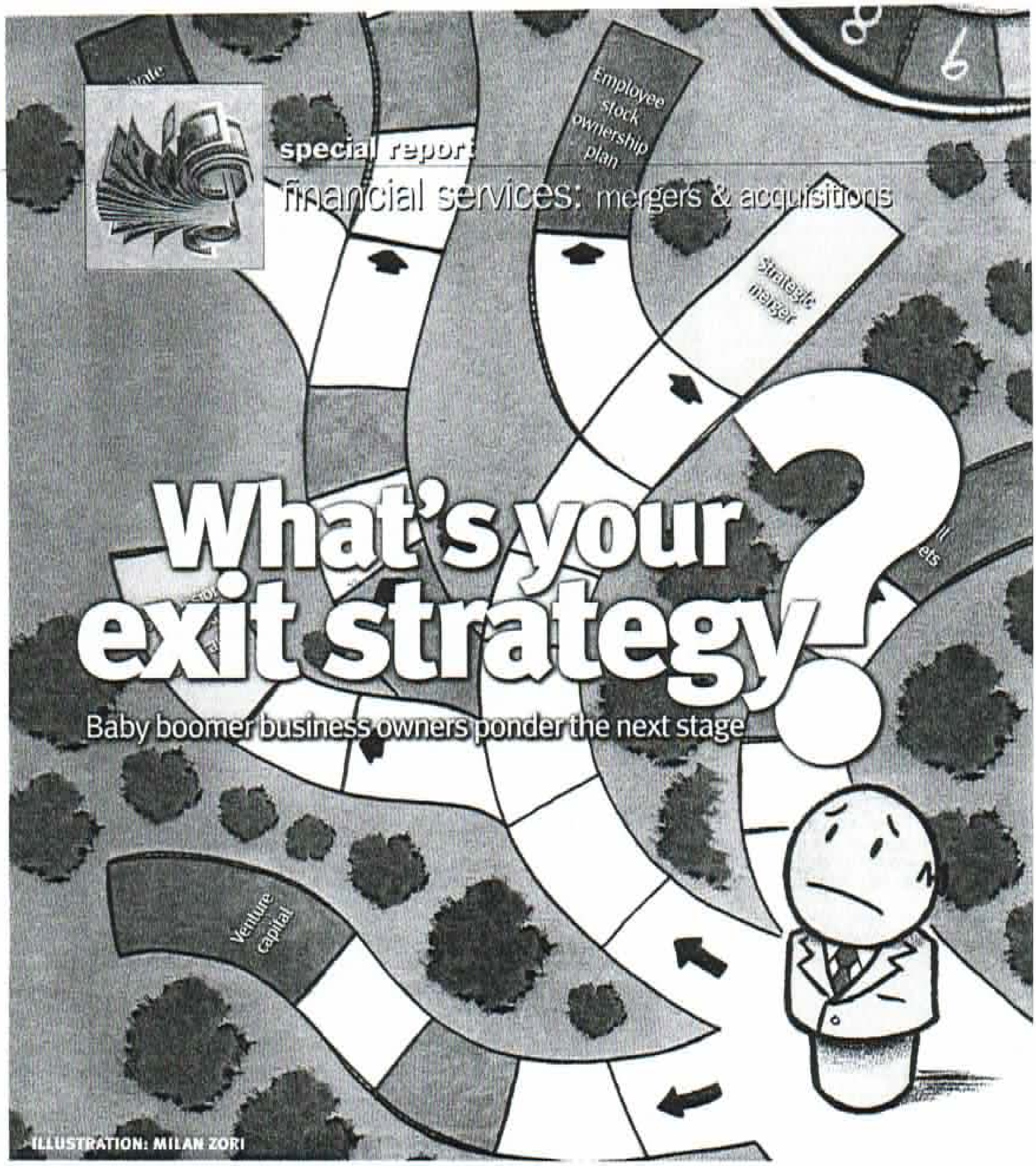
special report
financial services: mergers & acquisitions



What's your exit strategy?

Baby boomer business owners ponder the next stage

BY ERIC DECKER, *of SBT*

As the baby boom generation ages over the next 20 years, the owners of most of Wisconsin's 150,000 businesses will retire or will start seriously planning for retirement.

More than 75 percent of American middle-market business owners anticipate selling within a few years, according to a survey by GW Equity and the University of Dallas Graduate School of Management.

Ultimately, those owners must reach decisions about what to do with their companies. Do they want to transfer ownership of their firms to a family member, a management team, employees, a competitor, a financial buyer or a strategic buyer?

