RKJ Partners: Why 2012 Might Be The Year to Sell Your Business

VOLUME 1; ARTICLE 2
FEBRUARY 2012

I. OVERVIEW

As noted in RKJ Partners' January 2012 article entitled "Overview of Sell-Side M&A Process", many business owners, along with their senior management teams, are reviewing and evaluating strategic options for their businesses, which can run the gamut from a sale via a private or public auction, to structuring a joint venture/partnership or even entertaining an unsolicited takeover offer. For many of these business owners who have been patiently waiting on the sidelines over the last two to three years, 2012 could bring some compelling reasons to seriously consider pulling the trigger on a business sale.

Selling a business is a very serious and monumental undertaking. RKJ Partners' experience has shown that small to lower middle market M&A activity has largely been driven by life events (death, divorce, fatigue, illness, retirement) as the majority of business owners typically do not "time the market" to get the best possible value for the sale of their businesses. Not only should a decision to sell be supported by careful preparation and advanced planning, but the timing of a sale is also a very crucial consideration in managing a successful transaction.

Here are five reasons business owners may want to get a deal done by the end of 2012:

- Plenty of capital to support acquisitions
- 2011 was a good year for many small businesses
- Expiration of the Bush-era tax cuts
- The market may be flooded soon
- Life events

RKJ PARTNERS
LOWER MIDDLE-MARKET INVESTMENT BANKING

RKJ Partners, LLC is an Atlanta, Georgia based investment banking firm designed to specifically assist lower middle-market growth companies in executing transactions between $2MM to $75MM.

IN THIS ISSUE:

CYRIL JONES
Managing Partner
cyril@rkjpartners.com

GREGORY FICKLIN
Managing Partner
greg@rkjpartners.com

RKJ PARTNERS, LLC
4514 Chamblee Dunwoody Rd.
Suite 170
Atlanta, Georgia 30338
p. 404.963.8592
f. 404.920.2159
www.rkjpartners

II. Why 2012?

Plenty of capital to support acquisitions

Reports continue to confirm that both strategic and financial buyers entered into 2012 flushed with cash—often referred to as “dry powder”. This dry powder, in the form of strong cash reserves, translates into favorable buying power and is a healthy driver for increasing the success of getting deals done.

Corporate and strategic buyers are seeking revenue growth and access to new customers, all in an effort to deploy record amounts of cash hoarded on their balance sheets and to increase their enterprise values. Lower middle market companies represent a fertile hunting ground for higher growth niche businesses, and fulfill the needs of strategic buyers who prefer to avoid bigger, riskier “bet-the-whole-farm” deals.

During the past five years, financial buyers, like private equity firms, have amassed a war chest of capital that is now estimated at more than $500 billion. The combination of too much capital and too few well-managed companies for sale, coupled with the need for exits for their earlier portfolio investment, will continue to facilitate an aggressive push by private equity firms to source, fund and close acquisitions in 2012.

2011 was a good year for many small businesses

For many businesses, 2011 was viewed by many owners as favorable. Sales and net income numbers finally returned to pre-recession levels. In addition, other businesses weathered tough economic times by effectively finding ways to cut excess spending, reduce credit outstanding and set aside cash. Many lower middle market owners now find themselves operating businesses that are healthy and profitable, and ready for external scrutiny from potential buyers. Quality sellers should continue to see favorable interest from both strategic and financial buyers in 2012 while not-so-attractive sellers will see less favorable exit opportunities.

Expiration of Bush-era tax cuts

The expiration of the Bush-era tax cuts could have a significant effect on the after-tax proceeds of a business that is sold after 2012. Many business owners fear Congress will not renew Bush-era tax cuts expiring at the end of 2012. Potential modifications to capital gains tax rates are estimated to translate to at least a 33% increase, in addition to significantly higher personal income tax rates. In response to this, trusted financial advisors have seen many of their clients seriously consider accelerating sale plans to ensure that a transaction took place prior to the end of 2012.

