BENJAMIN F. EDWARDS & CO.

INVESTMENT BANKING

Mergers and Acquisitions
Advisors to Business Owners

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SELLING YOUR BUSINESS: WHO IS THE RIGHT BUYER?

Once you have made the decision to sell your business, there are several key considerations concerning the optimal exit strategy and buyer.

Selling to an Outside Third Party: All or Part of the Company

Outright Sale: Selling to an outside third party includes both strategic and financial buyers. The sale can be structured flexibly and customized to the owners' objectives. Generally one of the major benefits is the opportunity to immediately cash out, depart the business and move on at the closing of the sale. An outright sale is generally the simplest way to exit a business. Another positive is the current high valuations, particularly for middle market companies, due to a strong sellers' market. A negative is the tax consequences of a sale. The tax consequences vary depending on the type of entity being sold and if it is a stock or asset sale. In evaluating options, it is advisable to compare the net after-tax proceeds the owner will receive from the sale.

Recapitalization: If an owner wants to take some cash out of the business without giving up control, a partial sale or a recapitalization of the company can be an ideal option.

Selling to an Insider: Family Members or Managers

Selling to an insider, particularly family members, provides challenges because insiders rarely have the cash or credit necessary to purchase the company. In some cases the owner or company may be willing to finance the purchase. Each transaction is unique, but typically selling to an insider does not maximize the owner's potential value in the business.

Selling to Company's Employees: Employee Stock Ownership Plan (ESOP) or Management Buyout (MBO)

With both an ESOP and a MBO the company contributes ownership shares or cash into a tax-exempt trust, with cash used to buy stock for employees. An ESOP is a tax-deferred way to distribute an interest in stock of a company to its employees. One of the main differences between these two structures is that with an ESOP all employees participate while with a MBO only key managers participate. Also, an ESOP can take on debt. Both structures can offer tax benefits to owners in the sale of the company and can potentially have a positive impact on employee morale. However, these structures have upfront and ongoing expenses and can be cumbersome and complex to manage. When contemplating an ESOP, the selling owner needs to identify appropriate people to assume new leadership roles so that the company can continue to succeed. In addition, generally ESOPs do not allow the owner to fully exit the business immediately after the sale. While a sale to an ESOP usually results in significant tax savings for the selling shareholder, even with the tax savings, the after-tax proceeds may not be as high as an outright sale to a third party. Selling a business is one of the most important decisions a business owner will make. There are many aspects to consider when determining the optimal exit strategy and buyer for the business owner. It is wise to consult with outside experts such as an investment banker, accountant and attorney.

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Benjamin F. Edwards & Co.'s Investment Banking department specializes in selling middle-market companies.

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