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## Recovery sparking sales

Time to maximize the value of your business

Richard Chu

Merger and acquisition activity has picked up in the past six months, and baby boomer business owners are again taking steps to sell their business.

Mark Wardell, president of Wardell Professional Development, said business owners had taken a lot longer during the recession to make any decision about going through the process of readying their business for sale. That's changed in the past few months.

"I think people are used to the recession now; they've allowed their minds to get back to thinking about transitioning," said Wardell. "A lot of people put it off for a while, but people seem to be more used to the environment and it doesn't scare them as much."

According to Don Sihota, business transaction lawyer and partner at Clark Wilson LLP, "There's more interest now, the window of opportunity to sell is opening and these people are at an age where they're wondering how much longer they can stay on."

Sihota said business owners looking to sell over the next few years should begin the business succession process as soon as possible given demographic trends. With many small and medium-sized businesses (SMEs) owned by baby boomers, it could easily become a buyers M&A market in the coming years, making the market far more competitive.

Wardell and Sihota noted the process of maximizing the value of a business can take at least two to three years. "So, you need to plan in advance if you want to get the best price," said Sihota. "You have to plan, not only from a legal, accounting and tax side, but also from the business development side."

There are a host of specific business issues that need to be dealt with, including:

- restructuring to take advantage of tax exemptions;
- separating assets, like real estate, from the business to maximize value;
- rebranding the business if it's tied to the owner;
- transferring relationships from the owner to the business;
- developing a decision-making management structure;
- creating strategic plans and financial benchmarks; and
- establishing a strong business development culture.

All of these steps are needed to transform an SME from an owner-driven business and people-driven business to one based on systems and a self-sustaining business culture focused on growth, not tied to a company founder.

Ultimately, the purpose of the process is to transfer the goodwill of a business from the owner to the business to maximize its value and get the best sale price. "If the goodwill is commercial, . . . then the business is perceived to be able to run effectively under new ownership," said Brent Cunningham of Sequoia Business Brokers. "So, the impact of change is low, the risks of the sale are lower and therefore the value of the business is higher."

Cunningham noted the issue of goodwill is a key challenge in maximizing the value of SMEs because often much of the goodwill is tied up with the owner. The lack of a strategic plan is also a challenge.

Sequoia's Chris Larmer said that effectively structuring a business for sale can boost the sale price by at least 20%. He noted a recent deal the company closed where the selling price was a third higher than the assessed value because it had been organized to be sold.

Larmer said goodwill might also impact the structure of a deal. Business owners with goodwill tied to them can expect much longer transition periods before they can leave the company, and payment configurations could also have earn-out type structures, more so than if the goodwill was tied to the business.

Cunningham noted that even if an owner is not thinking to sell, it doesn't hurt to be prepared, because studies have suggested half of business sales are due to some external circumstance. •

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