THE VELD GROUP VELD MERGERS & ACQUISITIONS

Can You Sell Your Company to an Outside Third Party?

Michael Wildeveld, CEPA, M&AMI, CM&AP, CM&AA, CBI, CBB
michaelw@veldma.com

Veld Mergers & Acquisitions
www.veldma.com
1 Park Plaza, 600
Irvine, CA 92614
310-652-8066

We talk to business owners every day who “plan” to exit their companies via a sale to a third party because they believe that they’ll get more cash up front (and more overall) than if they sell their companies to insiders (family members or employees). Consequently, they believe there is far less risk selling to a third party than to insiders.

Are they correct? As diplomatically as possible, we suggest that they just might be dead wrong.

Third Party Sales Involve Risk

1. Sales to third parties are less risky than sales to insiders *only if a business can be sold for all cash or if there’s simply no time to implement a carefully designed sale to an insider.*

Investment banker Kevin Short reminds owners that unless a company meets the following criteria:

- has more than $1 million (or even $2 million) in EBITDA
- is in an attractive market sector
- has strong fundamentals
- enjoys a unique competitive advantage
- it is unlikely to sell to a third party—for substantially all cash.

2. Selling to a third party requires a third party wanting to buy. In a difficult M&A market, being in an attractive market sector is more important than ever. Again, according to Kevin Short, “hot” or “niche” industries include: power, alternative energy, health care, medical services and healthy-living products.

Companies engaged in construction, retail, real estate, automotive and consumer products will find it difficult, if not impossible, to attract a buyer in today’s marketplace.

For most companies, today’s M&A market is decidedly cool if not stone cold; few companies meet the criteria above. The most realistic owners quickly realize that there simply are no third parties interested in

their companies.

3. Waiting involves risk. We suspect that some owners hold to the belief that there's little risk in waiting for a third party buyer because it provides an excuse to "avoid the hassle" of planning. "No risk?" we ask.

- What if a qualified buyer doesn't show up?
- What happens if, when you are ready to sell?
    - the M&A market is dormant
    - your industry niche has fallen out of favor
    - your business and/or the economy is in decline or worse

Why subject your future financial security to these uncertainties? Why not assume control of your exit—your life, really—by creating an exit strategy that allows you to:

- choose your buyer
- name your sale price
- control ownership until you are fully paid
- shift the burden of the company's future performance from your back to the buyer's

Insider Sales Require Time to Plan

While sales to insiders require work on the owner's part, sales to third parties can require just as much work and be just as time consuming.

Once owners understand third party sales, they usually agree—especially if their companies are too small to attract qualified third party buyers—that transferring to insiders is a far better course than liquidation.

The Objection to Insider Transfers

Let's talk about the most common objections to an insider transfer: Insiders do not have money to begin buying your company.

That's true—today. But they can and will if:

- Your company has a good management team that desires ownership
- Your company has good cash flow
- You have ample time before leaving to design a tax-sensitive transfer plan and to implement that plan

Insider Sales Yield Cash

Owners can often get as much cash (with no more risk) in an insider transfer as they can from a third party sale if *they have time to work with their advisors to design and to implement a plan.*

If owners use time wisely, there's no reason that the insider transfer cannot yield as much cash as the third party sale.

Other issues of this newsletter describe various insider transfer issues in greater detail. If you'd like to learn more about any of these topics or want to discuss your particular situation, please give me a call.

The information contained in this article is general in nature and is not legal, tax or financial advice. For information regarding your particular situation, contact an attorney or a tax or financial professional. The information in this newsletter is provided with the understanding that it does not render legal, accounting, tax or financial advice. In specific cases, clients should consult their legal, accounting, tax or financial professional. This article is not intended to give advice or to represent our firm as being qualified to give advice in all areas of professional services. Exit Planning is a discipline that typically requires the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need.

This is an opt-in newsletter published by Business Enterprise Institute, Inc., and presented to you by our firm. We appreciate your interest.

Any examples provided are hypothetical and for illustrative purposes only. Examples include fictitious names and do not represent any particular person or entity.