

Does a Transfer to Insiders Suit Your Objectives?

Insider transfers are not only doable, but, when compared to outside sales, they may be more likely, less risky and more lucrative than many owners imagine. Doable, less risky and more lucrative for whom? Let's look at owners whose objectives might be met by transfer to insiders.

Owner A: "I want to get out, but I'm flexible on timing and on how much I work during the process."

For owners who have both time and flexibility, we suggest that they consider a sale to insiders because in doing so, they often have more control than in a sale to a third party.

As is often the case, today's M&A market for mid-sized companies (\$1 million in EBITDA) is unpredictable. Buyers are less numerous and less willing to pay the high multiples they paid in yesteryear. The type of business they seek to acquire has changed. Once willing to acquire companies in many sectors, buyers have become incredibly choosy about the sectors they'll consider. Can you accurately predict that your company will fit the bill when you are ready to leave?

Owner B: "I want financial security. If there's a way to get as much cash (or more) from insiders as I can from a third party (assuming, of course, I could attract one) I'll sell to insiders." Assuming Owner B's company has a strong management team desiring ownership and strong cash flow, his company is an ideal candidate for an insider transfer. Making the same assumption about the existence of both strong cash flow and strong management team, the following owners would also do well to seriously consider an insider transfer:

Owner C: "I'd like to keep my legacy intact and the business in the family."

Owner D: "I'd like to keep the company culture intact."

Owner E: "I want to reward my employees. After all, they helped me create this company and helped grow



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its value.”

Owner F: “I want business to move to the next level and my kids/employees have the fire in the belly to take it there.”

Owner G: “I have a management team eager to buy.”

And finally, our not so obvious candidate for the insider transfer, **Owner H:** “I’m going to work until I’m ready to leave. At that point, I’ll take stock of my options.”

Sounds good until Owner H learns that he’s likely to work longer than planned and may well hurt his business in the process. We find that, once owners admit they are ready to head for the exits, they do so because their companies aren’t doing so well (meaning: it just isn’t as much fun to run them anymore) or, their readiness to depart decreases their motivation to build value, seek out new customers, take on additional risk—all the things that keep businesses moving to the next level.

In short, waiting until you are ready to leave before making your plan to leave robs you of control of the process, timing and—most importantly—the *result*.

Instead of starting tomorrow, begin today while your fires still burn brightly and there is enough time to structure and complete a sale to your children or employees.

Transfers to insiders (or third party sales for that matter) take time—time not just to prepare the business for sale, but also to begin a gradual transfer of ownership thus minimizing risk, and motivating management/new owners to increase cash flow and business value. We have additional educational materials available to aid you in your learning curve and can help you get started today.

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