

Wealth Planning **Update**

Why now may be the right time to sell your business



Selling a business is a calculated, and often very personal, decision many owners make. Some consider selling due to the lack of a solid succession plan, an unclear path to continued success or a desire to spend time elsewhere. Regardless of why, the ultimate consideration is often around timing and potential valuation.

You could be asking yourself, “Is now the right time?” The pandemic and resulting economic turbulence of the past few years may make you hesitant to sell, but there are viable reasons to consider it at the present time.

While it is true that rising interest rates and uncertainty have slowed middle market deal activity, it has not halted it completely. And although these factors may mean buyers are being more selective, a professionally run, competitive, sale process can result in a compelling valuation, especially for the strongest of businesses.

When is the best time to sell?

Many owners who considered selling prior to the pandemic reprioritized and decided to maintain the business until the economy felt more stable. With stable markets and borrowing rates leveling out, those same owners are revisiting their plans. And rightly so.

Consider these four reasons for selling now:

The policy and legislative environment is favorable for selling.

While there is volatility in the market, there is still keen interest from investors in businesses that came out of the pandemic strong, especially in industries that are likely to be key beneficiaries of the Infrastructure Investment and Jobs Act, the CHIPS and Science Act and the Inflation Reduction Act, which together will provide fiscal stimulus to the tune of over \$1.3 trillion toward the goal of building up key growth industries, repairing infrastructure, and encouraging expansion of U.S.¹ based manufacturing.

There is both appetite and scarcity value in the market.

The economy may scare some companies away from the market, which puts strong businesses with good fundamentals at an advantage. Both strategic buyers and private equity funds are still looking to deploy capital. Also, despite the trepidation many are feeling about the economy, banks and other lenders are still willing to finance attractive deals. Where there is a lending shortfall, private equity buyers may step up to finance the difference with additional equity, with plans to refinance at a later date.

Many industries are in a good position for a successful transaction.

As mentioned, businesses involved in infrastructure and targeted growth industries such as biotechnology green energy, predictive manufacturing, etc may have a market advantage due to recent legislation, but it's worth considering the broader range of industries that the industrial renaissance covers, as well as other enticing industries for investors. These key industries include those involved in battery technology, electric vehicles, artificial intelligence and robotics, cybersecurity, additive manufacturing, health care, biotech, and green energy.

Certain business models will find greater success in M&A now.

While it's important for your business to have strong fundamentals before you consider selling, there are also specific business models appealing to investors in these times. These include companies with recurring revenue or asset-light business models, as they are not as affected by supply chain issues and inflation, as well as companies that can identify and articulate sources of earnings before interest, taxes, depreciation, and amortization (EBITDA) growth.

What to know if you're selling now

If you're ready to sell, consider the following:

