

WHEN SELLING IS NOT GOODBYE

By Murray Parker

SELLING YOUR BUSINESS DOES NOT ALWAYS MEAN A COMPLETE EXIT

There comes a time in every family owned business when the owner begins to wonder if it's time to sell. Perhaps he or she has been unable to take the business to the next level, locate funding for growth plans or groom a successor to take the helm. Regardless of reason, the sale process often stalls at the follow-on question of what the owner is to do after the sale.

Examining case histories, we can see that some owners do chose to make a complete break and transition into a new "life after business." Yet many owners prefer to remain involved in their company in some strategic role because they:

- have a passion for their business,
- want to ensure job security for key valued employees,
- are committed to helping future growth and /or
- wish to increase their wealth to better provide for family.

Clearly there are a variety of reasons an owner may wish to sell yet still remain involved in their business. What is not so obvious is the equally broad range of solutions available from the private investment community or Private Equity Firms (PE) who can acquire controlling or substantial minority interest in the business. While the PE firm will bring capital, operating & financial expertise and can add professional management in order to maximize the value of their new investment, the firm can also offer opportunities for the owner-turned-seller to retain equity participation and remain involved in the business in some key capacity. In fact, many PE firms prefer to keep the seller involved.

WORKING WITH A PRIVATE EQUITY FIRM

To get a firsthand account of what it's like to work with a PE firm, we interviewed Mitch Davidson, co-founder and Managing Director of Post Capital Partners. Post Capital is a private equity firm that makes both minority growth and control investments in companies with a minimum of \$10 million of revenue and \$2 million of EBITDA. Mitch has over 15 years of private equity and M&A experience. Prior to co-founding Post Capital, he was an investment banker at Merrill Lynch & Co, and he started his career as an M&A attorney with Skadden, Arps, Slate, Meagher & Flom.

1. What motivates owners to sell?

MD - Owners sell for many reasons. The sale of a business may be part of a succession or retirement plan for an older or non-active owner. Sometimes a sale can facilitate the transfer of the company to the next generation of the family or to outside managers who are now operating the business. In addition, some owners look to sell their business to get liquidity and to diversify their wealth since the majority of their net worth is tied up in the business that they founded.

In other cases, owners want to retain significant ownership in their business, but want to have a partial liquidity event and/or want to bring in private equity capital to accelerate the company's growth.

2. What should an owner consider when selling?

MD - Owners should consider what is most important to them in selling their business such as:

- *What role do they want in the business after the sale (if any)?*
- *Is the current management team going to remain to run the business after the transaction?*
- *Does the seller want to retain an equity ownership stake?*
- *In addition to capital, what would they want in a PE partner?*
- *What would make a good "fit" in a PE partner? (Firms differ a lot in style and personality)*
- *What is the value they want for their business?*

3. How have sellers participated in your portfolio companies post transaction?

MD - Some sellers remain active managers in the business and maintain the same roles as they had prior to the transaction. For example, with DTT Surveillance, a provider of video surveillance to the quick-service restaurant industry, we led a minority growth capital investment. The seller sold a minority stake in his business and remained the CEO of the company. We were the first institutional investors in the business and provided the equity capital and facilitated the Company's first institutional bank credit facility which funded the Company's significant expansion.

In our investment in BHS Marketing, a specialty chemical blender and distributor, the two owners sold a majority stake in the Company but retained a significant minority ownership and essentially continued in their existing senior management roles and responsibilities. In this investment, we also partnered with a strong specialty chemical executive, who became Chairman of the Company. The new Chairman has primarily focused on growth strategy and building new technical and strategic capabilities.

FINDING THE RIGHT EXIT ROLE

As suggested above, there are many ways in which you as an owner can remain involved in your business after sale. The key is to consider the options and decide what is best for you before you enter into negotiations. In this way you can be confident in securing the participation that best fits you.