

Selling your business

marcos@rodriguez.com

Sell early

The most common reason for owners to sell their business is: burnout. And by the way, that's a good reason to give a buyer when they ask.

But what if you're not burned out. What if you love what you're doing, the business is doing well, you're bullish about the future? Should you consider selling? Absolutely.

The best time to sell is when you don't have to and the business is doing well and the upside is obvious. Of course, the temptation to keep harvesting the fruit of your labor is great. But a buyer wants to see a strong business and a strong future. You get your best price by selling the future in addition to the past.

No matter how well your business is doing it has the capacity to pull you away from your family and a personal life. It is perfectly capable of burning you out. Don't wait until you are burned out or out of cash or in some other crisis.

At least yearly, you should speak to somebody who knows the value of your business so you know where you are on the curve. Sell on the way to the peak. Not at the peak; buyers want to see a peak ahead of them. It's tough to sell on the way down from the peak or at a trough. In the lifecycle of your business and the supply-demand curve of the market for your business you may only have a few windows to maximize your return.

Build a silver cellar

To me it's ironic that we incorporate, in part, to have a "shield" between us personally and whatever exposure is out there, but then we end up with most of our wealth in that company. If something happened to it, like a devastating punitive damage judgement, we could lose everything we've ever worked for.

John Arend, CEO of InterChem, shared at a CEO Club management course about the concept of the silver cellar, a place where you've socked away cash so that you have it should a time of need or opportunity arise.

Everything goes in cycles, right? There are boom times and bust times in every economy. We are tempted to think that the part of the cycle we're in is the way life's going to be. A silver cellar is a very sober, long term way to be prepared for a harsh downturn and take advantage of opportunities. Do you like to buy low, sell high? Prices are lowest at the bottom of cycles and the folks with silver cellars during downturns can not only avoid disaster but make some good deals.

It's the entrepreneur's nature to keep betting the company. The best way to build a silver cellar is to sell your business and take some money off the table.

Become a capitalist

The book e-myth talks about different types of entrepreneurial behavior. It showed me that you can be an entrepreneur technician or an entrepreneur capitalist. Owners who are very hands on in the business and indispensable are acting like technicians. If you start, run, and then sell your business then you are an entrepreneur capitalist. I became a capitalist when I sold my first business. Now I'm an evangelist for capitalism.

If you act as a technician and don't sell your business, how much entrepreneuring can you do?

If you work in the business you can't work on the business

The more entrepreneurial you are the more you should work hard to pull away from the business you've started as soon as possible. Bring in professional management; a successor CEO. There are lots of buyers out there that must have top management in place. Capital backs management. And if you're management, you have fewer options.

Are you a control freak? I don't like being the passenger in a car. I am perfectionistic. I have opinions about everything and convictions about the rest. Letting go is hard. I've hired many a general manager that didn't work out. But I hired one that not only worked out he built the business better than I could have. After he built it up, I sold it, but kept him. Now he and I are building another business bigger and better than the other one. I would not have greater confidence and greater capacity had I not sold the business and found a professional manager.

There is more glory in having things run without you than in thinking you have to do it all.

Package it for sale from day one

It's good to start with the end in mind. In this sense, you should run your business with an eye on selling it and being prepared for that day along the way. I use a separate corporation to act as "management company" for my businesses. The management company pays my wages and expenses as well as everything that is not day-to-day expense for that company.

This process allows you to manage your taxes and pay yourself what you want without distorting the numbers that a buyer should see.

Some businesses are really empires under construction

I have the empire-building gene. I self-actualize by incorporating, by starting new projects and experimenting with things. This works against me when it's time to sell the business. I have expenses that are there to help me bring in next year's growth. So when you decide to package the business to sell, watch out for overhead that's not directly necessary to generating today's revenues. The exceptions you can defend you should add back.

Business brokers recommend that all sellers restate their earnings to allow for owner perks and the non-day-to-day. Always show the prospect the financials in the best light. You can re-state your earnings as aggressively as you can defend, and you should. It's best to keep non-operating expenses out of the operating section. You won't have to defend them.

I have consistently gotten my auditing firms to sign off on this approach so my audited statements reflect a pure and defended aggressive ebitda from day one. Buyers love to see audited statements. Public company buyers almost always have to have them. If you get one you will have a backstop to your business office and will know they're doing a proper job.