Financial advisors say baby boomer business owners must start exploring their options now.


Penkwitz

"Most don't know what their options are," said William Penkwitz, partner with Promontory Point Capital, a Milwaukee investment banking firm. "Education is the first step - spending a lot of time with them, figuring out what they want to do."

Once an owner decides on a course of action — and if that action is a desired sale at some point in the future — there are specific actions they should take, experts say.

Build a team

Business owners need to surround themselves with a team of advisors. Most business owners already have relationships with some important team members, including an attorney, an accountant, a wealth manager and a tax specialist.

"Early on, get your key people and advisors in place," Penkwitz said. "If you're thinking about doing something two years down the road, start asking what you need to do to present your business in the best light? Most advisors will tell you pretty efficiently the things you need to do to go through it."


Sommerhauser

Investment bankers are not needed for every business sale, but can be helpful in certain situations, said Peter Sommerhauser, an attorney with Godfrey & Kahn S.C.'s corporate practice group.

"A lot of factors like marketing will determine if we use an investment banker and which one we will use," he said. "They understand businesses, numbers, management structures and who will be interested in (buying the business)."

Penkwitz said business owners should start talking with an investment banker as soon as they start thinking about an eventual sale.

"Just because we're starting a dialogue doesn't mean we have to do a transaction," Penkwitz said. "Understanding what you can do and what the appropriate things that you should do are important dialogues."

Focus on fundamentals


Burzynski

Before thinking about which type of buyer is preferable, a business owner should take a step back and examine some basic fundamentals about the company, according to Michael Burzynski, a partner at the Milwaukee-based accounting firm Komisar Brady & Co. LLP.

Burzynski compares preparing a company's books for a sale to getting a home ready for showing.

"You have to have something that looks really good to the buyer," he said. "A lot of times, it's about getting rid of and cleaning up superfluous records, sort of like cleaning out the garage. You want to make it as easy as you can for a potential buyer to walk through your house and see what it's like. It's really getting it ready to truly be attractive to someone who wants to buy it."

That process should start well in advance of any potential sale.

"I would say that three to five years before you really think you want to do it you should really talk to someone about your growth trend line, what to do in terms of cleaning up your balance sheet and how do you project out," Sommerhauser said.

Business owners need to pay careful attention to their company's balance sheets, because discrepancies or questionable finances will come back to haunt them when the company is for sale.

"A lot is derived from your financials," Sommerhouser said. "We all know that business owners can be fairly liberal with financial and accounting issues."


Poker

Mark Poker, an attorney with Michael Best & Friedrich LLP's wealth planning services division, who routinely works with business owners on succession planning and M&A, agreed.

"One thing that is critical is your balance sheet. That needs to be cleaned up," Poker said.

When personal items such as cars, country club memberships and life insurance policies are included on a business balance sheet, they can make it look like the business is earning less money.

"You can end up in a situation where you're understating your income, which can lead to lower offers," Poker said.

While cleaning up the company's balance sheet, the business owner also should closely look at contracts with customers and suppliers, as well as the company's management team. Potential buyers will be looking for a quality management team that can help run the business after the owner has departed.

"If you don't have a (management) team, start building one," Penkwitz said.

"Look at your workforce, specifically your management team," Poker said. "What kind of arrangements do you have with them? Do you have non-competes and confidentiality agreements? Do you have the ability to deliver a management team to (a buyer)?"

Identify targets

Once a business owner has assembled the right team of advisors and has closely scrutinized the company to maximize value, the owner can then begin thinking about which types of buyers may be preferable.

"We find the likely suspects, like key management and any competitors in town. The first thing is to talk to our clients and identify any candidates. If there are no potential (buyers), we can talk to our network and see who's out there. Ultimately, we may initiate a call with an investment banker or business broker," Poker said.

Finding the right buyer for a seller starts with a frank and open discussion with the potential seller, said Joe Sweeney, managing director with Corporate Financial Advisors LLC, an investment banking firm with offices in Milwaukee and Waukesha.


Sweeney

"We try to position ourselves as exit strategy specialists," Sweeney said. "And it depends on (the seller's) time frame. Some clients we deal with for two to eight years."

Investment bankers can only find the right type of buyers by interviewing their clients and assessing their priorities, Sweeney said.

"Part of the interview process is what type of buyer does (the seller) want," Sweeney said. "Is it about money? What we have found for most Midwestern businesses, is that it's like family. (Owners) are looking to make the proper transition, maximize the dollars that they take off the table and ensure that their companies continue and their employees do too."

