

THE EXIT PLANNING REVIEW™

Issue 267

October 15, 2013



Can You Sell Your Company to an Outside Third Party?

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; and
- 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; or
 - your industry niche has fallen out of favor; or



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PREPARING FOR THE ULTIMATE EVENT

Wednesday, November 20, 2013
Drexel University - Baiada Institute
Symposium for Business Owners
Gerri C. Lebow Hall
3220 Market St., Phila PA 19104
8-11:45am

Cost: \$100 General or Drexel Alum
\$75
[baiadainstitute.com/calendar to register](http://baiadainstitute.com/calendar/register)

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is published by
Business Enterprise Institute, Inc.



- o 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; and
- 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; and
- 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.

Subsequent issues of The Exit Planning Review™ provide balanced and advertising-free information about all aspects of Exit Planning. We have newsletter articles and detailed White Papers related to this and other Exit Planning topics. If you have any questions or want additional Exit Planning information, please contact us.

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