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The Importance of Hiring a Qualified Professional Advisor for the Sale of the Closely-Held Business

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Introduction. The sale of a closely-held business, particularly one that has been in the family for years, can be a traumatic event. For some business owners, the sale of the family business can be on the same emotional scale as the loss of a family member. When the time comes to sell, however, many family business owners choose not to hire a professional advisor to assist in the sale of the company. In certain circumstances, this can be a major lapse in judgment for the business owner. The business owner who is not sophisticated in the sale of a company may waste uncounted hours dealing with phony buyers and unscrupulous brokers and in the worst case scenario, ultimately sell his or her business for far less than its true value, or not be able to sell it at all. This article will outline some of the many advantages of hiring a *qualified* professional advisor to assist in the sale of the closely-held business and will outline some of the many pitfalls that could happen should the closely-held business owner choose not to utilize a qualified professional advisor in the sale of his or her company.

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Reason One: Take Emotion out of the Equation. As noted above, the sale of a long-time family business can be a very emotional event for the business owners. Many family businesses are third or fourth generation companies. The current owners of many of these companies often started working at these companies as teenagers and have never worked anywhere else in their life. For many of these owners, the family business has been ingrained as a way of life. It is the way their grandfather made a living, their father made a living, they make a living, their children make a living, and their grandchildren will make a living. For other owners, the business may have been their own creation, something they grew and nurtured from nothing, making the idea of a permanent separation a very difficult concept with which to deal.

When the Time Comes to Sell. As times change, it often becomes apparent to the private business owner that the sale of the business is the most logical course of action in a particular situation. It may be that the owner does not have any children or grandchildren. Or, the owner may have children and grandchildren who are uninvolved and uninterested in the business. It may be that the business needs to be sold for estate tax or other liquidity reasons. Or, in the most probable scenario, the family business owner is either approached by an interested buyer or realizes that the current environment is paying extremely healthy acquisition multiples that are too good to refuse. Examples of this abound in today's economic environment, particularly among those industries that are experiencing rapid consolidation (such as automobile dealerships, convenience store chains, electrical contractors, scrap metal recyclers, and a host of other industries).

Hard to Say Goodbye. For many closely-

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held business owners, the decision to sell the family business can be wrenching. This is particularly true if the company has been in the family for many years or if the business was founded by its current owner. By using a dispassionate, qualified professional advisor, the key decision as to the ultimate sales price of the company can be greatly shielded from the emotional impact of the sale of the business. A qualified professional advisor should outline for the business owner (in a comprehensive valuation report) a thorough operating and financial analysis of the company, a comparison of the business to its industry peers, and a detailed valuation section outlining the various valuation methodologies considered and those actually utilized. By conducting such a dispassionate analysis the qualified professional advisor can outline to the business owner the various positive and negative attributes of the business that will be considered by any buyer looking at the company.

The Decision to Sell or Hold. In addition to giving the business owner an idea about what a realistic price range for the closely-held company may be, the qualified professional advisor also may play a key role to the business owner in advising him or her on the more fundamental question as to whether the business should be sold at all. Although certain family situations dictate the immediate sale of the company no matter what, the owner that has the luxury of holding on to the business is much better served by the professional advisor who makes a disinterested, logical assessment of the situation and advises the owner that now is not the best time to sell. Without the advantage of this disinterested, logical assessment, the emotional business owner may feel obligated to sell his or her company no matter what the situation.

Reason Two: Better Knowledge of the Acquisition Market. In our numerous years of appraising companies and assisting owners with the sale of their companies, we have witnessed a great range of experience as far as the owner's knowledge of his industry's acquisition market. On the one hand is the owner that actively follows his industry, stays in constant touch with his competitors, and has a good grasp of the types of multiples being paid. On the other hand is the owner that focuses entirely on the internal workings of his business and has no idea about the current acquisition market in his industry. Ultimately, both types of owners can benefit from the counsel of a qualified professional advisor.

Knowledge of Operations May Not Equal Knowledge of Value. While the closely-held business owner no doubt knows his business better than anyone, this knowledge unfortunately may not extend to the issue of the value of the business. A professional advisor who analyzes the closely-held business for purposes of its appraisal will rely heavily on the knowledge and experience of the owner. Even the brightest professional advisor cannot grasp all of the intricate workings of a business, knowledge that may have been learned by the owner over a thirty, forty, or fifty year career. The astute professional advisor will assimilate as much of this information as possible during the time necessary to analyze the company and prepare for its sale. Where the astute professional advisor has the advantage over the business owner is the professional advisor's knowledge of the acquisition market and the actual multiples and deal prices being paid.

Realistic and Accurate Pricing of the Business. By staying constantly abreast of the acquisition and public company markets, a qualified professional advisor is in a far better position to analyze and determine the price at which a private company should be shown to prospective buyers. The hiring of a professional advisor can serve as a "reality check" for the private business owner that has mentally priced his company irrationally high or low. Because the qualified professional advisor is not in an adversarial role to the private company business owner (as a buyer would be), there is no reason for the business owner to suspect that the professional advisor is "low-balling" his company's value. In contrast, the business owner and professional advisor are on the same team as they both want the maximum value for the business.

Avoid Overpricing the Business. The fact that the business owner and the professional advisor both want the highest possible value for the private business brings up an equally important point. The qualified professional advisor does the private business owner no good whatsoever if the professional advisor mistakenly or irrationally over-prices the company for sale. If the private company is over-priced in regard to its fundamentals or its market, the company never sells, the business owner grows increasingly frustrated, and the professional advisor eventually loses his credibility with the owner and other potential clients.

