Finish Strong

Sell Your Business On Your Terms

Scott Bushkie
CBI, M&AMI

Copyright © 2021 – by Scott Bushkie

All rights reserved. This book is protected by the copyright laws of the United States of America. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic or mechanical—including photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1967 United States Copyright Act, without the prior written permission of the author. Requests to the author for permission to use should be addressed to sbushkie@cornerstone-business.com.

Mention of specific companies, organizations, or authorities in this book does not imply endorsement by the author or publisher, nor does mention of specific companies, organizations, or authorities imply that they endorse this book, its author, or the publisher. All trademarks are the property of their respective companies. Internet addresses and telephone numbers given in this book were accurate at the time it went to press.

Limit of Liability/Disclaimer of Warranty: While the author has used his best efforts in preparing this book, he makes no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaims any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. The author shall not be liable for any loss of profit or any other commercial damages, including but not limited to: special, incidental, consequential, or other damages. The author's results and the author's clients' results are not typical, and the author is not suggesting or implying readers will duplicate these results. Most people who buy any "how to" information get little-to-no results, especially when they aren't willing to consistently follow the suggested strategies and work hard. All successful businesses incur risks and require persistence and action. If the reader is not willing to accept this, please do not purchase this book.

For general information about our products or services, please visit our website at https://www.cornerstone-business.com/, or contact the author at sbushkie@cornerstone-business.com.

CORNERSTONE.

Library of Congress Number:

Publishers Cataloging-in-Publication Data
Finish Strong: Sell Your Business On Your Terms; by Scott Bushkie
192 pages cm.
ISBN Paperback: 978-1-7378113-0-5
ISBN ePUB: 978-1-7378113-4-3
ISBN Hardcover: 978-1-7378113-1-2
ISBN Workbook: 978-1-7378113-2-9
ISBN Workbook Epub: 978-1-7378113-3-6

Printed in the United States of America

Chapter 3: You Have More Options Than You Know

Jim was a brilliant man, a Ph.D. with a long-running business in behavioral health. He was ready for retirement and had begun talking to his financial advisor about moving to Arizona. "What about your business?" the advisor asked. "Well, it's been a good run," Jim said. "I think I'm going to shut it down in the next 12 months."

Jim had been in business for close to two decades. His business had expanded to multiple locations and over 20 employees, but he still felt convinced a behavioral health practice wouldn't sell. Fortunately, his financial advisor referred him to Cornerstone. We did an analysis and confirmed the business did indeed have value. About four months later, we presented him with two offers for a full buyout and a third from a family office looking to do an industry rollup.

With the latter option, Jim could keep a minority equity stake in the business and could continue seeing patients (the part of the job he truly liked best). What's more, the buyer had a practice location right near the Arizona city where Jim had already been planning to move!

Jim wound up selling his business for close to $2 million—money he would have left on the table if his

advisor hadn't prompted him to give us a call. Plus, all those employees would have lost their jobs. In the end, Jim got to keep part of the business and do the work he loved best—without the extra stress of human resources, insurance issues, and administration.

Many business owners have preconceived notions about who will buy their business or whether it's even salable at all. A lot of owners think their likeliest buyer option is the competitor down the street. Maybe that was true once upon a time. But the M&A world has changed dramatically, and continues to evolve.

Today when we talk about selling your business, we're really talking about a wide breadth of options. This is not an all-or-nothing scenario: you *can* sell all of the business or just some of it. Or you can sell it all but stay on as an employee or as a consultant. *Or* you can sell to a private equity (PE) firm or family office and to your kids at the same time! There are so many options.

Your local competitors are usually not the only buyers at the table. If your business is valued at $5 million or more, there's a 75% chance that your buyer will come from over 100 miles away.[5]

How well do you understand the exit options available in today's market? Here's an overview of nine common exit strategies and a few pros and cons of each:

---

1 M&A Market Pulse Report. Visit www.ibba.org/resource-center/industry-research for the latest results.

Sell 100% of your business. You can sell the whole company. Expect to invest several months in a transition period or longer via a consulting contract. Most business owners receive 70-90% cash at close and are funding 10-30% through seller financing, earn-out, or an equity rollover.

