

Time to cash out?

Is this the time to sell your business?

With the current record interest in buying companies or divisions, by both private equity groups and public companies, every CEO has to be at least considering whether now is the time to reap the rewards of their efforts to build value.

To understand some of the things to consider in contemplating such an important decision, *Smart Business* interviewed Laura Holm, a transactional lawyer specializing in mergers, acquisitions and divestitures at Berger Singerman.

So is now a good time to sell?

There are certainly strong market forces that would suggest that now could be a very good time to sell one's business, or perhaps a part of a business that might not be core. However, seldom is the decision as to when to sell based solely on issues of price. A host of other issues frequently are important to sellers, as well.

Before commenting on the strong market forces, let's quickly review the nonprice issues that must be considered.

For any owner active in the business, business activities shape some important dimensions of his or her life. Many owners enjoy the challenge of running a successful business. Some enjoy the public visibility that goes with being the CEO of a successful company. And some owners are driven by the desire to create a vocation for future generations of the family. The starting point for analyzing the desirability of a sale of a business is to realistically evaluate what the business does for its owners.

What strong market forces suggest that this could be a good time to sell?

First, the amount of capital chasing companies is at an all-time high. The resulting competition for deals makes it very much a seller's market. Second, at the same time, fundamental valuations



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are high as a result of relatively low interest rates and a generally decent economy.

The combination of these two factors, when strategically used, can produce excellent returns for owners. Also, keep in mind that with interest rates creeping up and some signs of weakness in certain sectors of the economy, fundamental value may start softening for some companies.

Sounds like the market is almost too good to pass up?

Not necessarily so. As I mentioned earlier, noneconomic factors, which play an important role, must be carefully considered. For anyone who has decided to sell in the near- to medium-term, current market factors suggest an opportunity that should be explored.

How does one explore sale?

Very, very carefully. Unlike a home, the mere act of putting a business up for sale can decimate the value of the business. Competitors can exploit knowledge of a potential sale with your customers. Your best employees can decide to abandon ship. In addition, your focus on running

the business effectively can be lost.

It is critical that anyone considering to sell consult with their legal and financial advisers, both with respect to understanding the pros and cons of selling and identifying the best approach to selling. Assuming the owner wishes to explore a sale, the company should consider retaining an investment banker (or business broker for smaller businesses). Selling a business is a full-time activity that requires special expertise.

What about taxes?

Taxes triggered by sale of the business are an extremely important consideration in any transaction. However, it is highly unusual for taxes to be the driving force. What is important is that you involve your tax advisers in the process early, so that the structure of the deal will take advantage of various tax-saving techniques, ultimately reducing your tax liability. Some structuring will be to the potential detriment of the buyer and will likely impact the ultimate price a buyer will pay. Many times, structures can be developed that are advantageous to both seller and the buyer.

What final words of advice, on this subject, would you give to a business executive?

Be proactive. Too often I see owners and CEOs being primarily reactive to offers to buy the business. Optimizing value requires developing a strategic disposition plan, and then skilled professionals working closely with senior management to diligently execute it.

Take control of your destiny. If you are interested in selling, at whatever point, work the process in a way that maximizes the likelihood of meeting the needs of major constituencies. Do so with great care so as to avoid diminution in value due to a poorly handled sale process.

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