Selling or merging your business

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At some point, many small business owners face the decision of whether to sell all or part of the company. This can include a merger, an equity arrangement from an investor or an outright sale. As a business owner, what should you think about when planning to transfer your company's assets? Three experts advised business leaders on this topic at a meeting of the Tri-Cities Venture Group in Richland in November. The speakers were Thomas McDowell with Windswept Capital and Derek Nelson and Adgate Duer with KeyBank, all from Seattle.

- **Know when to merge or sell.** You may receive an unsolicited bid to purchase your business, though this is rare. You may merge to acquire a strategic partner who can help expand your market or product lines. Taking the company to the next level of growth may require more than you're willing to give. For example, it may involve substantial investment in new equipment, new products, or an influx of employees.

  The business may be fading because the market outlook is pessimistic. Partnership disputes may require a split to save the business. You may be ready to do other things, such as starting another business or retiring. In addition, the succession path may be unclear, meaning there is no obvious candidate to take over the business when the owner leaves.

- **Avoid liquidating the company if possible.** Liquidating the company ends its operations by selling equipment and other assets. Though tempting for its quick cash, this option gives you only the value of your company's current assets, not the future value if the business continues in some form. Owners may be forced into this option if business prospects are dim and buyers aren't interested.
- **Choose the best option.** Owners may sell the company's assets or stock to another firm for cash or stock. The business continues under the new company's control.

  In a merger, two companies combine their assets to create a more competitive single business. Recapitalizing, another option, involves selling part equity in the company to investors. The owner gets a cash infusion but usually retains significant control of the firm's operations and direction. Family businesses have even more options, involving transferring the firm to other relatives. Talk with an attorney or accountant to understand which choice is best for you financially.

- **Make your company attractive to buyers.** To get the best possible deal, you must understand your company's value in the marketplace. Shore up any weaknesses, such as being poorly capitalized, managed or marketed. Buyers want a depth of management with a proven track record and a solid market. Many buyers want the business owner to stay with the new company for a couple of years, to smooth the transition.

- **Have an exit strategy.** A transaction to sell or merge a business can take six to nine months when planned ahead, and up to 18 months otherwise. Know when you want to leave and work backward from there. Have your business plan in place and make sure all employees understand it. Make sure your management structure is in good shape. Have a succession plan. Buyers often require sellers to sign a non-compete agreement, which may affect your plans to start a new, similar business.

- **Understand your profit potential.** Investors and buyers are looking for future cash flow and profit. They want to see a strong balance sheet and a history of progressive revenue growth. Be prepared with information that makes your company look attractive to investors. If you've deferred capital expenditures, for example, the buyer will have to make them, which lowers your asking price. Have an accountant audit your financial statements, which will be used during the marketing and negotiation process.

- **Use professionals wisely.** Investment bankers, attorneys and accountants can help you get the best possible deal. Services include conducting a business valuation, seeking prospective buyers in the marketplace, conducting due diligence to find the best match, evaluating the offers and negotiating the transaction.

  A good investment banker understands your industry and knows where to find buyers. He or she also consults with you during negotiations, minimizes disruption to your company, achieves the best value and closes the transaction quickly.

  Investment bankers typically earn a commission based on the selling price, so they have an incentive to get the highest price possible. A retainer usually is required up front to cover the initial work.

  The Tri-Cities Venture Group meets on a regular basis with invited speakers. The next meeting is January 20 at the Shilo Inn in Richland. To be added to the mailing list for future meetings, or for more information, contact Marv Clement, Pacific Northwest National Laboratory, at 375-2789.