"What we find in the marketplace is that a lot of business owners realize that their team helped them get to where they're at," Penkwitz said. "We can help (an owner) reward them by buying into the deal or partnering with private equity to take it to the next level. Those decisions come through many hours of dialogue with the business owner."

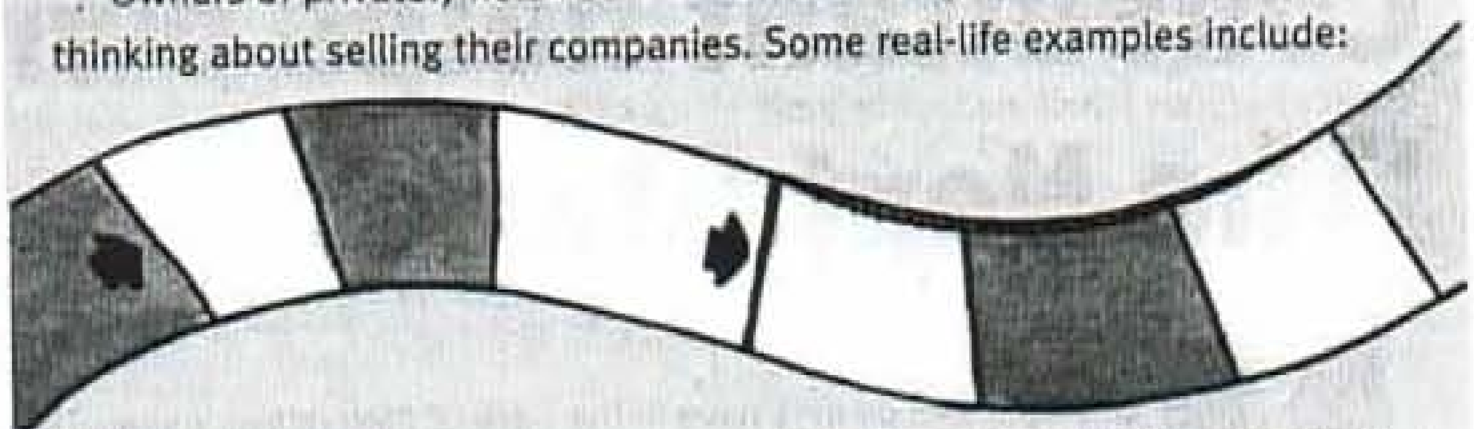
Set a timeline

Some business owners have decided to sell their companies to their employees through an employee stock ownership program (ESOP). While an ESOP can be attractive for a seller because it allows the business and its name to continue, it takes some time, Burzynski said.

"You've got to plan way more than two or three years in advance," he said. "Your employees may not have saved up and they may need you as an innovative person who comes up with the vehicle by which they can take over the business, still afford to run it and take care of you. If that's your game plan, five years before you see the transition happening, you need to have discussions with your employees. If you never commit to your employees, there's a chance they won't commit to you."

OPTIONS

Owners of privately held businesses have many options when they're thinking about selling their companies. Some real-life examples include:



Management buyout
The management team of EMSystem LLC, a Milwaukee company, completed a buyout of the company from Infinity HealthCare and the Marquette University Golden Angels Network in October, 2007.

ESOP
Through an employee stock ownership program (ESOP), Hatco Corp., a Milwaukee-based manufacturer of commercial food service equipment, became completely employee-owned in May 2007. The company's ESOP was created in 2004.

Sell to a family member
Valerie Hron and her husband, Ray Batista, purchased Barton Products Corp. in December 2007 from Hron's father, uncle and other family members. The precision machine shop, located in West Bend, was founded by Hron's grandfather. Hron was assisted by Optimus Financial Services, a turnaround firm, in acquiring the business.

Sell to a strategic buyer
A strategic buyer could be a competitor, a supplier or even a customer. W.O.W. Distributing Co. Inc., of Sussex acquired Better Brands Distributing Co. of Germantown in October, 2007. That same month, Beer Capitol Distributing Co. in Pewaukee and C.J.W. Inc. in Racine acquired Dominick Sales, also of Racine. W.O.W. Distributing, Beer Capitol Distributing and C.J.W. are all owned by the Madrigrano family.

Sell to a financial buyer
TMB Industries, a Chicago-based private equity firm, purchased Stainless Foundry & Engineering Inc., a Milwaukee provider of steel, low-alloy stainless steel and other high-alloy composition castings in November 2007. At the time, TMB had acquired 41 businesses since 1989. The firm pursues industrial businesses with $30 million to $500 million sales.