

## Liquidity Options for Business Owners

By Susan Wyka

At some point in their lives every business owner needs to make a decision about the future of his or her company. The goal is to maximize the value of the business for the owners and employees. Choosing the best exit strategy is a challenge. The chosen route will depend upon the owner's need and desire for liquidity, his or her age, his desire to keep on working, and whether there are children capable of taking over the business.

What exit strategies are available to owners of small and middle market businesses?

- Transition ownership to children;
- Sell to key management/employees (management buyout);
- Set up an ESOP and sell to all employees;
- Sell part of the company to a third party (recapitalization) and have an opportunity to sell remaining shares for a higher profit in the future; and
- Sell 100 percent of the company to an outside third party.

This article will deal with liquidity options for owners wishing to exit entirely or take some cash off the table. These options are summarized below:

### SELL TO KEY EMPLOYEES (MANAGEMENT BUYOUT)

In order to capitalize on the experience and loyalty of key employees, selling to them makes sense for many owners. The major issue is whether these key employees have the financial ability and commitment to buy out the owner. Unless the buying group can secure financing to execute the purchase (bank or equity sponsor), the departing owner will likely have to provide seller financing. This limits the cash and liquidity received by the owner at closing and puts his seller note at risk.

### SELL TO AN ESOP

An ESOP is a special type of qualified retirement plan that is permitted to invest in employer stock. While the plans offer many tax benefits, they are complex and costly. They also face the same issues as the management buyout with regard to financing. An expert advisor should be consulted before considering an ESOP.

### SELL TO A FINANCIAL BUYER

Financial buyers and private equity funds acquire minority and majority positions in companies; build the businesses by providing capital, strategic and operational advise; and sell the business in the future, usually three to seven years later. Partnering with a financial buyer allows the owner/shareholders to balance the need for short-term liquidity with the desire to participate in the future upside of the company. The key is to choose a financial partner that shares the same vision and long-term goals as you the owner.

### SELL TO A STRATEGIC BUYER

Owners focused on maximum value and full liquidity would likely seek a strategic sale. Strategic buyers look for companies that allow them to build market share, add complementary and proprietary products, and expand geographically. Opportunities for synergies and cost cutting can enhance post-closing value and may allow them to pay a higher purchase price. If the owner plans a full exit from the business, this is usually the best option. For an owner who wants to remain, becoming an employee with no control is often hard to bear.

Coming off the credit crisis and a lackluster M&A (mergers and acquisitions) market during the last few years, the timing is right now for owners to consider a liquidity event. For middle-market companies, valuations currently range from five to eight times EBITDA. EBITDA is defined as earnings before interest,

depreciation, and amortization. Multiplying EBITDA times the sale multiple totals enterprise value. Debt is subtracted from enterprise value to get equity value, which is the amount that the buyer pays for the company's equity. Demand from both strategic and financial buyers/partners is currently strong given the pent up demand for transactions and the amount of capital sitting on the sidelines.

If you as a business owner are thinking about an exit, the first step is to hire experienced advisors, including an attorney and financial advisor/investment banker to assist you. The nature of an M&A transaction involves a host of issues, including tax, employment, accounting and legal considerations that are complex. These advisors will help you analyze the various options and choose the right path for you and your company.

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