

All in the Family: a Strategy for Selling Closely Held Businesses

By Peter Schaefer



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Family members can sell a printing or a packaging business just as amicably as they've worked together in it. But, success comes from keeping objectives aligned and emotions under control.

Family-owned businesses are the backbone of the printing industry – by one estimate, six in 10 U.S. printing companies are held in this way. That's been good for the industry, as the shared vision and sacrifice of parents, children, and siblings is usually the main driver of the success that family businesses achieve.

But, when the time comes for closely held firms to put themselves up for sale, family ties don't always pull in a helpful direction. Emotions can come to the fore, and individual objectives may clash – issues that have to be resolved in order to be certain of getting the best deal for everyone concerned.

This isn't to say that family members can't sell a business just as amicably as they've worked together in it. In one transaction we're helping to close, the father-and-son owners are parting on the best of terms: the father moving on to the retirement he's been working toward; the son finding the partner and mentor he wants in the new owner. We see strong growth ahead for the business in the compatibility of interests that the principals have preserved.

How different this story is from the case of the husband and wife trying to sell their jointly owned company in the midst of an acrimonious divorce. The company was exceptional, but morale skidded as the emotional temperature kept rising. The transaction, when it finally closed, wasn't a bad one for the sellers. But, the outcome would have been better if the personal backdrop hadn't been as turbulent as it was.

As in the first example, the sale of a family-owned business doesn't have to mean that all the original owners will exit. Some may remain either because their ongoing employment is a condition of the sale, or because the new owner wants to keep them on for the sake of continuity. Two questions then arise: Who gets to stay? Are those who do stay prepared for what comes next?

Buyers may find themselves having to answer the first question, since selling owners – especially the parents of shareholding children – often are reluctant to make the call.

We were involved in a transaction where a company that a consolidator wanted to acquire was being managed by multiple siblings in competition with each other for control. It was a classic too-many-cooks situation, and the company's performance had suffered as a result.

Acting with the objectivity of someone who wasn't a family member, the consolidator soon determined that one of the sibs was the true star and offered him the CEO's role. The others accepted their shares of the payment and went their ways, and the company now is flourishing under its new ownership and management.

While this may have been a bittersweet outcome for those who had to leave, it points to something that owners of family businesses must take seriously: expecting to retain a place for everyone with an ownership stake probably isn't realistic. Instead, sellers should work with buyers to eliminate potential management redundancies and to identify the right mix of talent from both sides for the merged business going forward.

There's a financial incentive for giving the correct answer to the who-stays-who-doesn't question, because the compensation of family members who aren't retained can be added back to the calculation of selling price. As a rough example, if a company is selling at five times EBITDA, returning \$100,000 of compensation effectively creates an additional \$500,000 worth of value for the sellers – an increase that benefits every family member with a stake in the transaction.

As for those who'll remain, we always counsel our family clients to give some thought to what it will be like to work for someone else post-sale. This is crucial if the company they're selling has been their one and only employer, as is sometimes the case with the second- and third-generation principals of family businesses.

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These sellers may find that switching gears mentally from owner / entrepreneur to salaried employee isn't easy. Family shareholders who anticipate being retained in management positions should take that proverbial walk on the beach and ask themselves whether they truly are ready for the new structure and hierarchy they'll be part of. If the answer is "no" or even "not sure," now probably is not the time to enter into such an arrangement – even if all other signs are pointing toward a sale.

Although family dynamics can get complicated when a business is up for sale, there are few problems that owners of closely held businesses can't overcome when all of the family members communicate openly and honestly with each other.

We saw this when we were called in to evaluate a very strong company in which ownership was divided equally among the parents and their five children. One of the five, presently the CFO, wanted to acquire the shares of the others prior to sale – an objective that they support and are meeting frequently with the CFO to accomplish.

Their cooperation bodes well for an eventual sale that will reward everyone. It certainly will help them steer clear of disagreements that sometimes lead family members to try to sell their shares independently of other family members. As these freewheeling shareholders usually find out, it is extremely difficult to sell less than 100% of a printing or a packaging business, or anything else – and even if successful, only at a painful discount.

When all shareholders are on board with a plan to sell, the main piece of advice to offer is a reminder that the process will need time. It takes a minimum of 12 to 18 months to plan, execute, and close a sale. If family members are expected to stay on in management positions, their commitment could be as long as three years. Sellers should factor these schedules into their own plans and adjust their timetables accordingly.

In initial meetings with prospective buyers, sellers should try to keep the attention focused on the family members in the pivotal roles – the ones most directly involved in present management and likeliest to continue in those positions after closing. There's no point in letting the show be stolen by less active shareholders whose participation hasn't been as crucial to the successful operation of the business.

Principals dealing with delicate matters like these may want to consider putting them into the hands of a qualified third-party adviser – a consultant with deep experience in selling and buying family-owned businesses. Such an adviser can provide the emotional detachment, professional objectivity, and M&A market insight needed to make the sale profitable as well as harmonious.

Family ownership of a printing or a packaging business may come to an end, but family ties are forever. With apologies for the play on words, it's no exaggeration to say that the family that M&As together stays together – when the deal is crafted in the unity of purpose and the bond of blood that only family owners know.

New Direction Partners is an investment banking and financial advisory services formed by Peter Schaefer, Paul Reilly, Jim Russell and Tom Williams to serve the printing and related industries. Services include merger advisory services through the representation of selling shareholders as well as buy side representation, valuation services, financing and refinancing efforts, turnaround and restructuring services, and temporary/interim management consulting. To learn more about New Direction Partners, visit New Direction Partners' website at www.newdirectionpartners.com.