



Don Sihota

Business Succession

There is a Better Way

By Don Sihota

The real question you have to ask yourself is how long can you wait?

Readers of my previous articles know that I provide advice to business owners on transitioning their businesses safely, securely and successfully. Over my 20 plus years of experience, I have helped business owners overcome all sorts of obstacles. However, there is now a major obstacle facing business owners thinking about business succession planning: the recession. In this special report, I will address whether a recession should have an impact on your plans for succession.

Despite the doom and gloom in the papers about the economy, business owners still have options. One option is to put everything on hold pending an economic recovery. But business owners should consider whether letting economic forces determine their course is the right thing to do.

While every situation is different, putting succession plans on hold could be a mistake. Business owners should take charge when it comes to business succession planning because there is one certainty: we all age. By not planning for business succession you may be putting yourself and your wealth in the worst position possible. Let's directly address some of the reasons that business owners have given me for putting their business succession on hold.

1. Had I sold my business last year, I would have received a much higher price

Business valuations are lower today than a few years ago. However, when I was putting on seminars a few years ago, some business owners were saying that they wanted to wait to get even more money! Well, by waiting, they missed the peak. The point is that you should not let external events drive your decisions. Consider your personal situation first

before you dismiss the need for business succession planning.

Another interesting way to think of it is to imagine your business as a boat in a marina where all the other boats represent other asset classes such as stocks, real estate, etc. When the economic tide goes

down, just like boats in a marina at low tide, all assets move lower. In fact, many of those other asset classes may have gone down even further than the value of your business! Therefore, even if you sell your business for less money you may be in a better financial position than if you had sold at the peak!

To illustrate further, consider where you would be had you sold your business two years ago for a higher price than you could get today. Would you have invested that money in a stock portfolio? Would you have bought real estate? If so, where would the value of those assets be today?

The point is that you shouldn't look at the value of one asset (your business) without considering what has happened to the value of other assets – it's all relative. That waterfront property you wanted to buy with the proceeds from the sale of your business is also less costly than it was two years ago!

2. I'm going to ride out this recession and catch the next peak

That might be a good option for some, but I don't know anyone who can tell you with certainty how long this recession is going to last. Some people are already saying there are signs of recovery and some people have said that this recession could be a 10 year process.

The real question you have to ask yourself is how long can you wait? If you are 50 years old, maybe you can wait longer

than a business owner who is 67 years old. Whether you are 50 years old or 67 years old, the most important thing is to start planning now. You need to keep your options open so that you are prepared for not only the next peak, but also for unexpected and unpredictable events that might arise.

Let's consider the business owner that has decided to ride out the economy. That may not be the best solution when you consider how your business will be valued. Most buyers value a business on three years of historical earnings, before interest, taxes, depreciation and amortization (known as "EBITDA"). Therefore, every year you wait, the high EBITDA of prior years is falling off the valuation table. If your best years were the last few years and the next few years don't look so good, this could seriously impact your valuation.

Finally, M&A advisers I have spoken to have made it clear that the valuations of the last few years were an anomaly. Many don't feel that we will reach these levels of valuations even when we do come out of the recession. Many buyers were hurt by those high valuations and it will take a long time for them to forget their losses. Yes, you can wait for the good old days of high valuations but you might be waiting a long, long time. If you can wait for an indeterminate time, then by all means do so, but most business owners have a finite time horizon to address.

3. The only buyers are looking for distressed sellers, and I'm not a distressed seller

The key here is to make sure you don't become a distressed seller. If you take charge of your situation and plan for succession you won't be a distressed seller. If you let circumstances control you, you might very well find yourself in that situation.

Furthermore, there are still buyers for good companies like yours. The same principles apply during recession as they did two years ago during an economic boom. In order to get the best price for your business, you need to have more than one interested buyer. Engaging professional M&A advisers will help ensure that this will be the result.

4. The economy is bad right now and I need to focus on getting my business on track

Now may not be the right time for you to sell. However, this could be the best time to take action on your business succession plan so you are well prepared when the opportunity to sell arrives.

For example, if you have a minority shareholder but no shareholders agreement, now is the time to address consolidating control. It is a good strategy to deal with minority




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shareholders now while the fear is greatest! If instead you work hard to grow the business through recession, you are only creating a bigger asset to fight over with the minority shareholder. Smart owners are not waiting for recovery, they are dealing with minority shareholders now.

In addition, once the economy picks up, those business owners who have been holding back on transitioning their business will begin to address the issue. It's quite possible that there will be a flood of businesses on the market when the good times return. This is great for buyers but not so good for sellers. With greater competition, pricing may be driven down even further.

Those who don't plan for business succession will be that much further behind when the recession ends. Those that are doing nothing now are effectively letting an external circumstance, the economy, set their agenda. They are not taking control of events, they are letting events control them.

Don't let current circumstances set your agenda. If you are at an age where you have been or should be thinking about your business succession plan, you need to take action now. Just because we are now in a recession doesn't mean that you should fail to plan for your business succession. Smart business owners are planning now so as not to be caught out when the tide does turn. 

Don Sihota is a business lawyer who assists owners of private businesses transition their family-owned and privately held businesses to children, employees, management or to unrelated third parties. Don works extensively with sellers and purchasers to help protect them through this process, including the negotiation of commercial agreements. Recognizing the increasing number of business owners needing assistance with Business Succession Planning, Don has developed resources specifically for this purpose and lectures frequently on this subject. Don can be reached at (604) 643-3123 or dcs@cwilson.com.