# Economic Downturn Gives Owners Time to Prepare for the Recovery of the M&A Market

**Aaron Puttroff**
aaron_puttroff@thewp2.com

**Living Legacy**
4275 Executive Square
Suite 800
La Jolla, CA 92037
(619) 684-6410

Economic downturns give all business owners, quite literally, pause: pause in growth, pause in hiring, pause to reconsider exactly where our companies are heading — or need to head — if we are to meet our owner-based goals.

There are many benefits of using the time afforded by an economic downturn to create and enhance the value drivers in your company.

The fundamental questions owners must ask are:

- Am I using this precious commodity — time — to prepare my company and myself for sale on the day that the economy revives?
- Or, on that day, will I be where I am today: wishing to sell, but buried in the everyday details of my business and doing little to chart a course toward my ultimate goal?

In addition to using your time to install and energize your company's value drivers to prepare for sale, an economic recession may also has give owners time to evaluate if their current business advisors are equipped to help them prepare their companies to sell.

When times are good, most owners chug along with little guidance from advisors. Owners call their lawyers when they have a problem, their accountants when the taxable year-end approaches and their financial advisors when they realize that their daughter might not get that golf scholarship. In short, most owners expect their advisors to react quickly and effectively to whatever problem they pose.

Owners who understand that selling/transferring their companies (the biggest financial event of their lives) for top dollar can only be accomplished through careful planning, expect more. They look for advisors who approach them with specific strategies designed to increase the value of their companies. They do well to hire advisors who have experience navigating the often choppy Exit Planning waters. Most important in today's market, however, is finding the advisors who can prepare your company to move immediately when the economy revives and business value and cash flow increase.

Why? Let's look at the number of owners looking to sell their companies before the economy went south.

According to a 2005 PricewaterhouseCoopers' survey of 364 CEOs of privately held, fast-growing companies, "nearly two-thirds … plan to move on within a decade or less: 42 percent within five years, and 23 percent in five to ten years." ("Wide Majority of Fast-Growth CEOs Likely to Move On Within Ten Years, PwC Finds." January 31, 2005.) Add to this number those owners who will be more than ready to hang up the towel as soon as the market will pay a decent price for their companies and we can estimate that millions of owners want to sell at the market's first sign of life.

## Will you be ready to sell?

If you have hired skilled and experienced Exit Planning advisors, they are already sharing strategies specific to your company that you can employ today — in today's economy and years in advance of your anticipated sale date — to increase the salability and value of your company. If your advisors aren't skilled in Exit Planning, they probably have been mute on the subject of your exit.

Exit Planning advisors are contacting the owners they work with about:

- **Increasing gross margins.** Exit Planning advisors are helping owners to take advantage of today's "pause" to increase gross margins so that when the recovery kicks in, their companies will be the first, and most successful, to rebound.
- **Becoming the "Best of the Best."** Exit Planning advisors are working with owners to examine every aspect of their businesses. They are asking, "What are tough times telling you about your employees, your vendors, your customers? Are they the ones who will not only help your company to survive the tough times, but to thrive when times improve?"
- **Reassessing a business exit strategy.** Nearly all owners have postponed their planned business exits. Exit Planning advisors are helping owners to figure out exactly how postponing departure affects:
  - Post-retirement income goals.
  - Choice of a successor.
  - Dependence on other sources of income.
- **Protecting assets.** Exit Planning advisors employ numerous strategies to help owners to protect their assets. These include:
  - Minimizing tax exposure.
  - Minimizing liability exposure (by creating multiple entities).
  - Putting plans in place to downsize — immediately — if economic conditions demand.
  - Reviewing any buy-sell agreement to make sure it includes provisions for a decrease in business value.
  - Reviewing contractual obligations of employees to ensure protection of trade secrets and to prevent competition.
  - Reviewing property and casualty insurance contracts.

If you have not yet heard from your advisors, it may be time to evaluate if you have hired the "best of the best."

*the collaboration of multiple professional advisors. To the extent that our firm does not have the expertise required on a particular matter, we will always work closely with you to help you gain access to the resources and professional advice that you need.*

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