WORTH MAGAZINE ESTABLISHED 1992

WORK \ FINANCE \ LIFE

W
Sports Transforms Orlando; Dennis Crowley's Soccer Dreams; USTA's Katrina Adams Serves Tennis

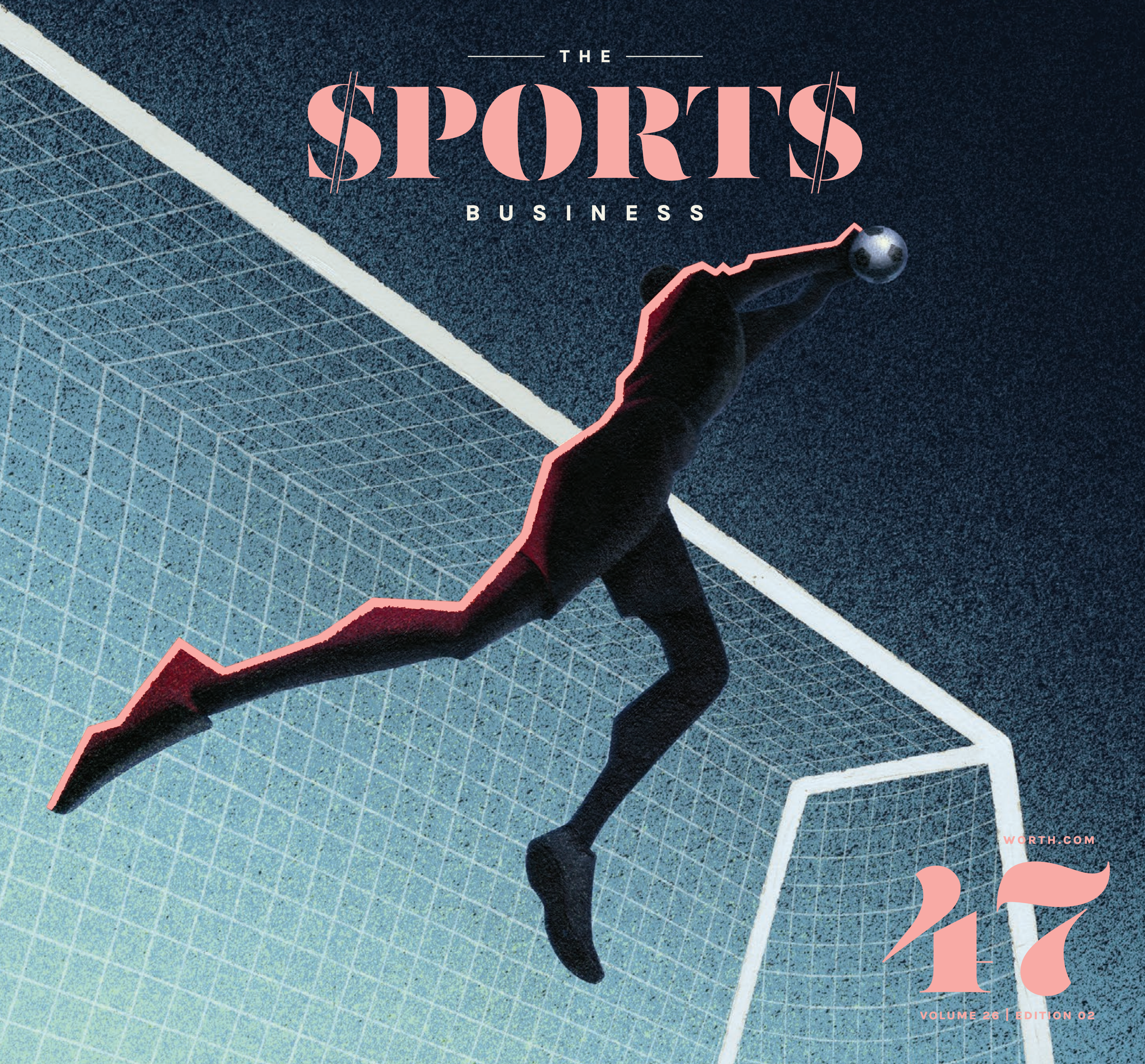
F
Russell Okung Tackles Finance; How Athletes Should Choose an Advisor; Baseball's Molina Brothers

L
Mark Bellissimo Tames the Equestrian World; Essential New Fitness Tech; Oracle Storms the America's Cup

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

THE $PORT$ BUSINESS



WORTH.COM

47

VOLUME 26 | EDITION 02

Should you sell your business when there is a feeding frenzy?

BY DARBY ARMONT, MBA, CFP®, CFA®

WHAT MAKES A GOOD WEALTH ADVISOR...