You have to show as much ebitda as possible. Many buyers will discount the ebitda that you show because they may not run it as well as you; in any case, there going to start negotiating from there.

Estate plan before you sell

Even if you're not going to try to sell your business today you should be running it as if you were. If your business is in your estate you should get as much as you can out of there asap. Every dollar it appreciates while in your estate is 55 cents the irs is planning on getting out of you.

Try to freeze the amount of equity that you have in your estate at a small number. When you sell you'd like the proceeds in a very tax-advantaged manner. Some business owners have their company in a legal entity that serves them for avoidance of income tax but not necessarily facilitating capital gains or top dollar, after tax, from a buyer. Do that homework first; when you think about offers think after tax.

Protect your key people

If you have a long-term loyal employee or anyone else the new owner could fire unfairly that you care about put a severance deal or an employment agreement in place early on in the process.

Once you decide to sell, sell

I was emotionally attached to my big fm in dallas. When I got an offer, no matter how much it was for, the business was worth a little bit more. John Paul Ghetty was asked once how

much money is enough, he said " just a little bit more". I think I had an unusually patient and forgiving business broker. But I wasted some of his time and some of mine.

Do the best job you can to create demand for the ownership of your company, find and engage as many prospects as you can, then haggle intensely and make a deal.

Got one buyer? You got no buyer

This quote comes from the Geneva Corporation, a business broker firm that Joe Mancuso invited to speak at the CEO Club Management course some years back. The refrain stuck in my head and has become a familiar tune to me. What it refers to is the risk you take by just engaging one party. All too often, you make such an investment in negotiations with them that you end up making too many concessions because you're so far down the road. Sometimes your one buyer goes away after a lot of work on your part.

I sold my first Spanish media group to the first buyer that made me an offer that I couldn't refuse. It was a generous offer, no doubt. I sold my last radio station a little differently. I insisted we get at least two and preferably three players engaged. A funny thing happened near the end. I ended up selling for more than I thought I could get.

I kept repeating the saying to myself and my team: got one buyer? You got no buyer. We worked two of the prospects in parallel fashion to the point each was ready to sign the definitive purchase agreement. Then we picked the best deal and told the other party no. The one we told no to got mad because they thought they had it. Please note: along the way with all of them we warned them that we were talking with the other parties and that we did not have a deal until it was signed. They might have thought that this was just posturing on our part, but we not only wanted to avoid a lawsuit we wanted the moral high ground.

The party we said no to came back on Saturday and asked the question: what will it take? Yes, we were almost giddy at this point. We told them here's the contract you will sign, come to the office on Tuesday, bring a cashier's check for one million dollars and we'll tell you the number. You can say forget it. If you say yes, the station's yours.

Now there's only one way we could have been so bold and aggressive with this party. We had another buyer ready to sign an acceptable definitive at a very nice price. Sunburst showed up on Tuesday with their financial backer. They all sat on one side of the conference table, us on the other. We looked them in the eye and told them our new price. They asked a couple of questions, then said yes. We had just sold this thing for way more than we had expected and at a record price.

Roll ups can be good, bad and ugly

When I sold my Spanish media group, I was approached in a very classic manner. A Spanish radio operator from L.A. that ran a very respected operation was doing a roll up. I was invited to join. The transaction would be a tax free stock swap into the private company.

They would assume all of my debt. I would get a put for cash if they did not end up public. I would have an employment agreement to not only keep managing what I had built but help them build out Texas. They offered 10 times cashflow and since I was having a good year it sounded like a tremendous offer.

Beware the charming buyer

When it comes to being pitched by a charming buyer or for that matter even being a seller of your business you are as strong emotionally as a cheerleader being asked out by the quarterback.

Getting a deal done involving a lot of money can be a hard and ugly process and end in an anticlimax. I've observed that deals rarely get more attractive through the process.

A lawyer who defends himself has a fool for a client

I'm not saying charmers are dishonest. I'm saying that you should not represent yourself when it comes time to sell your business. The process is too emotional and you're going to get very emotionally involved and it's going to affect your judgement.

Sellers like to be sold, right? That's another reason to use a business broker. If you can find a specialist in your industry that's trustworthy and skilled you can afford to pay him Lehman's or more. He will earn it.

I've had a good business broker I've worked with for many years. He's made a lot of money for me not only by helping me find buyers but by helping me find good deals to buy and negotiating favorable terms. My business broker can be tough when it's needed and put people in their place and do it where they still respect him. He is very bright and knows how to read people.

