

Timing and Maximizing Business Value

Business owners make many sacrifices for their business. Theoretically, these sacrifices are investments in the future that add value to their business which hopefully will be reaped at some future date. But the big questions are: When is that future date? What impact will that date have on the value to be reaped? And how do these decisions impact the amount of value I receive from the sale of my business?

Value is defined as “worth in usefulness or importance to the possessor; utility or merit.” Note that value may include, but is not limited to, money (i.e. it may also include such things as peace of mind, freedom, security, enjoyment, fulfillment, etc.). Maximizing the value in the sale of your business would properly include the maximizing of these less quantifiable rewards.

Ask the father and son team of Dale and Peter Bassett. The Bassetts operated Bassett Meats, Inc. in Sanborn, Minnesota for many years. Dale Bassett, 55, might say his business was consuming his life. Maximizing value for Dale meant providing an opportunity for fulfillment from other pursuits and allowing more time for the enjoyment of working in his shop, hunting and fishing. Dale’s decision to sell factored in the value of his life from accomplishing goals not measurable in dollars. Following the successful sale of the business, Dale’s life took a turn for the better – hunting, fishing and work shop time was more available and the fulfillment of achievement was provided through his new consulting activities on behalf of Land ‘O Lakes in international trade with Russia.

Certainly the success of the transaction was contingent upon receiving adequate monetary value in the sale. However, the point is that Dale may have been able to achieve more money by timing his sale at a later date, but he may not have been able to land the consulting contract at a more advanced age and would have had fewer remaining years to enjoy in his shop or hunting or fishing.

It has been said while money isn’t everything, it makes more of a contribution to happiness than does poverty. What about the timing of a business sale to help maximize the money to be received? There are a variety of factors that influence the actual price to be received for your business which are a function of timing. Probably the most critical factor revolves around the financial performance of the company. Also, the performance in the merger and acquisition market impacts supply and demand and therefore prices for businesses. By timing a sale so good company performance aligns with a strong acquisition market, a business owner can have a significant impact on the value to be derived from by a sale. The current state of low-interest rates, low stable inflation rates, and tremendous amount of undeployed investment capital is resulting in a very strong sellers’ market. Furthermore, the market is always more receptive to companies having prosperous times than those past their peak. If an owner can sell before the business starts to decline, or better yet, while it is clearly in a growth mode, the seller gains tremendous negotiating leverage.

The Bassetts’ business was profitable and fairly stable, but it seemed to be missing some component of the growth formula. The family plan had been for Dale to possibly retire someday and for son Peter to continue running the business. As is often the case, this American Dream of a business passing through the family ranks would not have accomplished any of the aforementioned goals. Peter Bassett would



have been faced with the burden of growing the business sufficiently to provide the retirement values Dale would need, without the additional resources necessary to produce that growth. While Peter loved the business and intended to continue servicing customers with specialty meat products, his obstacles would have been nearly insurmountable and certainly the value which he would have been deriving as a business owner was questionable. Following the sale, Peter could make more money than if he had taken over the business and he was not personally at risk.

The only way to produce sufficient monetary value to allow Dale and Peter to achieve their other values was to arrange for a sale to a new owner which would have the missing ingredients required for additional growth. Fortunately, there was such a buyer and a transaction was negotiated with Wimmers. Wimmers needed Twin Cities distribution channels for other products similar to the specialty meat products produced by the Bassetts. Furthermore, they needed additional senior management talent such as Peter to grow their organization's sales.

Wimmers turned out to be a perfect synergistic acquirer, but it should be noted that may not have been the case indefinitely. Wimmers had already begun planning how it would obtain Twin Cities distribution channels. Had the Bassetts waited to sell, Wimmers may have obtained the necessary distribution channels or moved elsewhere. In that case, the fit would have not been as good and the transaction would quite likely not have occurred. In other words, timing had to do with market forces specific to the best buyer.

Although these timing issues cannot be controlled, they can be identified through a regular assessment of the marketplace. It may be unrealistic to hope that the stars will always line up perfectly for the timing of a sale, but a business owner should strive to benefit from as many positive timing attributes as possible. Let's take a look at a few of the key timing attributes.

RISK/REWARD OF OPERATIONS

All the buying books advise buyers to buy a business that is doing well and is growing. However, for business owners, there is often a temptation to operate a business that is doing well, especially if there have been recent periods of poor performance that the business owner has suffered through in anticipation of a turnaround. An owner must keep in mind the business will sell for a multiple of earnings – possibly five times earnings. Therefore, if you were to decide to run the business for one more year in order to earn, say \$200,000, you may be risking a far greater amount. Should you make a mistake and not have those earnings available in the subsequent years, you could be sacrificing \$1,000,000 of sale value in the marketplace.

CONSIDER THE BUYER

Sell when the risks are lowest for the buyer, that way the buyer can afford to pay you more for your business! Risks are lower when your industry is doing well, there are no threatened laws or regulations which could seriously impact your business, you have a well-trained, experienced and stable work force, there are no new powerful competitors entering your market etc. Don't expect the market to pay a very good price for a business going into problems.



HEALTHY VALUE

It's an unfortunate fact of life that major health problems force many business owners to sell their business at an inopportune time. It has been said the life cycle is more of a driving force in business sales than the business cycle. If you are forced to sell because of poor health, your negotiating leverage will be seriously deteriorated. If the buyer can not depend on you for your help, counsel and support during a transition period, the buyer will perceive much greater risk in the transaction and discount the price accordingly. When Wimmers purchased Bassetts, Dale Bassett was in good health, eager to provide help, and consulting services, and in fact, started a new career in consulting in a related industry. Your good health is important to you and prospective buyers.

ONE BIG HAPPY FAMILY

A strong team, pulling in the same direction is important to a buyer. The sale of a business to resolve family conflicts or partnership disputes represents increased risk for the buyer. Buyers may perceive there will be inadequate transitional support and members of the management team may not be able to work together. When Wimmers purchased Bassetts, Dale Bassett and Peter Basset had a good personal and professional relationship. Furthermore, Peter Bassett was available as a key management participant to assure a smooth transition and reduce risks in the transfer. Wimmers could pay more and Peter now enjoys working in an industry he loves, with a company maintaining high integrity and high quality standards.

PLANNING YOUR EXIT

Given the time it takes to sell and transfer a business, an exit plan should be developed at least a year in advance so appropriate professional help can be recruited, financial statements can be purified, risky elements of the business can be solidified and, most importantly, external timing elements can be identified and monitored for their optimal impact.

Maximum value will be derived for your business when you have planned properly, interest rates are low, there is ample financing money available, many buyers are chasing a few deals, the economy is growing, your industry is growing, there is no threatened legislation affecting your industry, and you and your business are both doing well.

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