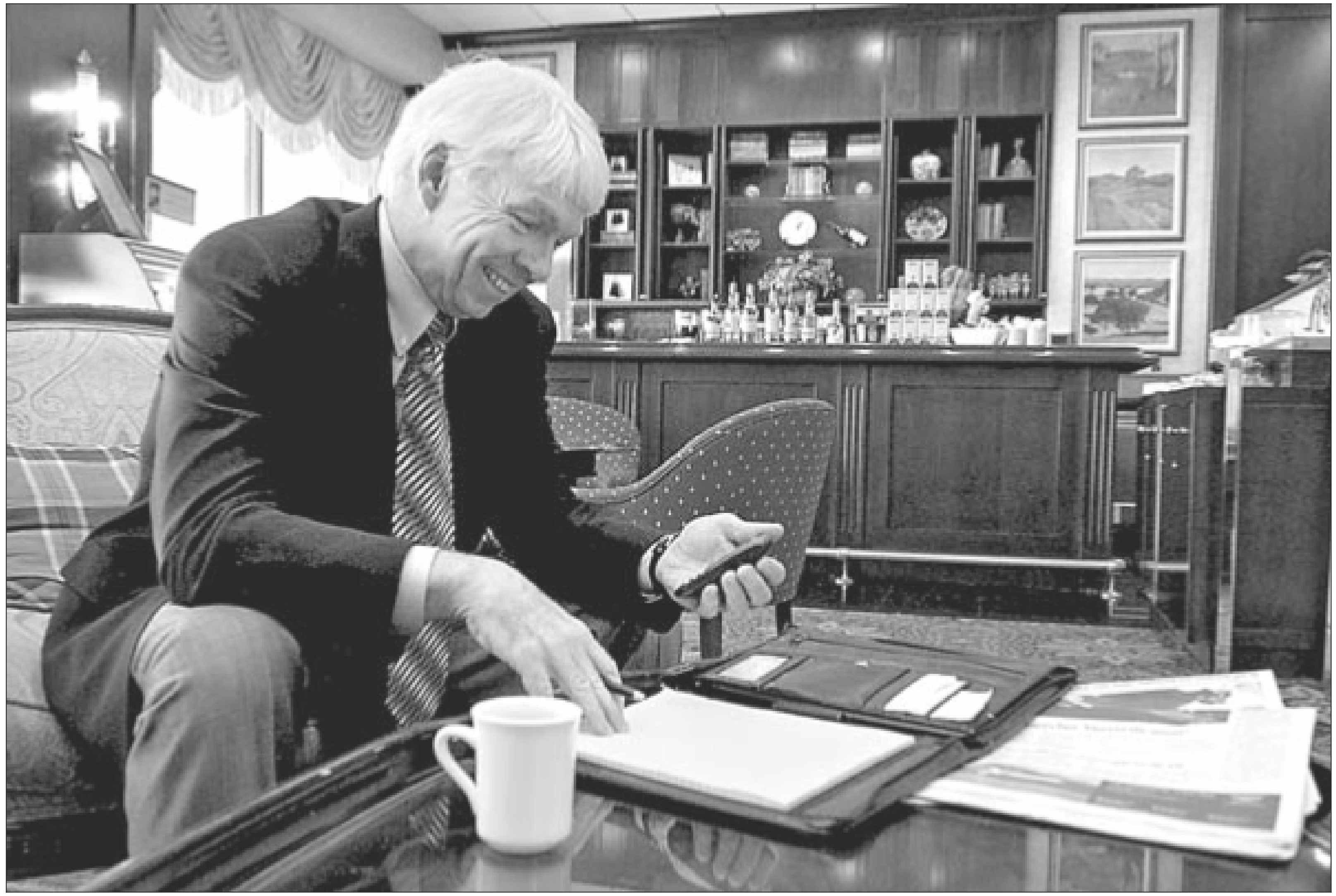
SELLING

Know when to cash out

Owners should put their businesses on the block on their own terms, at the top of their game, BRIAN CHRISTMAS writes



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The sales of businesses will speed up as the first wave of baby boomers begins to retire, says Carson O'Neill, a Waterloo, Ont., broker who handles sales of small- to medium-sized businesses.

Carson O'Neill is sometimes amazed when people call him out of the blue with a sense of urgency about their business: They're getting on in years and now they're wondering whether it's time to sell.

"I've had people call me in their mid-70s and they're saying . . . 'we really should be thinking about this.' I think: 'Gee, you should have been thinking about this 20 years ago.' "

Mr. O'Neill has built a successful business brokering acquisitions and divestitures of small and medium-sized businesses. It's a field that is expected to become more brisk in the next few years as baby boomers begin to hand over the reins to a younger generation of entrepreneurs.

Indeed, as many businesses will change hands in the next five years as have in the past 25 as front-end boomers retire, says Mr. O'Neill, who owns Rincroft Inc., a consultancy in Waterloo, Ont.

But divesting a business is not as simple as hanging up a "for sale" sign — far from it.

The process takes about six months, but sellers might need many more months to make their business more attractive to buyers and, most importantly, establish a succession plan for an orderly transition, observers say.

One of the biggest mistakes owners make is waiting too long to decide, Mr. O'Neill says, although he concedes that that decision can be a difficult one, especially if it's a family business that's "all wrapped up in the owner's life."

Often, people think selling is an admission of failure, he adds. "I don't quite understand it. I don't know what's the matter with a lot of money and your health when you're in your 60s."

Demographics are just one factor motivating people to sell. Some independent business owners, regardless of age, are concerned about consolidation within their industry or market and would rather sell to a competitor than try to tough it out. Some are plain tired, or want out for personal reasons, he says.

"Often, selling the business generates way more money than they can ever hope to imagine in keeping the business," Mr. O'Neill says, adding that the deals he is involved in typically have a value of between $5-million and $15-million.

Elliott Knox has worked both sides of the street. As managing partner of Bedford Capital Ltd. in Toronto, he has done sales and purchases of companies.

There's a lot of private-sector money looking for good investment opportunities, of which there are many, Mr. Knox says. "If you're in a position to take $15-million or more of equity . . . you're in a very hot sector right now."

His advice to sellers:

Always sell before you have to — i.e., don't be forced into it by family or market circumstances. "When you're under stress like that, it's simply not the best time to go out. You're not going to get the best price and you're certainly not going to achieve your objectives."

Understand your objectives: Are you going for the highest price, no matter what? Or do you want your employees looked after? Deciding later in negotiations that the buyer must keep your loyal managers might throw up a roadblock to a deal.

"There's a number of things they need to look at to position the business so that it's as attractive as possible for the buyer," Mr. Knox says. This will involve highlighting the opportunities and the caveats — from what's been done to improve the business and the strength of the management team, to pointing out environmental concerns, for example.

Mr. O'Neill adds that if a business is not readily saleable, he will urge the owner to get it into better shape first. "Buyers want to see black ink. But it isn't just profit — it's transferable profit."

This "aggregate consideration," or enterprise value, he says, goes beyond the balance sheet and factory production to include a long list of selling points: the customer base, inventory, accounts receivable, good will, the product brand.

In fact, it's often better that the business not be "riveted" to its building, Mr. O'Neill says, because a strategic buyer may be looking to consolidate production. The building can be sold separately.

As a buyer, Mr. Knox's firm looks for companies with earnings before interest, taxes, depreciation and amortization of $1.5-million and annual sales of $15-million or better.

In the course of due diligence, Bedford looks for management with the right focus, and it studies the state of the industry or market — is it growing or shrinking, stable or prone to fads? — and the business's platform — does it have a niche market, a brand?

Bedford often looks for "little leaders" — companies that have a commanding presence in what might be a small market; that when you think of a widget or service, you might think of that company, Mr. Knox says.

"That's a great place to start, there's no better business than that," he says.

Mr. O'Neill says a key to doing a deal is finding a strategic buyer, someone who's looking to grow a business through acquisitions.

"You always — and there's no exceptions to this rule — always do better in terms of interest and price and value when you deal with somebody who's already in the business."

Mr. O'Neill founded Rincroft in 1998 but had experience in divestitures earlier in his career at Johnson & Johnson Inc., where he was vice-president of marketing and sales for consumer products, and later at Koala Beverages, where he was president. He has built an extensive list of contacts and prospects gathered by good old word-of-mouth referrals and through seminars he organizes through his website, rincroft.com.

He now helps consummate five to 10 deals a year, but these are just the tip of the iceberg in the overall market. Mr. O'Neill says the vast majority of deals are done privately.

One of his first deals was of a Burlington, Ont., company with 21 employees that made over-the-counter pharmaceuticals. Its owner, Mary McArthur, decided to sell after she and her husband chose to have a family. Her husband's work has since taken them to the Seattle area, where she is a stay-at-home mom with two young girls.

The sale went faster and smoother than she imagined — indeed, the hardest part of selling came after the deal closed, Ms. McArthur says. "The transition to not being a business any more, it was something I was not expecting . . . redefining who you are without your business card.

"You sort of reach this day when you're thinking: 'I don't have to go into the office now. Okay, well now what?' "

She adds that, when the time comes, she will own another small business.