SOME WAYS TO INCREASE THE VALUE OF A BUSINESS MAY INCLUDE:

Sales

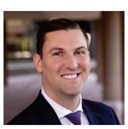
- Diversify customer base.
- Formalize growth strategy, extend key customer contracts.
- Business operations
- Solidify corporate governance.
- Address and reduce legal risks.
- Extend key vendor contracts.
- Put business documents in order.

Marketing

- Build brand equity and reputation through PR and marketing.
- Modernize website and online presence.

Financials

- Organize/audit financial statements.
- Develop formal budgets and forecasts per department.
- Ensure high-quality earnings analysis.
- Clear leadership transition plan
- Develop/maintain an organization chart.
- Put in place a strong middle management team and experienced senior managers.
- Establish key employee agreements.



Scott MacDonald is a senior vice president of wealth management and Certified Private Wealth Advisor® with UBS Financial Services Inc., working with UBS clients for more than 16 years. MacDonald's experience includes working in the Regional Consulting Center alongside top consultants in banking, financial planning and alternative investments, as well as advising middle market business owners.
advisors.ubs.com/scott.macdonald
ubs.com/us/en/designation-disclosures.html

Thinking of Selling Your Business?

Key steps for Arizona business owners to take

by Scott D. MacDonald

Baby boomers own approximately 40% of privately-owned small businesses and franchises in the U.S., according to MBAStack. Gen X-ers own the highest percentage of small businesses at 46%, and their relative share is increasing. With boomers already in or reaching retirement age, and Gen X only 12 to 15 years behind that, many business owners are considering selling their businesses.

But according to research from wealth management firm UBS, many business owners haven't done much actual planning around exiting their business. Unfortunately, lack of planning may result in a lower valuation when the business owner is ready to sell. Selling a business may take longer than expected — most sales take six months to two years — and often, as much as 80% of the business owner's financial assets are tied up in the business.

So, what steps should local business owners take to maximize the eventual sale? Wealth advisors typically recommend owners and founders start planning for their eventual exit from the very first month of running their business — and definitely two to four years before retiring.

PRE-EXIT PLANNING: GET THE BUSINESS READY TO SELL

Most businesses have a "range of value" for sale price. Being transition-ready will help to increase this value; being "best-in-class" will receive highest value. Business owners should ensure they have the right team in place to manage the business when they are gone. If sales are not as high as the owner might like, it could be beneficial to bring in a senior sales associate. Financial records should also be in good order to make it easy for a prospective buyer to assess.

EXIT AND SALE

In every case, the owner's needs vary depending on where the business is in its own cycle; however, the next step is to build a "Deal Team." This team consists of an exit planning advisor or wealth manager, a tax professional (often a CPA), an M&A or transaction attorney, and investment banker. It's good to have one of these advisors be the "quarterback," guiding the owner every step of the way, helping to minimize the emotionality of it. The quarterback can help owners determine the best option(s) for their business and may be responsible for bringing in prospective buyers, usually at least two, to create competition.

When ready, several options for sale exist:

- Outright sale: Sell 100% of the business to a buyer from the same industry or with a complementary business model, known as a merger and acquisition (M&A). The acquirer could be a private or public company.
- Employee Stock Ownership Plan (ESOP): Sell the business at fair market value to employees through an ESOP, a tax-advantaged, leveraged buyout. Owners often go this route when there is an obvious choice for CEO/president and a team that may have been with the company for a long time, to provide for employees and see the business continue.
- Recapitalization: When a 100% sale is not desired, the owner can sell a minority or majority equity stake in the company for asset diversification and liquidity. This allows owners to retain some control while de-risking and taking out some cash; this sale usually goes to private equity firms or new partners.
- Legacy ownership: Transition ownership to the next generation of family members, normally adult children, by way of sale or gift, or a combination. This works better when the children have already been involved in the business and expressed a desire to maintain it.

POST EXIT

Once the business is sold, the former owner should have a plan in place to safely use the assets over the long term. The capital itself can be allocated slowly, but the overview of a plan should exist.

Look at three critical time periods when planning for money gained from sale. It's important to note that timeframes may vary. Strategies are subject to individual client goals, objectives and suitability. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved.

- Liquidity: These are the assets the owner will need for the immediate one to three years following exit, covering spending when no income is incoming. These assets are often held in cash, money markets, treasuries and fixed-income vehicles.
- Longevity: These assets cover the next two to ten years. The portfolio needs to generate income, to be able to replenish liquidity for the next decade(s).
- Legacy: This includes money that the former owner may wish to leave to the next generation or philanthropies. This money can be invested in growth-oriented investments that may not need to be used by the owner.

After selling their business, 79% feel a sense of accomplishment, but 38% also feel a sense of loss. Many hope that traveling, reconnecting with family and friends, hobbies, and community engagement will help fill the void — 48% look forward to traveling, 43% look forward to spending more time with family and friends.