Pick the man, though, not the company. Some outfits will introduce you to their heavy hitters and then assign your account to a junior guy.

Every good idea needs a champion

Don't underestimate the work and distraction involved in the marketing of your business. You have to have at least two people to delegate this to. Your business broker and your corporate counsel. And by corporate counsel, I mean a heavy hitter lawyer who has experience in business purchase agreements and is not a deal breaker. Law schools train lawyers to think about everything that can go wrong. Lots of lawyers get carried away with this thought process and help things to fall apart. Negotiation doesn't stop when the principals agree on the business terms. It continues throughout the documentation process and until you get all that you bargained for. It's a rare lawyer that can help you make deals.

You're not alone with family biz issues

It's lonely at the top. The typical business owner gets little objective advice from his spouse and chief managers.

Do you have family members in the business? Whatever your issues are with them it's happened many times before with others. You'd be surprised at how common the family business issues are. Seek out advice.

There's wisdom in much counsel

It's hard to have too much good advice. I regularly seek out experts in every area in which I venture. I have a dozen lawyers that I employ regularly. It's an age of specialization; you have to have an ongoing relationship with experts and not be reluctant to pay them well for it. Good advice is expensive but not doing it right the first time is more expensive.

The more you are lawsuit averse and high on integrity the more you need a good legal team. Don't be naïve, when you sell your business be prepared for things not going as planned and the other side not delivering on their promises.

Insist on arbitration

Arbitration clauses have worked very well for me. It allows for cheaper and speedier adjudication but, more importantly, it falls outside the comfort zone of the trial lawyers.

In one settlement of an arbitration claim, I requested and got a promise that the ceo would personally contact me to discuss any grievances before lawyers were called. I take litigation and threats of litigation personally. But big corporations don't. They have legal in their budget and think nothing of spending it.

A bad settlement is better than a good lawsuit

There's a saying about lawsuits: if you're wrong, fight it, if you're right settle it. It's counterintuitive, but there's a point: emotions get the best of us with legal entanglements. You're the most vulnerable to poor judgement when you're mad and you feel cheated. Court victories are hollow and costly.

Do you want satisfaction? Find it with your family. Looking for justice? You can read about it in the bible. In any case, don't expect the courts to deliver either of them to you.

Entrepreneurs make poor employees

I was both flattered and excited to become ceo of the texas division of the company that bought my spanish media company. I had all kinds of ideas and now a bigger company was going to back them.

My first sign that things were not going as I expected after closing was when their cfo called my business manager to tell him that he was going to answer directly to him. Then the chairman told me I was going to answer to someone other than him.

The beginning of the end started when the owner hired a "consultant" to evaluate the acquisitions. I was told that the consultant was also a prospective hire and I was asked to evaluate him. The consultant came to town and interviewed my key people, all the while with a smile on his face. Next thing I knew, the report came in saying that my operation was being poorly run. You can't imagine the shock and disbelief; these guys had just paid top dollar for my operation and put me in charge of expanding it.

I was called to a meeting in los angeles. The "co-ceo" and the consultant were there and I was asked to defend myself. After the meeting I resigned. I had kept very good notes along the way, and I had a "good" claim. But I did not file a lawsuit. Instead I negotiated a settlement and left in peace. Btw, they hired the consultant to replace me. He fired a lot of my key people and almost ran the company into the ground before they fired him and went back to where I had it.

I should have known I would not thrive in a corporate environment where I was not the ultimate boss. I had too many ideas and wanted to move fast on all of them. I am better cut out to be the enemy of big corporations.

Don't stay on any longer than you have to and plan ahead for the possibility of the premature break up.

Big opm likes track records

I am building my new spanish media group with opm, other people's money. Somewhere out there there's somebody that believes in you and has lots of money to invest in your ideas and your next venture. They need to know that you've exited profitably because they need a successful event also.

Selling opens up new opportunities

Selling my business has been great for me. I have gained confidence and gone on to greater things. Now I am leveraging my track record of starting, building and exiting successfully.

To me an entrepreneur is like a musician that hears music in his head. He has a God-given fountain of inspired creativity. Are you that type of person? If so, you don't have to fear what you'd do if you sold your business. The ideas will come. You will see opportunity everywhere. And best of all, you'll have the time and capital to act on them like never before.