In the second part of a four-article series, Glenn Bowman builds on his discussion on how to best maximize business liquidity before a partial or full sale. More specifically, Glenn will dive into, and outline, five options that every small to mid-sized business owner should consider when selling their business.

When most entrepreneurs envision leaving their business—if they do at all—putting it up for sale is often the first exit strategy that comes to mind. But, contrary to popular belief, a complete sale is just one of many exit options available to business owners. This is important to note, because the right exit strategy is essential to maximizing the liquidity of your business. That said, uncovering what makes the most sense for you is a rather complex process.

To start, as we mentioned in the last article, you must carefully weigh your exit objectives, timelines, tax and risk factors. Next, you need a firm understanding of the exit options available to you, along with sound professional advice to determine which will provide maximum value.

The process can be tricky—and potentially require long periods of time canvassing large external groups. But with the right strategy in place—and the right advisors by your side—it can be well worth the effort.

What are your options?

While there are many variations of liquidity options, there are essentially five that small to mid-sized business owners should consider. These include:

Complete sale

This strategy involves selling all company assets or shares in a change-of-control transaction to either a financial or strategic buyer. It offers the potential to achieve the highest value for the company, as well as ensure future growth as a going concern. That said, transaction pricing is primarily driven by the marketplace and projected earnings expectations—meaning such a move could result in the dismissal of many employees and managers. This, of course, will be dependent on the purchaser's ultimate objectives and strategies.

Partial sale

A partial sale typically occurs when a business owner sells a portion of his or her shares of a company to acquire additional capital. It's an excellent tool for owners who want to take some chips off the table or better position the company for future sale by funding expansion efforts or paying down debt. Some buyers, such as private equity firms, will work with your existing team to enhance your company's operations to prepare for a future sale. While you'll likely maintain your title of CEO, the private equity group may assume joint-responsibility in managing business operations. In other words, you may no longer be calling the shots on your own—and they may eventually take a majority stake in the value of your business when it comes time to sell.

Debt finance leveraged recap

A leveraged recapitalization gives business owners the opportunity to realize a significant return without ceding ownership control. By replacing a portion of their company's equity with new, third-party debt or equity from a private equity investor, owners can facilitate a partial liquidity event—essentially allowing them to generate wealth diversification (if all their wealth is tied up in the business), transfer their business to the next generation, fund tax liabilities that arise during family succession, facilitate a buyout of selected shareholders (that want to remain in the business) or gain access to outside capital to fund future growth.

This type of strategy is best suited to companies that have enough capacity to increase the amount of debt in their company but that don't want to give up equity.

Management and employee buyout

A management and employee buyout occurs when a business owner sells a company's shares to management and key employees, allowing for a staged or one-time ownership transition from the company to its management. This is a compelling liquidity initiative for many reasons—including the ability to sell the business to buyers that have an intimate knowledge of it, the very discreet nature of the transaction, the low cost of the process and the low reliance on market forces. That said, it's not always easy to find buyers within your company.

Initial public offering (IPO)

This strategy involves the sale of existing and newly-issued shares to the public. For the right company in the right industry, this alternative can present substantial rewards—but not everyone will gain liquidity by going public. For most middle-market companies, business owners won't be able to sell any substantial portion of their existing stock because public market investors are more interested in seeing their equity investments deployed to grow the business—not cash out the existing owner.

Which option is right for you?

While there is very rarely a *wrong* exit option, there are suboptimal ones. To achieve *best* results, you need to carefully consider your exit objectives and examine how things like market forces, industry conditions, competition and demand for your business will impact your options.

This isn't a black and white process—and knowing which variables to consider can be difficult for someone who's never planned an exit strategy before. That's why it's critical to seek advice early in the game. Not only can an experienced advisor act as a sounding board to help you evaluate your options, but they can ensure you're looking at the right things to extract maximum value from your company. For instance, they can explain why a public offering may not make sense in a micro-economy like Canada's or determine what type of buyer you need to target to complete your ideal partial or complete sale.

With this information in hand, you'll be able to select an exit option that provides you the most flexibility and opportunity, while posing the least risk—an ideal scenario for any business owner.

Ready for the third part of the series?

Glenn Bowman outlines a plan to help maximize the value of your business—helping to ensure your business is as appealing as possible for potential buyers. Read article

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