Pros:

- You can maximize value in a competitive, structured sales process.
- You get to move on to your next chapter without any business responsibilities hanging over your head.
- Diversifying your personal finances. The equity in your business typically represents your most valuable asset. Selling it allows you to turn all of those assets into more liquid and more diversified investments.
- If run through a proper structured sale process, many times you will have multiple offers to choose from.

Cons:

- It can be emotionally challenging to let go of something you've invested so much of your life into.
- You will be required to sign a three- to five-year non-compete agreement.
- The process can take nine months to a year.

- You may face regret if you have not given thought to what you really want in the "next chapter" or decided what you are moving on to next.

Sell the majority of your business. You could sell a majority stake when you see an opportunity to maximize value or want to diversify your investments. By keeping a minority share, you get an opportunity to stay involved in the business and help a new owner while significantly diversifying your assets.

Typically five or so years down the road, you'll get another bite at the apple when the business is sold again. Enhance this likelihood by looking for a buyer who is better capitalized, has industry expertise and connections, or has a proven "playbook" for growth and success. You could ultimately realize greater returns on your minority stake than if you had sold the full business at once.

Pros:

- Allows you to take some chips off the table and diversify your assets.
- You can offload many of the administrative portions of your role.
- Recapitalizations can have the effect of increasing management rigor. Your investment partner can help you professionalize the business by implementing new reporting practices, processes, or management software. While these

tools help you remain accountable to your new partners, they can also help the business make more informed, data-driven decisions.
- If you see a clear growth opportunity in front of you but are not prepared to take on new debt or risk at this stage in your life, an investment partner can provide the resources to fuel growth plans.
- By selling the majority of the company, you typically will not have any personal guarantees tied to a lending institution. This reduces your risk if something catastrophic happens to the business or industry.
- If run through a proper, structured sale process, many times you will have multiple offers to choose from.

Cons:

- If you are burned out, this is generally not the right approach for you. In a recap model, the investors are typically looking for a business leader who will stay for roughly five years.
- While you will still run the day-to-day business, you will no longer be the primary owner and decision maker. Your investment partner will be involved in, and have final say on all significant financial and strategic decisions.

Sell a minority stake. It used to be that finding a minority investor was a matter of personal networking and "who you know." But now, selling minority shares

as part of a structured sale process is a growing trend. Investors have capital that they need to put to work, and this is one new way they're making that happen.

Pros:

- Growth capital. Your new business partners will bring additional resources to the table.
- Opportunity to take advantage of current market trends, as you can speed up the pace of growth.
- Connections in the industry. Your new partners can make invaluable introductions and get your foot in the door with new clients, distributors, or networking groups.

Cons:

- You now have a new partner you need to get along with. You'll need to make sure your values and vision are aligned.
- Potential new reporting requirements. You may be asked to do more "paperwork" and analysis than you're accustomed to.
- You'll need to have a clear exit plan, agreed upon by both groups at the start of the relationship.

Sell to family members. A business transfer to your children or other family members is a great way to ensure your business culture and legacy remain intact. You get to share a valuable asset with people you love,

and will probably have ongoing opportunities to stay involved in the business you started.

On the downside, your children may not actually want the business, and may feel pressured to take on something that they have no real interest in, or aptitude for. What's more, selling to your kids typically involves a gradual payout, oftentimes over 7-10 years, meaning you'd lose out if the business' performance declines. That can be a sticky, sorrowful thing that is capable of driving a wedge between you and the people you care about most. (See more in Chapter 4: Transitioning to Family or Management.)

Pros:

- You can help a loved one enjoy the rewards of business ownership.
- You don't have to go through a process to sell your business.
- Less disruption in the business, and the business culture typically stays the same.

Cons:

- Choosing a successor can put a lot of strain on your family.
- You will usually have to wait longer to get your value out of the business (typically 7-10 years).
- Tensions arise when money and family mix.
- How do you fairly distribute your wealth to your kids when some are in the business and

some are out of the business—or one is the CEO and the other is head of maintenance.
- Business failures can be high if the child or children lack the skillsets to run a business.

Sell to your management team. Selling to key managers comes with many of the same advantages as selling to family. You've spent a lot of time getting to know and trust your managers, and you know the business will be in good hands.

Here, too, the risks are the same. These buyers often require extended seller financing agreements, meaning you may have to wait 7-10 years to receive full value. It's a risky move, because if business performance declines, you might not get paid.