To put this potential corporate gains tax increase into perspective, as an example, the seller of a $10M sales company could potentially owe at least an additional half of a million dollars in gains taxes on a sale in 2013 versus what he/she would pay in 2012. While getting the company books in order and scheduling a year-end meeting with the accountant, business owners should make a note to ask about the tax savings associated with selling their business in 2012 versus waiting another year or two. For sellers on the fence, the answer to this question may point to a decision.

THE MARKET MAY BE FLOODED SOON

Baby Boomers are aging and seriously thinking about diversification and retirement plans, increasing the number of companies desiring a sale or seeking a transition of ownership. Not far behind are the Generation Y's who are building lean, profitable businesses with the expectation of exiting within a relatively short period of time. Combined, Baby Boomers and Gen Y's create a pent-up supply of companies for sale. At this point, business owners would be forced to now position their business for sale in a crowded and competitive marketplace. In addition, following the laws of economic theory, as the supply of businesses for sale outweigh demand, this could translate into materially softer valuation multiples for businesses in the small to lower middle market sector.

LIFE EVENTS

The majority of business owners in the small to lower middle market sector sell their businesses for personal reasons, such as death, divorce, fatique, illness, retirement, etc. Sale decisions for life events can be deferred in troubled times, but they cannot be avoided altogether. RKJ believes business owners previously on the fence will seize the opportunity in 2012 to sell when the M&A market is still relatively firm and capital gains taxes are still relatively low. Many business owners who were looking to sell over the last three years put their lives on hold, shifted into survival mode and weathered the economic downturn. For these business owners, the opportunity to cash out at a decent price and move on will be more than welcome.

At RKJ Partners, we can offer business owners that crucial third-party perspective:

- Helping to identify and validate rationale for a sale;
- Viewing business from the vantage point of a potential buyer; and
- Preparing for the due diligence process so that the market (whether strategic or financial buyers, or both) sees business at its best.

PLEASE REFER ANY QUESTIONS OR COMMENTS TO:

CYRIL JONES
MANAGING PARTNER
RKJ PARTNERS, LLC
4514 CHAMBLEE DUNWOODY ROAD, SUITE 170
ATLANTA, GEORGIA 30338
PH.404.963.8592
CYRIL@RKJPARTNERS.COM
WWW.RKJPARTNERS.COM

GREGORY FICKLIN
MANAGING PARTNER
RKJ PARTNERS, LLC
4514 CHAMBLEE DUNWOODY ROAD, SUITE 170
ATLANTA, GEORGIA 30338
PH.404.509.0222
GREG@RKJPARTNERS.COM
WWW.RKJPARTNERS.COM

ABOUT RKJ PARTNERS, LLC

RKJ is an established advisor to leading lower middle-market growth companies. We provide our clients with experienced-based solutions and unbiased advice. Our comprehensive array of strategic advisory and execution capabilities allows us to meet the needs of our clients and provide an outstanding level of service in connection with a variety of transaction processes, including:

- **CAPITAL ADVISORY**: RKJ possesses substantial expertise in assisting lower middle-market clients raise capital to fund growth strategies. Whether the capital source is senior debt, mezzanine/subordinated debt, private equity, or venture capital, RKJ has both extensive and relevant relationships within the capital community to enable the deployment of optimal solutions for our clients.

- **MERGERS & ACQUISITIONS**: RKJ serves as a trusted advisor in executing merger and acquisition transactions for lower middle-market clients. In addition to our significant investment banking transactional experience, RKJ's bankers have owned businesses and have served in interim CFO roles for clients. As a result of our experiences as business owners and senior level managers, RKJ's bankers are able to bring a unique perspective to the mergers and acquisitions process. RKJ's mergers and acquisitions services include:

  - Buy-side and Sell-side Advisory
  - Divestitures
  - Leveraged & Management Buyouts

- **STRATEGIC ADVISORY**: RKJ provides financial advisory services to owners, management, shareholders and their boards to assist in the evaluation strategic alternatives and options for extending and/or maximizing shareholder value. RKJ's advisory services include:

  - Business Valuations
  - Capital Structuring & Planning
  - Negotiating Joint Ventures
  - Strategic Business Development