Reason Three: Finding All Potential Buyers. Even if he has accurately priced his

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business, the business owner who decides to "go it alone" on the sale of his company often does not begin to scratch the surface of the potential buyers in the market. This business owner may know of a couple of competitors who might be interested or his retired wealthy neighbor who is looking to buy a business for his son-in-law. However, without a thorough search and constant contact with the vast universe of other potential buyers, the business owner is severely limiting the number of potential buyers contacted and the ultimate sale proceeds received.

Developing and Maintaining a Network. The savvy professional advisor will have years of experience in the business and will have developed a large network of potential buyers including venture capital funds, private equity funds, merchant banks, company owners, wealthy individuals, and a number of other potential buyers. The diligent professional advisor stays in constant contact with this universe of potential buyers, maintaining relationships with the key decision-makers at each firm, and staying abreast of the investment parameters of each entity. These contacts give the professional advisor a huge advantage over the closely-held business owner in that the private business owner does not have access to this potential universe of buyers. The average private business owner is too focused on running his or her own company and simply does not have the time to develop such a network.

Reason Four: Screen Out Unwanted or Unqualified Buyers. In addition to the all-important aspect of pricing the closely-held business, the qualified professional advisor also performs an equally-important role in managing the selling process of the business. This can be a crucial aspect of the selling process as a savvy professional advisor will be able to determine the real buyers from the fishermen. Buyers can be a demanding lot, constantly requiring more and more information, wanting to interview management, tour the company, etc. Without a good professional advisor, a business owner could be eaten alive with requests for information, company visits, etc. Many of these visits would likely come from "buyers" who have neither the interest nor the capability of purchasing the company. Even worse, some of the company's key competitors could pose as interested buyers, requesting detailed information on the businesses' suppliers, customers, marketing strategies, etc., and ultimately finding out corporate secrets about the company that could severely damage or ruin the business competitively.

Creating a Sense of Urgency. As mentioned above, a good professional advisor will sift through the universe of buyers to isolate those real buyers that have the most likely chance of purchasing the company. Equally important, a good professional advisor will then create a strong competitive environment among those buyers to ensure that the price ultimately paid for the company reflects the true demand in the market. By establishing a firm time frame and then diligently managing that process, the astute professional advisor can ensure that the steps of the process proceed in a timely and orderly fashion.

Reason Five: Confidentiality. Although the selling process requires the closely-held business owner to share information that he previously did not have to share with the public, a good professional advisor can shield this information by limiting its distribution to the fewest parties necessary. The sale of the family business is an intensely personal issue and the savvy professional advisor can strike the proper balance between showing the company to as many qualified buyers as possible while still protecting some degree of privacy of the family by not divulging this information indiscriminately to the masses.

The Advantages of an M&A Firm over a Business Broker. For many private business owners, the thought of the sale of their business brings the negative connotations of business brokers. Most of the private companies in the United States are far too small for the major investment banks and financial institutions to handle. Even most of the investment banking boutique firms will not consider transactions with a purchase price of less than $25 million or so. The vast number of small businesses owners are unfortunately left with no other alternative (other than selling the company themselves) than business brokers.

Don't Get Lost in the Crowd. A professional advisor works on the sale of one company at a time. This is in contrast to a business broker who has a stable of companies at any one time, all of which are for sale. The benefit to the business owner who uses a professional advisor is that the professional advisor is focused 100% on the sale of the owner's business. In contrast, the business broker may have five or ten companies in a variety of industries, all of which the business broker is listing for sale. The business broker doesn't care which one of these companies sells, just so long as one of them is sold and generates a commission. In the situation of the business broker, there generally is one buyer looking at a number of potential sellers. In this situation, the advantage is with the buyer as the sellers are effectively competing in a "beauty pageant," hoping that they will appear the most attractive to the buyer. An astute buyer may play these companies off of each other, hoping to lower the price paid for the business eventually purchased. In contrast, when a business owner enlists the help of a professional advisor, there is one seller and a number of different buyers. Here, the advantage is with the seller in that the buyers must now compete for the sole company for sale.

Now May Not be the Best Time to Sell. As mentioned earlier, the good professional advisor will not advise the company's ownership to sell the company at all costs. The good professional advisor recognizes that not every situation is a good selling opportunity and there are times when a business owner is better off holding and waiting for a better price on down the road. This is often in contrast with business brokers who are strictly commission driven and are interested only in the immediate sale of the business so that they can be compensated. The good professional advisor recognizes that the relationship with the business owner goes beyond the transaction fee paid to the professional advisor. The professional advisor who advises the business owner to sell at a later time has gained the trust of the business owner in that the business owner sees that the professional advisor is out for the owner's best interest and not his own pocket.

Conclusion. This article has touched on just some of the issues that should be considered by the closely-held business owner who is considering the sale of his or her company. The sale of the family business has far-reaching ramifications. A sale at a below-market value can mean less financial security for family members and a lingering resentment that management "blew it," effectively selling their birthright for a bowl of stew. In the worst-case scenario, a below-market sale can foster minority shareholder litigation and accusations of a breach of fiduciary duty by those making the decision to sell. The use of a qualified professional advisor does not guarantee a top-dollar sale in all circumstances, however, it does minimize the various risks and pitfalls that can line the way to an eventual sale. ♦

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