

Ride it out or get out?

By Samantha Stainburn
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Gary Heidt didn't see the recession coming when he decided in 2006 to sell Heidt's Hot Rod Shop Inc. so he could spend more time with his wife and four grandchildren at home in Palatine.

"Two of them live two miles away, and they were growing up without me," says the 56-year-old entrepreneur, who was working 12-hour days, six days a week at the company, a maker of parts for classic cars, that he started in his garage in 1986. "I'd come home at 10 o'clock at night, and they were already asleep."

Sales were strong for most of 2007, and three prospective buyers checked out the business, which had sales below \$10 million. But in late 2007, one of the bidders — whose initial offer was so big Mr. Heidt almost dropped the phone upon hearing it — cut that offer by a third.

The bidder was concerned that end-of-year sales were down from a year earlier, Mr. Heidt says. Earlier recessions had slowed sales only slightly — muscle car enthusiasts tend to cut back on other luxuries first — but conditions had changed.

"I said to my wife, 'We should probably sell now because if we stall and wait to build it up even more, it might be five years before we get back to this point. If I have to wait five more years, I'll have a heart attack in the back of the shop one night.' "

Mr. Heidt was up against a dilemma facing many entrepreneurs, particularly baby boomers, who once imagined they'd be selling and hitting the golf course in the next few years.

Many entrepreneurs approaching retirement would rather sell now than slog through a recession. But chances are, if they sell now, they'll be settling for less than they would have gotten as recently as a year ago — and that's assuming they can even find a buyer in such a brutal market.

"It's a Catch-22," says Dennis Hansmann, a business broker with American Business Acquisitions Inc. in Chicago, who's been fielding inquiries from entrepreneurs who are out of gas.

"People are calling, wanting to put their business on the market but running up against their own losses," he says. "To get the highest value, a business owner may need to take time to increase their sales or get their profitability back in check, which could involve layoffs and cutting their inventory."

Mr. Heidt eventually reached out to entrepreneur Frank Happ, who had shown interest in the business a few months earlier. Mr. Happ and partner Marc Prince bought Heidt's Hot Rod Shop in February.

Their all-cash deal didn't match the high offer that fell through, but Mr. Heidt is thrilled nevertheless. "I can't afford to buy five houses, but it's enough that I don't have to work," he says. He's back in his own garage,

rebuilding a 1932 Ford Roadster.

NOW OR LATER

Forty percent of family business owners, most of whom won't be passing their companies on to their children, expect to retire by 2017, according to the Family Firm Institute Inc., a Boston-based membership organization. And 42% of CEOs of fast-growing companies surveyed by PricewaterhouseCoopers LLP in 2005 expected to move on by 2010.

With the economy sputtering, buyers are offering less cash. But if business owners hold on, their last years on the job could be their most difficult, dominated by cutting staff, chasing delinquent customers and working with smaller lines of credit. What's an aging entrepreneur to do?

Chief among reasons to stay is that it's not a great time to sell, particularly for businesses in sectors that are deteriorating, like the automotive industry and luxury-goods manufacturing.

"You're going to be getting out at a price that will be lower to reflect the depressed conditions we're facing and the increased uncertainty about how that business will do," says Scott George, a managing director at mid-market investment bank P&M Corporate Finance LLC in Chicago. "Even in July and August, an owner of a business would have been able to get a better price."

Owners who choose to tough it out likely will have to work harder than they have since launching their businesses. But there are potential rewards, notes Thomas Livergood, CEO of Family Wealth Alliance LLC, a Wheaton-based consultancy. In fact, healthy companies with cash on hand can not only survive but grow in a time like this.

"Fortunes are made during recessions," Mr. Livergood says. "If you have the cash, this is a great opportunity to snap up companies that are forced to sell."

On the other hand, weak companies tend to get weaker during recessions. If it's likely that a bumpy journey through the recession will diminish the value of your company over the next few years, it may be better to sell now.

"If you're thinking about retiring, and you're healthy and your business is doing relatively well, it's a good time to sell because you don't know what's going to happen 12 months from now," says David Kauppi, president of Hinsdale-based investment bank MidMarket Capital Inc.

Exiting early also will help you avoid the glut that's coming as boomer entrepreneurs sell en masse. "There's going to be a robust deal flow over the next five to 10 years," Mr. Kauppi says. "If you've got a buyer who has 30 different companies he can buy, he's going to say, 'Compete for my dollars,' and that six times EBITDA goes down to four."

OVER AND OUT

For some business owners, the answer is in their gut, not their spreadsheets.

Among many of Ryan Linenger's older clients at Itasca private wealth management firm Balasa Dinverno Foltz LLC, "the bigger question is, 'Am I ready to take on this slowdown?'" he says. "It's not that they can't do it, because they've been through recessions before. But you have to gear up mentally. Maybe you don't want to do

it again. Maybe your family is a bigger priority."

Mr. Linenger says his clients often are content to exit for less than top dollar — say, \$8 million today rather than a possible \$12 million in a few years — if the sale price covers what their financial planner has determined they'll need to fund the kind of retirement they want.

Another way to get peace of mind about selling now rather than waiting for a bigger payday down the road: "Find other ways to measure your success besides the check you walked away with," says Gail Golden, a management psychologist with RHR International Co., a Wood Dale-based management consultancy. "Think, 'I supported my family all these years,' or 'I provided excellent service to customers.' "

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Investment banker David Kauppi says it may be wise to sell now, before boomer-age owners nearing retirement begin to sell en masse. Photo: John R. Boehm