

# Dollar for Dollar

## Preparing Yourself for the Sale of Your Business

By Mark Groulx

**F**or many people, planning what you will do after you sell can be harder than it sounds. Many successful entrepreneurs are so intimately involved with their business they have little personal life. This will make the transition to retirement difficult. A company's value in the marketplace increases when it is less dependent on any one person to run

it. Developing a complete management team is essential for the success of any company that wants to grow and flourish. It also makes for an easier and more valuable exit.

To that end, many factors need to be considered in determining the corporation's future and the viability of your succession plan.

### 1

#### Are qualified family members interested in acquiring control?

I once asked an entrepreneur if any of his children were interested in buying him out. He said they were a bunch of spoiled, rich kids who didn't know the meaning of hard work. Not surprisingly, the company was sold to a third party.

In some cases, the children may think the company is theirs to inherit but the parents are planning to sell it. These issues should be discussed years in advance of a sale.

### 2

#### Are all shareholders ready to sell?

When some shareholders are looking for an exit but others are not, the situation can become confrontational. Sometimes it's the non-active shareholders who receive substantial dividends and bonuses that will hold up the sale of the

business. They don't want to say goodbye to the golden goose, despite the fact that they will be receiving a large cheque.

### 3

#### What are the industry dynamics?

If the firm is in a capital-intensive industry, for example, will it generate enough cash to finance the cost of future growth? One client had to decide whether to upgrade all the equipment to remain efficient or accept significantly less money for it if they sold. They decided to make the capital investment, which put their exit plan back by four years. That was the amount of time it took to show the increased earnings resulting from the upgrades.

### 4

#### What is the time frame for succession?

Many entrepreneurs don't separate the business they run from their personal lives and don't understand that

the business is there to create wealth as opposed to provide a lifestyle.

If you are running personal expenses through your venture to fund your lifestyle, you'll have a hard time establishing what it's really worth and it will be more difficult to sell. It can take time, anywhere from one to three years, to get all your personal expenses off your income statement.

An owner once told me he thought he could sell for \$10 million. When asked why, he said that was how much he needed to retire. I broke the news to him that he couldn't sell it for more than \$2.5 million. He needed to keep the business, take a hard look at his lifestyle and re-evaluate his goals.

### 5

#### What are the owners' personal financial goals?

Many owners haven't thought through their goals in life. A client was selling a firm he had inherited. While it wasn't his passion, he ran it for 25 years and turned

it into an efficient and profitable enterprise. He decided to sell it when he was 52. When I asked why, he said that he wanted to use the money to do something he was interested in while he still could. He and his wife now own a winery and yacht on the East Coast. In this case, his personal goals and his financial realities became aligned. ●

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#### At ground zero? Start here:

- What is your business worth?
- How much income do you need to support your lifestyle in retirement?
- Who are the stakeholders in your business?
- Whom will a sale affect?
- Whose approval do you need?
- Is someone interested and capable of running the business in your absence?
- Are there personal expenses that should not be expensed in the business?