

Selling Your Business? Consider a Two-Step Sale



A two-step sale could be more advantageous for you than turning your business over all at once.

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YOU KNOW HOW YOUR HOUSE OR CAR always looks best the day you are selling it? It can be the same with your business. But instead of changing your mind about selling, you might want to consider off-loading only a part of your business now with the understanding that you will sell the rest of it sometime down the road.

One reason for not selling out completely is that you might not be ready to call it quits; you might prefer to take a step back, to offload some of the burdens associated with your business. Or perhaps the proceeds won't be sufficient to accommodate your future plans. If you find yourself in such a dilemma, consider a two-step sale.

Many potential buyers are looking only for a controlling interest, anywhere from 51 to 90 percent. Turning over a majority interest allows you to hand the reigns over to someone else, yet retain some ownership that could increase in value as the new owner or owners grow the business.

Would you like to take some chips off the table and still maintain control over your business? That's a tougher task. Buyers willing to take a minority interest in your business are much more difficult to find because minority ownership is a riskier proposition. A minority owner might not be able to make any meaningful decisions in the business because they would not have enough voting shares. They would also not have control over when, or if, they receive cash distributions. They would need to have complete trust and confidence in you as the majority owner because you would be determining the fate of their investment — you could completely ignore their input if you wanted to. Minority shareholders do have rights and legal protections, but if they had to engage an attorney to enforce those rights, it's a safe bet your partnership wouldn't be on very sound footing.

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If you want to offer a minority interest in your business to an outsider, who might be willing to pay you a fair price for it?

There are some private equity groups and family offices that might consider a minority interest in your business. Private equity groups raise funds and manage the money with the goal of generating favorable returns. They have parameters that guide the investment decisions they make for their clients, but most of the investments will be in privately-held businesses they feel have a strong management team, a good product or service and the opportunity to grow. Private equity firms typically look to resell the businesses they buy in four to seven years. Family offices operate similarly, except that all the money invested is coming from one family as opposed to a pool of investors. Family offices can be more flexible in how they operate, and they will often have longer time horizons for the investments they make in privately-held businesses.

While most private equity groups and family offices will want to purchase a majority position in your business, there are times when they might be willing to start with a minority interest if they consider the opportunity promising enough. They might see the opportunity to buy into your business as an investment in you and your management team. They might see a well-run business that has the potential to grow if additional resources are brought to the table — additional management or additional dollars. These types of investors usually want to be able to buy more shares of the company in the future, and perhaps buy you out entirely at some point. In other words, they want to get a foot in the door for an opportunity they think is promising. While the market for these types of buyers exists, it is much smaller than the market for buyers who will want a majority or controlling interest in your business.

Other buyers interested in minority ownership are strategic buyers and individuals who plan to own the entire business at some point in the future. Strategic buyers are those who may already be in your industry, understand your business and believe it will complement the business or businesses they already own. A strategic buyer might be willing to start out with a minority interest to head off their competitors. An individual buyer willing to take a minority interest initially is often one who eventually wants to buy you out but wants to — or needs to — work with you to learn the business or build up the assets he or she needs to buy the company.

You have many options as a business owner looking to sell to outside parties. They should be fully explored with your team of trusted advisors, and you will want to make sure you have answered some important questions, personal as well as business, before moving forward with any option. Selling your business might be the most significant and impactful financial transaction of your life. You owe it to yourself to understand and consider all your options.

Call us at (239) 433-7533 with your questions and concerns about business succession planning; or email me at KVeres@hbkswealth.com.

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Keith provides the comprehensive and critical financial support owners and operators of small and mid-sized businesses require to grow their companies and secure their financial futures for themselves, their families and their businesses. Keith relies on broad experience and knowledge to bring small and mid-sized businesses and their

owners the services and support they require at the most critical times in their careers and the development of their businesses.

Upon earning his Bachelor of Arts degree in accounting and business administration from Mercyhurst University, Keith began his career as an HBK CPA in 1991 in the Alliance, Ohio, office. He then moved to Fort Myers in 2002 to open the HBK office there. His clients include medical practices, construction companies, automobile dealerships, retail establishments, other closely-held business and high net worth individuals.

Keith is a member of the American Institute of Certified Public Accountants (AICPA) and the Florida Institute of Certified Public Accountants (FICPA).

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