Pros:

- You share a valuable asset with people you've come to know and respect, and you know the business will be in the hands of people you trust.
- You don't have to go through a process to sell your business.
- You will be rewarding the management team for years of loyalty.

Cons:

- Your management team may struggle to raise enough funds, which can defer your total compensation for years.. And if business perfor-

mance declines, you might not see that money at all.
- Your team may expect a good guy discount. (i.e., "Hey, we helped you build this company. We don't want to pay fair market value.")
- Sandbagging. Your team may be disinclined to grow the business before acquisition, knowing that performance increases will drive up business value (unless you set a price early).
- We've seen managers who think they want to be an owner—that is, they want the profits and the title—until they find out they'll need to make personal guarantees to the bank to fund the acquisition. When they (and their spouses) find this out, they pump the brakes.

Alternately, we could do a partial sale to your management team, with backing from private equity or a family office. Your team gets meaningful equity which will change their lives going forward, but you also get the majority of cash at close. (See Chapter 4: Transitioning to Family or Management.)

Transfer to employees via Employee Stock Ownership Plan (ESOP). This is a similar exit strategy to the one above, except an ESOP sale comes with some positive tax and more stringent rules. Like selling your business, there are costs involved in setting up the ESOP. Many advisors believe the business should have at least $10 million in annual revenue and 30-50 employees or more depending on the amount of overall payroll.

Pros:

- Tax advantages versus selling to an outside buyer or an internal transfer.
- Employee owners may work harder, leading to greater profitability.
- Less disruption in the business, and business culture stays the same.

Cons:

- Setting up an ESOP structure is challenging and not without its own costs to establish.
- Annual plan administration costs tied to the ESOP.
- The value of the business will be at a fair market value or what a financial buyer would pay, versus what a synergistic or strategic buyer may pay.

Divest a division of your business. Maybe you're not ready to retire, but you want to diversify your investments and alleviate some of the pressures of ownership. Selling off a product line or division can be a good way to achieve these goals without exiting your business completely, while still maintaining 100% control of your company after the sale.

Pros:

- Provide cash/liquidity so the business can use the funds to pay off debt, use the capital for growth in other areas, or take some chips off the table.

- Allow you to focus on your core business.
- Keep company at a size you can comfortably manage.

Cons:

- The sale process can be a distraction to the owner.
- May result in losing good employees/letting them go with the buyer.
- The employees working in that division could lose their jobs if the buyer relocates it out of the area.

Close your doors. For some business owners, liquidation makes the most sense. Unfortunately, many salable businesses shut down and sell their assets at far less value than they could have received for an operating business. Before you call it quits, talk to an M&A advisor who has a solid closing ratio and a proven track record for getting deals done.

Pros:

- Selling off assets may be the quickest way to exit the business. This is the simplest option and can be executed immediately.

Cons:

- Typically returns the lowest return on investment (ROI) for your business.
- This option creates job losses and has a residual impact on the community.

- If you own the building in a separate LLC, you may still have ongoing holding costs with no revenue to offset the expense.

Death or disability. No one likes to think about all the "what if" scenarios in life. Most business owners have no plan for exiting their business at all, much less leaving in the face of conflict or tragedy. Talk to your advisors and have a written plan for your business in the event that you are incapacitated.

Pros:

- None.

Cons:

- Leaves your grieving family with significant burdens and responsibilities.
- Often results in a significant decline in value before the business is sold—if the business can be sold at all.
- Can lead to total business shut down, the loss of employees' jobs, and your legacy.

Think about how you might want to exit your business someday, then talk to an advisor about how to make it happen.

Don't Plan On Yesterday

"Today's progress was yesterday's plan." -author unknown

No matter which option you choose, know that selling your business is going to take time. It's a process, not an event.

When a business owner says it's time to sell, among my initial questions I ask, "What's your timeframe? How fast do you want to be out?" And the answer I hear most often is, "Yesterday." That's... a problem. Most business owners underestimate the time it takes to sell and exit their business. It's not like selling a house: you don't simply hand over the keys and walk away on closing day.

In an ideal world, you'd be working with an M&A advisor for two to three years before you put your business on the market. There are typically several changes you can make to maximize your sale value, plus other pre-transition activities that will better position your company for sale. (See Chapter 8: How to Build Value Prior to Sale.)

For the lower-middle market (businesses valued between $2 million to $50 million), it typically takes an average of 9–11 months to sell a business.[6] After that, many sellers can expect at least six-month to one-year transition.

