

Our mission is to shepherd as many business owners as possible to fulfillment of their goals and their ideal lifestyle.

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BUSINESS WEALTH SOLUTIONS, LLC

Joan M. Ridley
Pres., CFP™, CEPA, CBI

2911 Turtle Creek Blvd., Suite 300
Dallas, Texas 75219

E-MAIL: info@businesswealthsolutions.net

PHONE: 214.692.9192

FAX: 214.523.9001

What Would a Buyer Pay for Your Business

By: Joan M Ridley, CFP™, CEPA, CBI

That all depends on who the buyer is. Your buyer could be a family member, employee, management, a private equity group, another shareholder, or a strategic buyer. Which type of buyer you attract has everything to do with:

- What kind of shape your business is in
- Your personal desires and motivations
- Your personal financial needs and goals
- Your time horizon to leave the business
- Unique, special aspects of your business
- How well prepared you are mentally to leave
- The quality of your advisors
- Protections you have in place
- Market conditions
- Your business entity
- The industry you are in

This is the short list. It is far from exhaustive. Different buyers have different motivations. That fact combined with how well your business fits their parameters greatly affects what they are willing to pay.

Let's take a look at four types of buyers:

- Strategic buyer
- Private equity group
- Management
- ESOP

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Strategic Acquirer

A strategic buyer will usually pay the highest price for your business. Most sellers dream of selling to a strategic buyer for an unheard of multiple of EBITDA. This could and does happen, especially if your business is well-positioned, have something unique to offer, and, if you are represented by a firm that is skilled at negotiating and running an auction between qualified, interested acquirers.

Private Equity Group

A private equity group might want might purchase 100% of your business, or, a majority interest such as 80% while you own 20%. This is called a re-cap. Quite often the Private Equity Group will want key people to remain, depending upon the circumstances and the business model of that group. If you maintain an ownership interest, you could receive more for your minority interest, when the private equity owner resells the business, than you originally received when you sold to that group. While a private equity group might not pay top dollar, they bring an infusion of cash to grow the business and talent that your firm might lack. The benefit to you is that you receive a portion of the proceeds when the business is sold a second time, and, you might remain involved in the business.

Management Buy-Out

You could sell your business to your management team. Depending on the value of your business, management might not have sufficient collateral to finance the sale. If that is the case, you would probably need to finance the sale for your buyer(s). If your business is attractive to a funding source, such as a private equity group, that group could finance the sale and have an ownership interest along with your management team. A management buy-out strategy could also be used along with an ESOP.

Employee Stock Ownership Plan

This is a complicated transaction and is not right for every business. But, it has numerous advantages if certain factors are in place. **Very** simply stated, the owner sells company stock to the ESOP trust that holds the shares in trust for the benefit of the employees. Over time, company stock is transferred to the employees' qualified retirement accounts. The owner pays no tax on the sale of the business until the stocks or bonds that the sales proceeds are invested in, are sold. Although the value of the shares to be sold to the ESOP trust is limited to the Fair Market Value business valuation, the tax savings and tax deductions for the business

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owner are significant. When tax brackets are high, this strategy can be very attractive even though the ESOP trust cannot pay in excess of the Fair Market as determined by a business valuation when it purchases the shares. However, a business owner can sell a portion of the shares to an ESOP now and later on sell the entire company to an outside third party.

How to Sell to the Right Acquirer

In a word — **prepare**. Preparation includes investigating the various options with an **unbiased** party. That means obtaining calculations for the most likely ownership transition strategies based on **your** goals. There is no other way to be certain that you will be happy with the outcome.

- **73% of business owners regret selling within one year after the sale, usually due to fact-finding *after* the fact.**
- **Call us today at 214-692-9192 to learn how you can be a part of that totally ecstatic 27%.**

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Joan M. Ridley is president of Business Wealth Solutions, a Dallas-based advisory firm that consults with business owners about how to successfully leave their business. Please visit our website at www.businesswealthsolutions.net. Call us today at 214-692-9192 for a complimentary meeting to learn how we can help you get where you want to go. Ask for our free Ownership Transition Check-List.