The Many Moving Parts of a Business Sale

Managing Liquidity Before, During, and After the Sale

Financial windfalls can come in many forms, like receiving an inheritance, selling real estate, or even winning the lottery. In terms of complexity, few such events compare to that of selling a business, mainly due to the number of moving parts involved. Unfortunately, few small business owners realize this in time, which can lead to less-than-ideal outcomes.

It is therefore vital to develop a strategy early on in the process—ideally with the guidance of a trusted advisor—to not only streamline operations in order to fetch a high sale price, but also to navigate the psychological, financial, and planning needs that often follow.

We spoke with Westmount President **Mike Amash** about smoothing out the bumps in the road—before, during, and after the sale of a business—to ensure a bright future ahead.

There's been a spike in small business sales over recent years. What do you think has caused this phenomenon?

It's largely due to today's macroeconomic environment, which has triggered a surge of M&A activity. That's most likely due to the fact that interest rates are extremely low, people are looking for returns, and private equity firms can borrow cheaply to enhance returns on their investment. Consequently, we're seeing a ton of capital-chasing investments, which has created the backdrop for the uptick in roll-ups and other acquisitions that we're seeing.

What's the best way to approach a business sale? Is there a standard playbook for these types of transactions?

There are different considerations depending on whether you launched your business with the intent to sell from the beginning, or simply to earn a living income. Neither is more valid than the other, but each carries its own set of psychological and fiscal factors. For example, somebody who had the foresight and wherewithal to start a business they knew they'd eventually sell is going to have less emotional baggage compared to someone who launched a business as a passion project without ever thinking about giving it up.

Are any industries particularly suited for profitable sales?

While we are seeing increased activity in most sectors, small businesses that can be aggregated or rolled up into a single entity seem especially attractive right now. That's because, once aggregated, the new entity can demand a higher multiple in addition to realizing cost reductions. In terms of specific market segments, medical practices that deal with cash customers like dermatology and dental are in especially high demand, as are home service companies like plumbing and heating.

A Tale of Two Business Owners

No two businesses are exactly the same, but there do tend to be two types of business *owners*.

On one hand are those who set out to create a business with an intent to sell from the beginning.

On the other hand are those who start businesses solely to generate a living income. Over time, they realize they've built something significant enough to sell for a profit, and consequently stumble into a liquidity event.

About Westmount

Founded in 1990, Westmount is one of L.A.'s oldest independent investment firms.

We provide an institutional approach to portfolio construction, eschewing commissions and proprietary products to eliminate potential conflicts of interest.

Clients often come to Westmount for objective advice about their investments, or for guidance about major wealth events and other complex financial situations.

Let's Start a Conversation
To learn more about our firm, people, and capabilities, visit www.westmount.com, call us at 310-556-2502, or email info@westmount.com to speak with an advisor today.

As an example, a few years ago one of our clients approached us for advice about selling his dental practice to an investor. The offer he had received was six times what his revenue stream historically had been, and he wanted to know where he stood financially. We ran the numbers, knowing that he would be retiring early and would need the sale price to be high enough to sustain him and his family. We updated his financial plan, accounting for taxes and inflation, and presented our findings. He ultimately took the deal—seven or eight years earlier than planned—because the multiples on the sale were so high.

How can business owners best prepare for a sale?

From a financial perspective, business owners will want to do some rigorous advanced planning to mitigate the eventual tax burden from a sale. Case in point: many forward-thinking business owners who own shares of their companies for at least five years often set up C corporations to take advantage of a tax incentive known as qualified small business stock (QSBS). Those who qualify may be exempt from paying capital gains tax on the first $10 million in gains. That's just huge.

How can business owners maximize the sale price?

When initially contemplating a sale, business owners should hire a valuation company to determine what their company is worth. This will help them understand the steps they can take to enhance the value of their company—things like improving accounting accuracy, training their staff more effectively, or increasing margins from, say, 30% to 35%. By making these small improvements, a company's worth can grow from x to 2x in a relatively short amount of time. It then becomes a question of how long to wait before selling.

How does the sale of a business impact a client's broader financial planning strategy?

The sale of a business forces people to closely examine their overall investment strategy and take a closer look at their long-term income needs. But quite honestly, financial planning should begin before the sale. Think of it this way: how can anyone confidently negotiate the sale of a business without clearly knowing how much they need after tax to sustain themselves for the rest of their lives?
For example, one might think $20 million sounds like a great sale price, but if that means actually pocketing $13 million after taxes, and they're 60 years old, it may not be enough to sustain them over the rest of their lifetime when you factor inflation into the mix. You might realize that you actually need $30 million to sustain yourself for the rest of your life, in which case you're going to work tirelessly for the next few years to boost the company value in order to get closer to that target.

How do you help clients adjust to such a major life change?

It can be jarring to convert a tangible business into intangible capital, but we help our clients frame their newfound wealth as a source of security, not anxiety. One way we do that is by developing an overarching strategy for investing and diversifying their assets. Importantly, we include tangible assets like real estate and/or other business interests as part of their investment portfolio, which creates parallels to their former lives as business owners.

Finally, what is Westmount's role in this process relative to a client's other advisors?

Westmount's role is integral to the liquidation process because we quarterback interactions with all of a client's different advisors, including investment bankers, accountants, and trust attorneys.

One way we add long-term value is by providing continuity and consistency for years after the sale. For example, an investment banker may execute the deal, but usually steps out of the picture once the transaction is complete. Accountants might do some yearly planning and field some questions, but they're not there on a year-round basis. By contrast, Westmount stays involved post-sale to manage the client's portfolio with an eye toward building relationships with the next generation.

For more information, call us at 310-556-2502 to speak with an advisor, or email info@westmount.com.

If you have any comments or questions about this report, please contact us at info@westmount.com.

Westmount Asset Management, LLC
2049 Century Park East, Suite 2500 | Los Angeles, CA 90067 | Tel: 310-556-2502