Benjamin F. Edwards®
Investments for Generations®

Investment Banking

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: FINANCIAL BUYER

Selling to a financial buyer includes both private equity firms as well as family offices. Private equity firms are pools of equity capital managed by a general partner. Capital is raised primarily from institutions (e.g. pension funds, insurance companies and endowments) and high-net worth individuals. In contrast, family offices are pools of capital that are funded either through the sale of a family business or through the ongoing cash flow of a family's existing business.

One of the benefits of selling to a financial buyer is that the sale can be structured flexibly and customized to the owners' objectives. An outright sale is generally the simplest way to exit a business. However, if an owner wishes to stay involved in the business, a financial buyer can offer the ability to retain either a majority or minority ownership position while continuing to run the business. Maintaining an ownership position allows an owner to take chips off the table today while continuing to participate in the upside potential of the company. Another positive is that valuations are relatively high today, 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. Rolling a portion of the equity can reduce the current taxes owed. In evaluating options, it is advisable to consider factors affecting the net after-tax proceeds the owner will receive from the sale.

SELLING TO AN OUTSIDE THIRD PARTY: STRATEGIC BUYER

Selling to a strategic buyer can include selling to a company's competitor, supplier or customer.

A sale to a strategic buyer is generally less flexible than a sale to a financial buyer depending on the ownership of the acquirer. Ongoing ownership in the combined entity is possible if the acquirer is owned by a private equity firm or is public. A privately-owned acquirer, however, will generally not offer ongoing ownership in the combined entity. Generally, one of the major benefits to a strategic sale is that it offers a better opportunity to immediately cash out, depart the business and move on at the closing of the sale, whereas a financial buyer often wants the owner to remain involved, at least for a period of time. Another positive to a strategic sale is that a strategic buyer can often pay a higher valuation due to synergies. One negative of a strategic sale is a potential change in company culture, in addition to the same tax consequences associated with a sale to a financial buyer.

SELLING TO AN INSIDER: FAMILY MEMBERS OR MANAGERS

Selling to an insider, particularly family members, provides special 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 selling to an insider generally does not maximize the owner's potential value in the business.

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Benjamin F. Edwards' Investment Banking team specializes in selling middle-market companies.

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