

CASE STUDY

Business succession planning: Securing a legacy

An Owner/CEO's business exit experience

Executive summary

A founder/owner/CEO of a Northeast Ohio manufacturing company was at a crossroads. He had spent the past 25 years building a successful business from the ground up. He was now 73, and his 'informal' business succession plan (a hand-picked key employee he was grooming to take over and buy out the business) was no longer a feasible option. He had planned on retirement in three to five years. With a workforce of 90 employees to worry about, he was teetering between the options of attempting to sell to employees vs. selling to a third party. His concern was that third-party buyers might ruin the company.

Sikich had been a trusted tax advisor to his business, and handled the review of financial statements. The business owner was facing many challenges and questions to which his attorney could not sort out. He approached Sikich for advice on evaluating buyer options, transition preparation (both personally and for his company), and the sales process protocol – how it works and where to get started. He told Sikich he felt paralyzed, as he did not know how to move forward.

Sikich's business succession team started the process by doing a comprehensive valuation and a net process analysis. Most importantly, Sikich evaluated the business owner's personal goals, expectations and hopes for his business and legacy into retirement. In this case, he owned two separate businesses with different owners, and he needed to know where the money was going after a transaction. Sikich adjusted the purchase price between companies appropriately in order for the business owner to be able to walk away completely satisfied. Once Sikich helped outline the pros and cons to all of his buyer options, this owner decided his employees were not the best option to continue running the company, and he opted to look for an outside buyer.

"They say you should be looking at succession planning 10–15 years in advance. It takes that long to figure out if you have the right people in place. I didn't do well. I didn't plan soon enough to make sure I was doing things the right way – marketing, business development and operations – I wish I would have asked Sikich sooner and prepared in advance. It would have saved a lot of worry on what the future holds for my business and employees."



"Sikich's advisors helped me through the whole process. I trusted their judgment as they had a lot of experience with these transactions."

High-level overview of the process

Sikich offered seasoned advice and presented multiple possibilities throughout the entire process:

1. Discovery:



- Set objectives
- Align goals

Objectives were defined and measured alongside owner preferences and opportunities. The business owner's primary concerns were that his employees would be retained and have a future, clients would be well taken care of, and the buyer would have the same values as his own.

2. Management:



- Compilation
- Valuation
- Expectations
- Exploration
- Evaluation

Sikich compiled a comprehensive prospectus, including elements such as the background, experience, niche and business owner expectations, with the intention of finding a complementary potential buyer. Maintaining strict confidentiality through the entire process was critical. Sikich set out to evaluate and attract potential buyers. Working with the business owner, the list of 28 interested buyers/companies was narrowed down to seven possibilities. Sikich walked the owner through the interview process, evaluating companies by their interest in their niche market and their potential as a premium buyer. "Money wasn't driving this decision for me, but Sikich's guidance was critical for me to thoroughly evaluate each company and their offers in order to maximize what I was getting."

3. Strategy:



- Due diligence
- Facilitation
- Transition
- Exit
- Financial freedom

Sikich facilitated the process of due diligence in conjunction with attorneys, M&A advisors and investment bankers. "I couldn't have done it without them. If you haven't gone through it, you don't realize how important it is to have Sikich on your team. I could walk away feeling secure that the company is going to grow, my people are taken care of, and the company will stay local to the area. And I learned that outside buyers don't ruin companies. you get to choose someone who fits your business. It didn't work out for me to find someone internally, and now looking back I can see that they couldn't have brought the exposure to the table that this new buyer has given my company."

A business owner's perspective on lessons learned

In addition to a successful outcome gained through the \$30 million transaction, Sikich's tax advisors aided in tax relief that netted an additional \$2 million on the purchase price. From there, the wealth management and advisory team created an advantageous financial plan for himself and his family. And, he realized his ultimate dream of setting up a private foundation.

Sikich continues to help with family and estate planning to ensure his goals are being met. "I was really concerned about my future until Sikich stepped in. they helped me get the best value and made suggestions I couldn't have fathomed were a possibility."

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