Moving on: Selling Your Business at a Premium

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Merger and acquisition activity among food and agribusinesses continues to heat up. Low interest rates, a recovering economy, changing consumer trends and a wave of owners seeking retirement make it an attractive time to buy and sell, as an increasing number of businesses change hands at near historic multiples of their annual cash flow.

One thing's for sure in today's market — interest rates remain at historic lows and buyers, especially private equity, hedge fund and cash-flush businesses, are seeking strategic acquisitions. Currently, few investment options offer the returns of buying the right business, and that's born out among food manufacturers, as everything from major brands to upstarts find new homes with buyers paying strong premiums for best-of-class operators with developed franchises.

Whether you're Hormel Foods buying Muscle Milk, Tyson Foods buying Hillshire Brands, Treehouse Foods buying Flagstone Foods or simply have made the decision to sell the business you spent a lifetime building, there are plenty of buyers, and finding the right buyer and structuring the transaction can be daunting.

Sizing up the market

Consumer trends like eating healthier foods, or those that contain ancient grains or are gluten-free, have led businesses to make investments in these areas so they can extend their signature product lines. More often than not, it's the larger companies with established distribution channels; retailer presence and state-of-the-art production processes, which are best positioned to buy in today's market. The reality… it's more expedient to buy than build.

In addition to conventional players in the food space, today is a particularly good time for smaller businesses with cutting-edge products to offer themselves for sale. Even so, while buyers may have the resources and knowledge needed to execute a purchase, there's an art to preparing a company to sell and, often, it's the seller's preparation that can make a deal or, more importantly, influence the amount paid.

Seller motivation, as you might expect, can run the gamut, from those looking to simply cash out and walk away, to others wishing to ensure employees, customers, suppliers and, perhaps even a next-generation, retain a role within the succeeding entity. Businesses that execute a solid succession plan and have their financial processes in order have the highest potential for success.

Fine-tuning the deal

With so much riding on seller preparation, a once-in-20-year transaction like the sale of your business requires a savvy financial advisor — one knowledgeable on the fundamentals within your market space.

Look for an advisor who understands your markets, changing consumer trends and the competitive environment that affects your business. Moreover, by choosing an advisor who is well-connected with strategic investors and recent activity within your industry you will be able to fine-tune the sales process. Such advisors are often conversant with buyers and able to advise you on transactions and what you can expect. Having an advisor that can respond quickly with a variety of financing solutions can help you capitalize on the best opportunity.

Structuring a deal will largely depend on your unique opportunity and the nature of your objectives with regard to how your ownership interests are transferred. The purchase will likely involve either debt financing on the buyer's side, or the use of equity in the form of stock or the issuing of bonds to fund the purchase. A hybrid of the two is not uncommon.

A buyout structure could involve an earn-out provision consisting of a stock transfer over an agreed upon timeframe between buyer and seller. In the event you're an owner among partners, you'll also need to consider the benefit of a cross-purchase agreement or an entity-purchase agreement providing key-person insurance on all partners. Such coverage can provide proceeds used to buyout a share of the business and ensure a smooth transition, should you or a partner pass away.

If transitioning ownership within your family – say your daughter plans to finance her purchase over 10 years – she may wish to use a combination of capital sources enabling a portion of the buyout to be funded at closing through debt financing over the first five years and another portion in the form of an earn-out provision tied to the business's financial performance over the remaining years.

Whatever your motivation for selling your business, preparation and the right partner are key. Whether you're ready to move on, or desire to stay on for an extended period to ensure the finer points of your legacy are preserved, there are a variety of ways to make sure the sweat equity you put into all you built over the years endures. The decisions you make now can help you and yours secure a bright future.

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