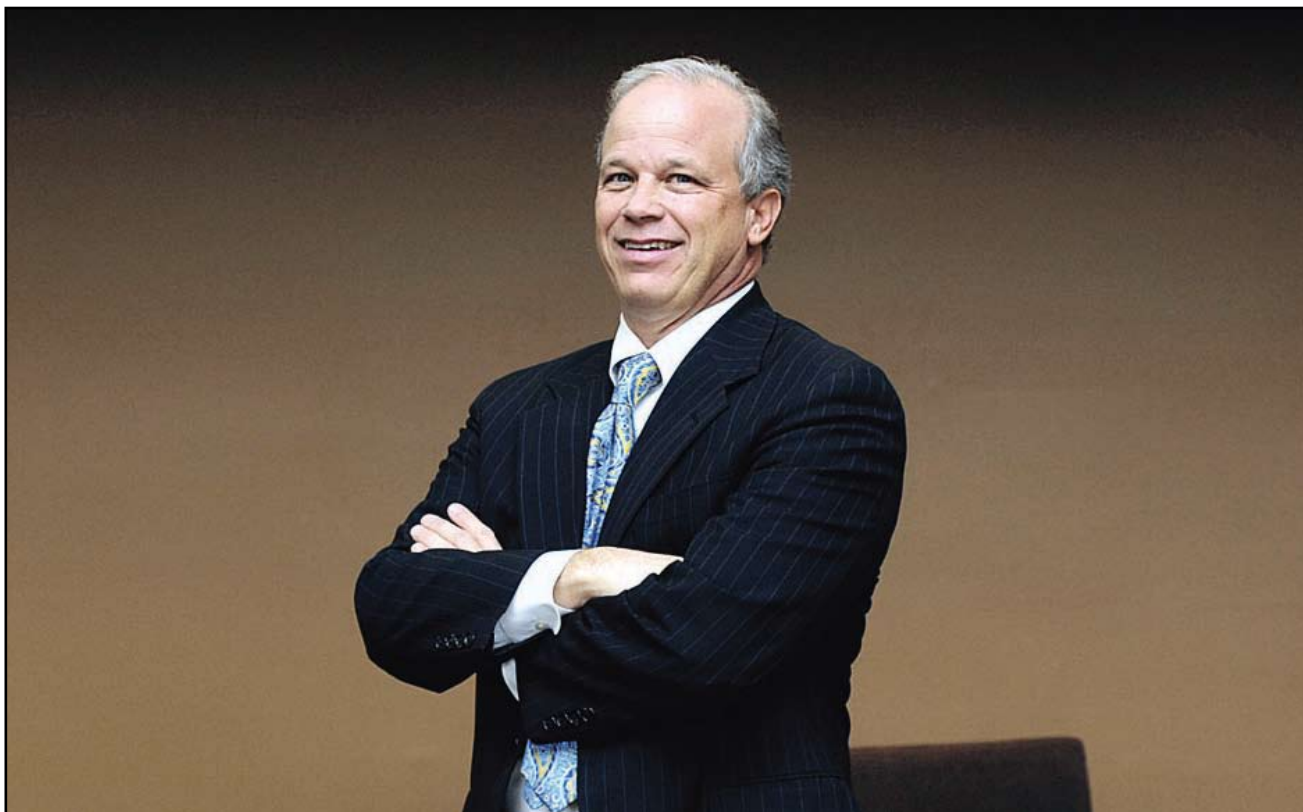


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BUYING AND SELLING A BUSINESS



KATHLEEN LAVINE | BUSINESS JOURNAL

Bob Rhyme, director of business and estate planning in the Denver office of Northwestern Mutual, says potential buyers need to take their time to fully understand a company's cash flow and financials.

Blame the boomers

Valuing a business in coming glut of business-for-sale market

BY DOUG MCPHERSON
SPECIAL TO THE DENVER BUSINESS JOURNAL

If you don't get the price you want for your business, blame the baby boomers.

A bunch of them will be looking to sell their businesses in the coming years, and that may lower values.

"In the next seven years, we'll see a glut of business owners needing to sell because of their age, baby boomers," said Bob Rhyme, director of business and estate planning in the Denver office of Northwestern Mutual, the financial services giant. "We'll see more businesses on the market

than we've ever seen in the history of the country, and that's not going to be favorable for prices."