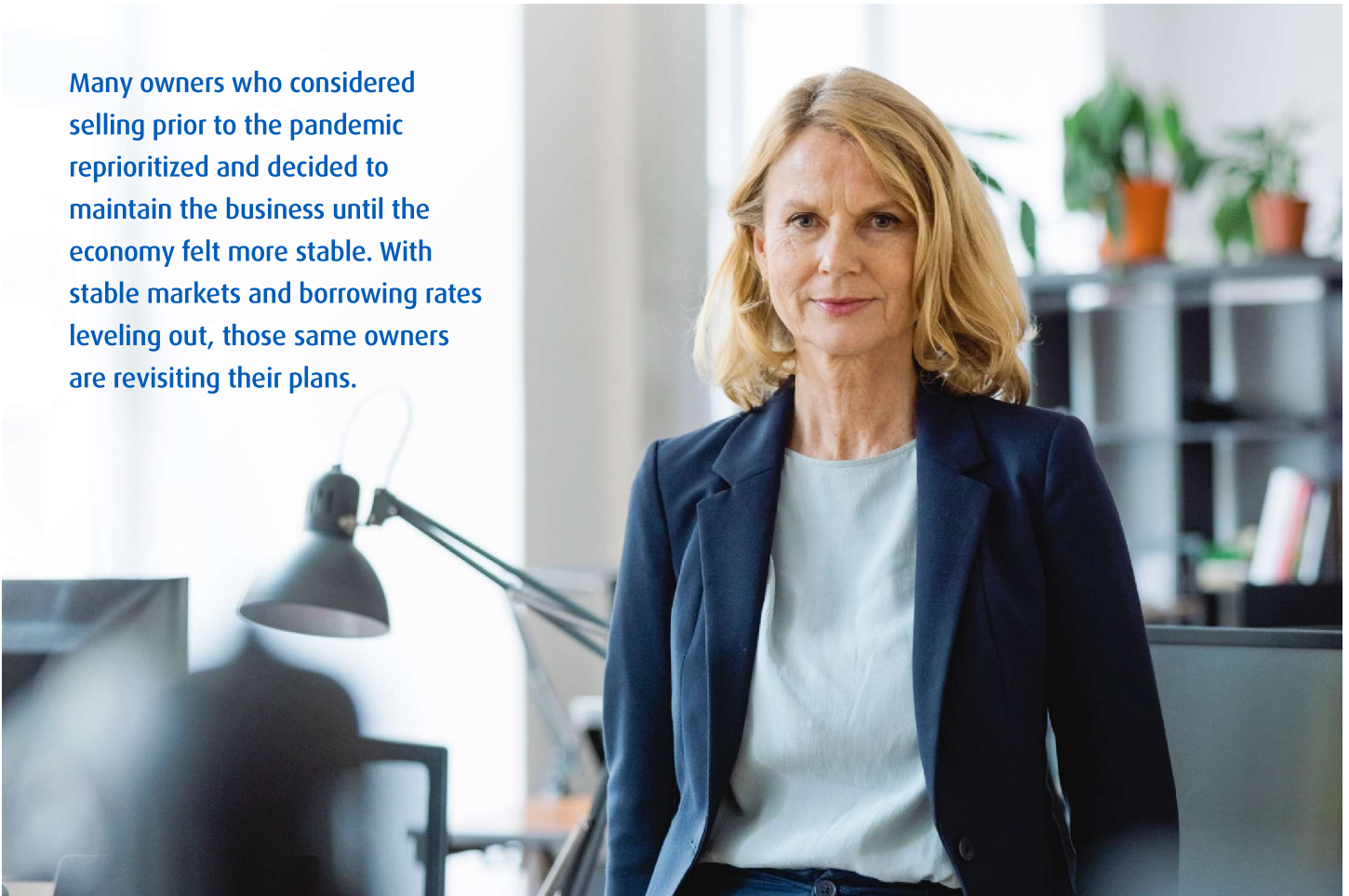
Transfer and estate tax strategies. Don't overlook the technical aspects of the transition, such as taxes. Consider the best strategy for preserving your generational wealth through estate planning, especially as some estate tax exclusions are set to expire in 2025.²

Due diligence process. M&A deals are challenging, and the process of due diligence within a merger or acquisition is especially long and complex. Owners are wary of the economic environment, but so are potential investors and banks, so the process may take longer and be more involved than usual.

Professional advice. In the current environment, it's more important than ever to seek professional advice to ensure you receive a fair valuation. A reputable investment banking firm with a track record in your industry can aid you through this delicate process.

Proper preparation. Selling your business is one of the biggest processes you'll likely ever undertake. The key word here is process. It's not a one-time, simple event. Proper preparation of both your business and your personal estate planning will set you up for success.

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What to do after the sale

Congratulations, you've sold your business! It's worth considering the investment opportunities available to you now that one chapter of your life is complete. Your focus will now shift from creating and managing a business entity to managing the pool of capital those efforts have produced. Interviewing and assembling a team with distinct expertise around your new venture will become your next great undertaking!

The current dislocations in the global economy present opportunities to buy a variety of assets at lower valuations. Structured products, catastrophe bonds, large- mid- and small-cap U.S. stocks and emerging market equities are all places worthy of consideration in building out a diversified portfolio. You can also pace your investments in a way that's comfortable for you through dollar cost averaging and building bond ladders with maturities every few months.

Remember, you're not in it alone. You can partner with a thoughtful team of financial, legal, planning, investment and wealth advisors who will help you build an overarching long-term plan and work with you to implement both relative to strategic targets and tactical market shifts at the right time for your business.

Taking the step

Contemplating selling your business can lead to a host of emotional, logistical, planning, and financial decisions in the best of economic environments and should not be undertaken without a good deal of introspection. In addition to retaining sound counsel on the legal, tax, financing and estate planning implications, it will be imperative to engage those closest to you who will inevitably be impacted by your choice to "go or stay."

While the pandemic and resulting market and economic turbulence of the past years may have delayed decision-making, there are a number of viable reasons to consider the current framework as the ideal one for taking that next step into writing your own new chapter.



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Carol Schleif, CFA®, FSA is the Chief Investment Officer of BMO Family Office, an integrated wealth management provider that serves ultra-affluent individuals, families and family offices across their tax, estate, investment, philanthropic, risk and family capital needs. She is a voting member of the Asset Allocation Work Group and Investment committee as well as leading the Senior Investment Advisory Council for BMO Wealth Management.

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¹ Carnegie Endowment For International Peace, “After the CHIPS Act: The Limits of Reshoring and Next Steps for U.S. Semiconductor Policy,” November 22, 2022.

² Crain’s Cleveland Business, “The time to consider wealth transfer is now,” November 5, 2022.

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