

Time to Sell?

Five questions that will help you determine if it's the right time to sell.

by Alan J. Scharfstein, President
The DAK Group

Deciding when to sell the family business is not a quick or easy task. To help frame the process, ask yourself the following questions to determine if the time is right to exit:

It's a good idea to discuss your ideas thoroughly with the proposed successor to learn his or her thoughts, reactions or career path goals. It's important to allow all family members the ability to be honest and forthright about future plans.

1. Have I identified—and adequately prepared—a successor?

From a financial perspective, your ability to profit from the business is dependent upon the successor. It is critical that she or he have the skills to succeed or your investment may be at risk. Without an appropriately capable successor, you may need to consider selling the business to an outside party.

To determine whether or not you have found the most appropriate person, you should be prepared to ask, respond to and discuss with family members several additional questions:

- Does this proposed successor have the skill set necessary to lead the company?
- Can she or he strengthen critical customer relationships?
- Is my industry experiencing growth, consolidation or other pressures that require strong financial acumen to access new sources of capital?
- Does this person have the type of drive and vision that I originally brought to the business?

2. Is my wealth protected and diversified, or am I too heavily invested in my own company?

As a company grows and matures, so too does an owner's wealth. As a result, a successful company often represents an unhealthy proportion of the family's portfolio. It may be wise to capture value and preserve wealth for future generations through a liquidity event.

In addition, it's important to diversify your portfolio across a range of industries to guard against market downturn. Business owners frequently overlook their own industry's representation when viewing their personal financial portfolio.

3. Is now the right time to sell?

Two years ago, we counseled many business owners to wait out the downturn in the market, if possible. Enterprise valuations had dropped from historical highs. Now, we see the market has bottomed out and investors—including foreign-owned buyers—are actively seeking quality opportunities





for acquisitions. Valuations are once again starting to rise. Team this outlook with projected growth in certain markets and you have favorable conditions working to deliver maximum value to owners considering an exit.

4. Would I rather be doing something else? Are there other ventures, projects or initiatives I'd like to focus on right now?

Perhaps you have thought of other business venture ideas. It may be that your interests have changed and you are attracted to a similar, or even completely different, market or technology. You might want to take some time to explore other interests such as philanthropic or community causes. You may even be experiencing burnout and want to spend time with family, enjoy leisure activities or travel extensively. These are all valid reasons to consider exiting the business.

5. Am I more interested in making a gift of value to my heirs, or do I really want to give them the business?

While many families view ownership transfer as a valuable gift to the next generation, in some

cases it may be more fitting to sell. Such a liquidation event may allow for an easier division of the family's assets among family members. A sale to another management team may also better enable the business to survive and thrive according to the principles on which it was founded.

There are many different ways to structure the transfer of ownership to consider the owner's ultimate goals, whether it's to transfer wealth, provide a career opportunity or a combination of both.

Selling a family business is a complex process. To help you determine if the timing is right for you, enlist the resources of skilled advisers with experience representing family-owned enterprises and working with its sale. **{FB}**

About the author:

Alan J. Scharfstein is the president and founder of The DAK Group, a NJ-based investment bank specializing in serving the needs of middle market enterprises. Over the last 25 years, he has closed more than 150 mergers and acquisitions as well as other financial transactions specifically involving family-owned businesses. Alan is a frequent lecturer on the sale of privately held businesses and valuation strategies. He received a BS in Economics and MBA from the Wharton School of the University of Pennsylvania. He can be reached at ascharfstein@dakgroup.com.



Alan Scharfstein

PHOTO: ADAM CANTOR