Basic supply and demand.

Of course that's the future, albeit a not-too-distant future. The news on values today? That's bleak, too.

Rhyme said while the market overall is improving, some industries still feel the pain.

"Businesses related to new homebuilding, for example, and the group that supports that industry, like planning and architecture, that's not very good," Rhyme said.

So what's a business owner who's think-

ing about selling to do? First, get educated on valuation.

Ron Seigneur, a CPA and partner with Seigneur Gustafson LLC, an accounting firm in Lakewood, said there are three common ways to value a company: asset, market and income approaches.

Asset uses direct appraisal of assets and liabilities. The market approach, typically used for larger companies, examines market data and similar companies that have been bought and sold to decide value. And the income approach analyzes cash flows.

"The income approach is comparatively easy to comprehend and apply, and it's

VALUE: What they will pay

best for today's environment, where things aren't as stable; it looks at how the business is performing today," Seigneur said. "But the devil is in the details. You have to adequately support the projected cash flows ... and the risk adjusted rate that applies to them."

Another phrase to know in business valuation is "blue sky." Scott Saltzman, owner of Saltzman LLC, an accounting firm in Denver, said blue sky, also known as goodwill, is a company's value over and above the value of its adjusted assets to market value minus liabilities.

But to Rhyme, one of the most important factors in determining the worth of a business is its sustainable net income.

"You have to define what the net income of the business actually is," Rhyme said. "A lot of Colorado companies have never been reviewed, had someone come in and look at the financial statements for the last three years ... a good review will help."

Jim Thomas, a partner with Minor & Brown PC, a law firm in Denver, said all terms and calculations aside, a business is worth what a buyer is willing to pay.

"I don't care what your accountant tells you what it's worth or what the appraiser says it's worth, it's what's the buyer says it's worth it," Thomas said. "Then you know you've got a good value. That's really what counts when it comes to valuation."

Thomas said today, buyers first need to consider where they're going to get the money to buy.

"Our practice tends to be seller-heavy because Colorado's privately held companies don't have the cash to invest in acquisitions, and their ability to leverage their cash is pretty low right now," Thomas said. "The credit markets seem to be loosening up some, but we're not seeing a lot of proof that that's the case in any kind of broad sense. Even for the good companies right now, lenders are still a little shy about lending money."

Buyers also need to do their due diligence, Rhyme said.

"You can't really test-drive it. You can only look at the numbers, the history and the relationship with clients and vendors," he said.

Rhyme's advice for buyers: Take time to fully understand the financials and cash flow of the business. "Buyers need to ask lots of questions and then know what's really behind the numbers, what human action is taking place to make these numbers happen day after day."

Letting go

Besides the ambiguity in today's market, Matt Lauer, a valuation analyst with Seigneur Gustafson LLC, said other hurdles often exist — and they're seen in a mirror.

He said owners' emotions sometimes can make it difficult for them to see the business in a more objective light.

"Owners have a lot of time and energy tied to the business, and sometimes they're still living in the past," Lauer said.

Thomas has seen overly emotional busi-

ness owners, too. "Those who brag about not having a vacation in the last seven years aren't good candidates to sell," he said. "Owners need approaches that make a company run and that make the owner redundant."

Thomas said to start by knowing what your financial needs are. "Start talking with valuation experts to find out how big the disconnect is between what you need and what the value of the business is," he said. "And if it's not where you want it be, instead of moping about it, get busy working to make the business better to close that gap."

A good management team is just one step to adding value to a business, Rhyme said. Another is to get your financial reporting in good shape — and not for the last 12 months, but for the last four to five years.

"Buyers will want to see the performance ... see what's really going on in the business," Rhyme said. "You can't do that overnight — you have to build that story over several years. Sellers need to have a series of financial reports that tell the story over time."

And he said legal and risk issues need to be resolved.

"You need noncompete contracts for the key people in the company so that they can't walk out the door and take 50 percent of the company's clients with them," he said. "And deal with all the outstanding financial obligations — leases, for example — all those items need to be dealt with in advance of selling."

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