

# Entrepreneurs face different kind of retirement planning

BY ELLEN JENSEN | CONTRIBUTING WRITER

As baby boomer entrepreneurs prepare to transition out of their businesses, exit planning specialists say the M&A environment is poised to change.

It's a seller's market right now, and there is a lot of private equity money available as people diversify their portfolios, said Tim Fisher, an attorney with Seigfreid Bingham Levy Selzer & Gee PC.

But as baby boomers retire, the supply could swell, flooding the market. This could drive down valuations and shift the leverage to buyers.

The key to making a successful sale is to stay in control of the process, and that involves planning, said Tim Skarda, owner of Allied Business Group.

Steve Johns, owner of Value Added Mentoring, counsels clients first to map out their destination. Owners should establish how much money it will take to achieve their goal and then determine whether their personal investment portfolio plus the projected value of the business after taxes will add up to what they need. If it doesn't, they should make adjustments early.

Owners also should surround themselves with a team of advisers who know what buyers want. The team can include an attorney, an accountant or tax expert, an exit planning specialist or business broker and an investment adviser. These consultants can help iron out details such as legal documentation, tax issues and business structure.

When Mark Palmer, 49, decided to sell his electrical contracting business, the transition took about a year, but Palmer started preparing to sell the business five years ago knowing that someday he would want to sell it.

## Words of Wisdom

Transitioning from business ownership is a complicated process, and it's easy to overlook important details. These experts offer some sound advice for owners to consider:

"Every company has shortcomings and liabilities, and it's best to communicate those up front and develop a plan to deal with them. Surprises are bad."

— **Tim Skarda**, owner of Allied Business Group

"Internal transactions have a high percentage of failure — the more planning the better."

— **Steve Johns**, owner of Value Added Mentoring

"You may want to change the structure of the business to be more attractive to a strategic or financial buyer."

— **Tim Fisher**, an attorney with Seigfreid Bingham Levy Selzer & Gee

"It's easy to take the foot off the gas in the six months before selling. Don't lose focus in the final days when a strong financial performance will help you achieve maximum value." — **Tim Skarda**



Skarda

"I read one of the E-Myth books by Michael Gerber, and it woke me up," Palmer said. "I learned to look at the business as a product unto itself, not a job."

Moving into transition mode often requires a shift in the way owners conduct business. Palmer got what he wanted out of the sale because he already had a strong management structure in place, and the business didn't depend on him to survive.

It also is important to clean house and get financial records in order. Owners should reduce the amount of personal deductions and make sure there are no lingering tax, litigation or employee issues, said Gary Brouillette, an attorney with Seigfreid Bingham Levy Selzer & Gee.

"Normally, the goal of a small business financial statement is to make the numbers look as small as possible for tax purposes, but two or three years before the transition you need to make your numbers look good," Skarda said. "Positive trends over last two to three years is critical."

When owners are ready to sell, they should look at the universe of potential buyers and pick out the optimum targets

to seek out first. Options include internal buyers, such as family members or key employees, and outside buyers, such as high net worth individuals, private equity groups and strategic buyers.

"The sale of the business either internally to a family member or a key employee or externally to an outside buyer will follow the same process but will probably differ in emotion, risk transfer and cash at closing," Johns said. "Proper planning can greatly reduce the stress and increase the after-tax benefits."

As they plan, owners also need to decide whether they want to sell all or part of the company, what considerations they would like to make for family members or key employees and what they want their responsibilities to be after the sale. For example, Palmer spent six months in a consulting capacity after the sale.

"Selling my business was a lot more complicated than I thought it would be," Palmer said. "It can be nerve-racking at times."

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