Everything's negotiable, of course. Some sellers want to head to their retirement destination as soon as humanly possible. Others want to sell, but they aren't quite

2 M&A Market Pulse Report. Visit www.ibba.org/resource-center/industry-research for the latest results.

ready to go cold turkey on the whole "work" thing. It's possible to sell and collect a salary and benefits for a few years—minus all the stress of ownership and the personal guarantee risk with your lender.

Consider the following two sellers who worked with us at Cornerstone and were polar opposites when it came to their transition goals.

One seller knew his company was on a good growth trend, but he wanted to reduce his risk and stress as an owner and needed help to get the business to the next level. In addition to the sale price, he signed a three-year employment contract, earning a larger salary than he had been taking as an owner, plus lucrative bonus options if he helped get the company to where he thought it could go.

Another seller was ready to retire at age 60 and was itching to get out and travel the country with his wife. We negotiated a 60-day transition period in that deal, but the seller must have talked his way into some early freedom—he sent me a postcard from Alaska just four weeks after closing.

Figure out who you are and what you want, then work the numbers backwards. Start talking with your advisors now, so when you're ready, you're ready.

Workbook:

- Exit options
- Vetting a buyer
- Additional buyer group information

Key Takeaways:

- Know all exit options before you choose your path.
- Plan ahead: The average lower-middle market business sale takes 9–11 months to sell, not including post-sale transition time.
- Take the time to truly reflect on which option might make the most sense for you.

About the Author

Scott Bushkie is the Managing Partner and Founder of Cornerstone Business Services. With more than 20 years in the M&A industry, Scott is a recognized thought leader in mergers and acquisitions focused on the lower-middle market.

Over the years, Scott has successfully executed hundreds of transactions, domestically and internationally, with a goal of successfully guiding each client through what is most times the largest financial transaction of their life.

As a keynote speaker, he has engaged audiences from national organizations to local trade groups and international delegations, with a key focus on helping professional advisors and their business-owner clients prepare for future business transitions. He has been asked to participate in multiple best practices panels for some of the largest M&A trade associations.

Scott and the Cornerstone team developed the Assurance 360™ process, an approach to M&A which generates a closing ratio significantly higher than the national average. Under the Assurance 360™ process, clients can typically choose from multiple buyers, allowing them to select the best fit and maximize what is most important to them in a transaction.

Scott is the founder and past chair of the Wisconsin chapter of Midwest Business Brokers & Intermediaries (MBBI) association and was the 2016 chair of the International Business Broker Association (IBBA), the largest association for business brokers and M&A professionals worldwide. In 2014, Scott became the youngest person ever awarded the IBBA Prestigious Fellow designation. The lifetime award recognizes industry expertise and significant contributions to the profession.

In 2017, Scott was named a fellow of the M&A Source, once again the youngest recipient in the organization's history. As of 2021, Scott serves as chair of M&A Source. He is also the current founding president for the Entrepreneurs Organization (EO) Wisconsin chapter.

Among other industry accolades, Scott received the IBBA Closing of the Year award and the Chairman's Circle Award for 2017. He's been recognized with the MBBI Outstanding Leadership Award and Member of the Year and as the Wisconsin SBA Emerging Small Business Person of the Year.

In 2018, Scott launched the Cornerstone International Alliance, providing vetted member firms with enhanced buyer reach, access to industry experts, resources, and structured best practice sharing. Operating with the philosophy that "we are better together than alone," the alliance helps top tier lower-middle market M&A firms create more value for their clients.

Scott holds the Mergers & Acquisitions Master Intermediary (M&AMI) designation. He is a Certified Business Intermediary, licensed real estate broker (WI), registered business broker (IL), and a registered representative of the broker dealer StillPoint Capital with the Series 62 & 63 securities licenses.

He is a graduate of the University of Wisconsin-Whitewater and is currently a member of their Entrepreneurship Advisory Board. Scott and his wife Cassie live in Green Bay with their three children. When not working, he can be found coaching youth basketball, enjoying time with family and friends at their lake cottage, water skiing, downhill skiing, and of course cheering on the Green Bay Packers. Go Pack!

www.cornerstone-business.com

920-436-9890

sbushkie@cornerstone-business.com

find Scott on LinkedIn @scottbushkie