The ability to communicate a complex financial plan in a meaningful and actionable way

RICHARD P. SLAUGHTER ASSOCIATES INC. | 13809 Research Boulevard, Suite 905, Austin, TX 78750 | 512.918.0000

FEATURED ADVISOR
Darby Armont, MBA, CFP®, CFA®, Vice President

ASSETS UNDER MANAGEMENT
$435 million (as of 3/1/17)

LARGEST CLIENT NET WORTH
Confidential

MINIMUM FEE FOR INITIAL MEETING
None required

MINIMUM ASSET REQUIREMENT
$500,000 (investment services)

COMPENSATION METHOD
Asset-based and hourly fees

PROFESSIONAL SERVICES PROVIDED
Planning, investment-advisory and money-management services; 3(38) fiduciary advisor

PRIMARY CUSTODIANS FOR INVESTOR ASSETS
Charles Schwab & Co. and TD Ameritrade

ASSOCIATION MEMBERSHIPS
Financial Planning Association, Society of Financial Services Professionals, The National Association of Personal Financial Advisors, CFA Society of Austin, CFA Institute

EMAIL
darby@slaughterinvest.com

WEBSITE
www.slaughterinvest.com

ILLUSTRATION BY KEVIN SPROULS

Y **our business is successful, so you regularly get calls from interested buyers. But lately, you've become the center of a business feeding frenzy, with prospective buyers making very attractive offers for your firm.**

The problem is that you are still years away from your planned retirement, but at the same time are tempted by those well-above-market proposals. What to do?

STOP. Before you decide to sell earlier than you had planned, or to continue on your current ownership path, you need to first understand why the increased interest is happening.

Then you must consider five key business issues before you decide between staying at the helm of your company or taking the sales money.

WHAT IS FEEDING THE FEEDING FRENZY? Some industries are now being targeted by investment groups, creating an unusually high interest in acquisition of these businesses.

There are two sources of buyers in the marketplace: consolidators looking to roll up as many practices in a region as possible, and private equity investors looking to invest excess cash.

Consolidators are experienced operators in a high-growth or stable revenue sector who are able to identify companies that are not running at an optimal level or have good growth potential. Consolidators quickly acquire multiple practices and focus on increasing margins and adding services.

These operators often have experienced managers and consultants with the time and expertise that the original owner did not have to implement processses and new services. The ultimate goal? To present a package of practices that will be more attractive to even larger investors in the future.

Private equity firms, meanwhile, are flush with cash from investors who are exerting pressure to attain higher yields. However, the number of industries and practices that are attractive to these firms is limited, leading to that aforementioned feeding frenzy over assets.

They may target larger practices or pick up the consolidators' packages of firms. The goal is also to optimize operations and position the firm to sell again, within a five-to-seven-year window.

MORE TO CONSIDER THAN PRICE. This convergence of interest by consolidators and private equity firms and the scarcity of acceptable businesses mean that owners in attractive industries are getting offers well above market value. While a 25 percent premium is common, there have been anecdotal reports of practices going for *double* their appraised market value.

> "Owners in attractive industries are getting offers well above market value."

The upshot, then, is that when you receive an inflated offer several years before you plan to sell your business, you need to consider these five issues.

1. Measure the profit you would have made between now and your planned retirement date. Keep in mind that you can spend and save these profits while the value of the practice continues to appreciate. Compare this to investing the lump sum received after the acquisition. What are the expected cash flows and appreciation from those investments? Also note that the price you receive from the business may go down in the future, depending on the level of premium the feeding frenzy is producing.

2. Model your future expenses carefully, as most financial plans are very sensitive to increased expenses when clients retire earlier than expected. Even $20,000 per year more in expenses can seriously compromise the projected success rate of the plan.

3. Consider your position in the firm post-acquisition. Will you continue to manage the business or provide services to clients? If not, do you want to keep your name on the door if you are no longer involved?

4. Consider your employees and clients. How will they be treated post-acquisition? Does that line up with the culture and values you have built over the life of the business?

5. What will you do after the business is acquired? Do you want to start another business? Retire? Work with nonprofits? Or are there goals with the current business you would still really like to achieve? These are important questions that you normally can consider for several years, but that may suddenly be dropped in your lap with a large offer.

Working with a financial planner can greatly benefit you during negotiations. Your planner can help you determine a bottom-line number to accept for your business, which takes into account the premium being offered, the discounted value of accepting a future offer, the modeling of investment returns in the future and a specific process for valuing the "money-in-hand" amount today versus future uncertainty.

ABOUT US

RICHARD P. SLAUGHTER ASSOCIATES IS A LEADING WEALTH-MANAGEMENT AND FINANCIAL-PLANNING FIRM WHICH SPECIALIZES IN WORKING WITH HIGH NET WORTH INDIVIDUALS, FAMILIES AND BUSINESSES. Slaughter Associates cultivates a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management and coordinating with tax, insurance and estate professionals. The result is a holistic approach, which is unique in a financial industry that is often segmented and outsourced. By committing to each of these important components, Slaughter Associates charts a path to reach the individual financial goals of its clients.

Founded in 1991 in Austin, Texas, by Richard Slaughter, Slaughter Associates is one of the original fee-based firms in the nation. With offices in both Austin and the Dallas-Fort Worth Metroplex, Slaughter Associates has been recognized by NABCAP as a Premier Advisor and given Exemplary status for expertise in personal risk management.

Darby Armont, MBA, CFP®, CFA®
Vice President

Richard P. Slaughter Associates Inc.
13809 Research Boulevard, Suite 905
Austin, TX 78750
Tel. 512.918.0000

darby@slaughterinvest.com
www.slaughterinvest.com

REPRINTED FROM
Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE