TIPS FOR AN EASY SALE

Selling the family business need not be fraught with problems. If you hire a good outside advisor, you can protect your interests, secure a good deal and continue to manage. **John Willert** and **Brian Silston** urge you not to be taken in by misinformation and myth

There are numerous myths surrounding the process of selling a family business. It is not a process that a typical family business owner has been through before and it can be fraught with misunderstanding.

Myth one: once I sell my business I am no longer involved

There are two traditional types of buyers for a family business: strategic buyers and financial investors, both of which can bring valuable resources and benefits to a company. In the private company market, there are no hostile takeovers and mergers and acquisitions are privately negotiated between buyer and seller. When the owner of a company engages a financial advisor to sell the business, it is important that the sellers convey their desires, needs, and preferences to the advisor, who will then structure the process to achieve as many of the goals of the seller as possible, one of which may be to participate in the business subsequent to a liquidity event. Many financial buyers, for instance, will require management to remain with the company and will offer management the option to participate in the equity of the new company, and/or an option incentive program. Not only can the seller generate some liquidity from the company with a successful sale, but also still participate in a meaningful way in its growth.

Myth two: once I hire a financial advisor to sell my business, the process is completely out of my control

A properly executed sale process is a collaborative effort between the advisor, the owners, management and the company's other key advisors. Exploring strategic alternatives requires selecting a compatible advisor who has experience with family business. The advisor should understand the objectives, motivations and preferences of the client so as to tailor a process that identifies the correct subset of prospective financial and strategic buyers. It is also the advisor's job to convey the type of transaction and the roles the sellers prefer post-transaction. The client is involved in the selection process and the review of initial offers in order to determine which investors will be invited to an on-site management meeting. The client gives further input on any letters of intent that are received and makes the decision, with input and advice from the advisor, as to which party to select as its merger/sale or investment partner.

IN THE PRIVATE COMPANY MARKET THERE ARE NO HOSTILE TAKEOVERS AND MERGERS ARE NEGOTIATED

Myth 3: If we sell the business our employees will leave or be fired by the buyer

IMAGE LIBRARY

Big deal: selling the family business should be a stress-free procedure

Mergers that result in large layoffs tend to make headlines, but most buyers know it makes good business sense to retain the workforce of acquired companies. This is particularly true of financial buyers who prefer to partner with talented managers and skilled employees. Occasionally, strategic acquirers have the opportunity to eliminate redundant staff or administrative functions, which allows them to pay a premium price. An important ingredient in de Visscher & Co's successful family business transactions is our understanding of each business owner's non-financial objectives. We identify buyers or investors who have the flexibility and mindset to fulfill an owner's objectives on multiple fronts – economic value, management roles and organisational or cultural fit. An advisor experienced in family business transactions can confidentially prepare descriptive information and contact and qualify appropriate investment partners. Restrictive confidentiality agreements and a carefully executed merger and acquisition process protect both the company and the employees. In practice, employees and suppliers are most often not surprised when liquidity needs are addressed through a sale and often all parties are well served by the transfer of the business to a well-selected strategic partner that has greater resources than a single family experiencing changing wealth objectives.

Myth 4: With the sale we will lose our focus as a family

Selling the family business is just one step in the overall wealth creation process of a family. The reasons for the sale could be opportunistic or transitional. For these reasons, as well as the need for financial liquidity and diversity, an operating business sometimes no longer fulfills the unique wealth objectives of the owners. In either case, the family has to take the necessary steps prior to the sale to ensure that the family legacy and values are maintained after the sale. Often sale proceeds are pooled among family members in the creation of a family office that obtains better wealth management pricing, access to attractive investment products and the opportunity to pursue charitable endeavors or other operating business opportunities as a united group. Thus, creating substantial liquidity may be just the beginning of a new chapter of the family's shared legacy.

AN OUTSIDE ADVISOR PROVIDES A BUFFER IN TALKS AND AVOIDS THE MANY DANGERS OF ACTING ALONE

Myth 5: The only way to sell the business is to sell control

Competition in the maturing private equity and hedge fund business has resulted in hundreds of well-funded and professionally managed funds pursuing a variety of industry strategies, investment styles and time horizons. As the market has evolved, more investors are willing to invest in minority positions in family owned businesses or invest in subordinated debt securities that offer less ownership dilution to the current shareholders. Recapitalisations, whereby owners liquefy a portion of their ownership interest and reinvest in the business while retaining operating control, are more and more popular. In these situations, business owners secure their nest egg, obtain the use of a well-heeled partner's business capital to fuel growth, and get a second bite at the liquidity apple when the business grows and is refinanced again. Since management is staying on in these transactions, there is greater alignment of objectives and values, which provides the foundation for successful partnerships.

Myth 6: I know the right buyer for my business and I don't need any outside help

Apart from possibly making mistakes or losing opportunities due to lack of experience in a highly specialised area, engaging an outside adviser provides a buffer in negotiations and allows the company's investment merits to be professionally presented. It also avoids one of the biggest dangers of acting alone – the diversion of management time and attention away from the business. A qualified investment banker will help you prepare the business for sale, generate marketing material, identify and qualify buyers, ensure confidentiality, solicit multiple offers, and negotiate to satisfy your financial and non-financial objectives for the transaction.

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