

Getting the Most for Your Business

After all the work you've put into building up your business, you deserve to get the maximum value when it's time to exit.

Because the business is often an owner's most valuable asset, it's important to work well in advance of a sale to understand the value of your business, identify the most likely buyers, and provide enough time to improve operations to maximize the eventual sales price. What's more, it's critical to understand how selling your business will affect you personally and how it will affect your financial and retirement plans.

Here are some key steps to prepare your business for sale and achieve your financial goals:

UNDERSTAND THE VALUE OF YOUR BUSINESS

Nearly every step in the sale process depends on having a good estimate for what you might receive from the sale of your company. As a rule of thumb, the

value of a small business generally ranges from three to five times annual cash flow. Larger businesses generally have higher valuations, as they are perceived to be less risky. Your Baird Financial Advisor can help you estimate the value of your business and determine whether a more in-depth valuation would be in order.

KNOW YOUR BUYER POOL

Understanding what kind of buyer is likely to be interested in your company can help you decide on your preferred approach for the sale. There are three general types of buyers:

- **Individuals** are the most common buyers of small businesses. They could be your business partners, family members, or other entrepreneurs interested in acquiring your company. The implications of selling to individual ►

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buyers vary. For example, selling to existing business partners might be pursuant to a buy-sell agreement that stipulates how your company shares will be sold to other owners. On the other hand, a business might be gifted to family members with an agreement that you can continue to draw an income from the new owners. Individual buyers often finance the purchase with Small Business Administration loans, which might require seller financing.

- **Strategic buyers** may be complementary or competing businesses that purchase your company to secure a new line of business, technology or territory. These buyers often are able to buy your business outright, and if they anticipate synergy – the idea that the combined value of the two businesses is greater than the sum of its constituent parts – they may offer the highest price, enabling you to exit the business quickly and fully.
- **Private equity firms and other financial buyers** have been very active acquirers of lower middle market companies, completing over 10,000 acquisitions in 2021.

CONDUCT A BUSINESS TUNE-UP

Before offering your company for sale, you can enhance its appeal to potential buyers by:

- Hiring an experienced business transition team. This may include a CPA, attorney, insurance professional, and a mergers and acquisitions advisor who is skilled at marketing your company and finding and securing buyers. Your Baird Financial Advisor can be a resource in connecting you with these advisors.
- Identifying a successor leadership team that is well-equipped to take over the business when you step down.
- Diversifying your customer base to ensure that a few customers do not account for the bulk of your business.
- If applicable, addressing any outstanding lawsuits and complaints that reflect poorly on your company's reputation.

PREPARE YOUR PERSONAL FINANCES

Many business owners have a large portion of their personal wealth tied up in their company. Before you sell, it's important to consider the impact it will have on your personal financial plan.

If you're planning to fund your retirement primarily through the sale of the business, you'll want to understand the valuation before you put it on the market. If the expected sales price falls short of what you're expecting, you might consider other options before selling, such as waiting until you can grow the business or waiting until the market is better.

You are likely to be subject to higher taxes in the year you sell your business. Consider strategies to minimize taxes, such as charitable giving or tax loss harvesting. Your Baird Financial Advisor can help you with these strategies.

Finally, before you sell, develop a plan to invest the proceeds from the sale of your business to meet your current and future needs. You may need a diversified mix of assets to balance your need for income with longer-term growth.

In tandem with business transition planning, owners should consider their personal financial and tax planning several years before selling their company. You can work with your Baird Financial Advisor to get support throughout the entire transition process – from initial planning to in-depth advice during and after the sale.

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Talk with your Financial Advisor to ensure you're properly planned for your exit.