shows about three out of four business owners end up being dissatisfied after a sale or regret their exit. That is the case even though 60

percent of those same owners would have said they expected to be happy and have a successful exit before the sale took place.

“Owners say, ‘Oh my gosh, I didn’t realize I needed to consider the emotional, legacy and life aspects (of a sale),’” Frencho says. “When crossing that threshold, many owners still carry that business on their backs even though they have exited. ... They are hard-wired to build a business, not to exit it.”

Many of those owners may not have taken steps to plan for that exit. Some delay doing it, saying they are too busy to take time away from running the company to develop a succession plan.

Others are in denial, with Frencho saying one of his client thinks he is “superman and will live forever” so there is no need to plan for an exit. Some owners may deceive themselves, thinking they are prepared to leave the business because they have a will, trusts and life insurance in place.

“That’s all great, but they’ve never exited a business,” Frencho says. “We try to tell them, in addition to those things, here are other things to do so that when you exit, your life will be filled with significance and you’ll be happy.”

He talks with clients about what their lives will look like post-sale and what they want to do next. He has one client in the process of selling his company who is already talking about investing in another business. Another client with a philanthropic bent wants to get involved in volunteer work.

“We try to understand what their passions are,” Frencho says. “The vacations you take and the golf you play are going to be short-lived.”

*Jeff Bell is a freelance writer.*