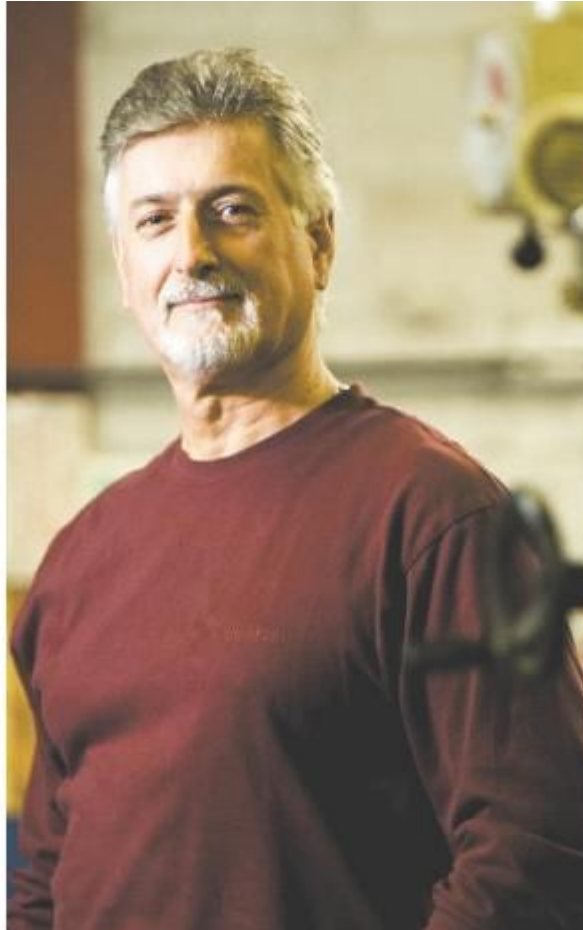


Exiting your business always hard



Aaron Lynett, National Post

Josko Kovic started his first business at the height of the 1981 recession.

Mary Teresa Bitti, Financial Post · Sunday, Nov. 14, 2010

Josko Kovic started his first business at the height of the recession of 1981. He remembers meeting with a bank manager armed with a rudimentary business plan (he still has it). When asked what he had in the way of collateral, he pointed out the window to his 1977 Chevy convertible. "It was worth \$400," Mr. Kovic says. "She opened her drawer gave me a deposit book and cheque book and said 'You're in business. Good luck.' "

He spent the next 25 years building VMS Blower Systems, an industrial equipment manufacturer, seller and servicer based in Brampton, Ont. In 2005 at the age 50, he decided it was time to slow down, but it took another year to sell it.

"I felt I had done as much as I could and I was getting burned out," Mr. Kovic says. "I did not feel comfortable stepping back because I didn't feel the management team I had in place could run it as well as I had. The solution was to sell." As it turns out, Mr. Kovic wasn't really ready to slow down.

And he has since started and sold an Internet sporting supplies business and a paint-ball business.

Exiting a business and making a smooth transition into retirement is particularly tough for entrepreneurs, says Brad Cherniak, partner, Sapien Capital Partners in Toronto. "There is no other reason to be in business than to leave it, but at the same time exiting a business is so counter to running and growing a business that it's tough for entrepreneurs to wrap their heads around -- particularly if they don't have a handle on why exactly they are leaving. And many owner/operators don't fully appreciate why they are exiting."

Sometimes it is because the owner wants to alleviate some of the daily pressures. In that case, bringing in a chief financial officer or senior sales person could change everything," he says.

"Selling is only one option and it may not even be the best one from a value point of view. There may be other ways to get more value out of your company today. And it is all tied to the psychology of entrepreneurship."

Mr. Cherniak offers a number of key strategies to exit a business gracefully:

There is no magic time It depends on what's going on in the company, in the industry, in the capital markets, in the economy -- there are a whole bunch of variables that can conflict. "I counsel companies that the first priority is to always be building value in your company," Mr. Cherniak says. "The best way to sell a company is to have a good company. Companies that don't take the time to build their team or manage to a plan don't show the year-over-year performance buyers like. Even if you don't sell, that discipline of building value is the baseline for everything."

Understand the value of your company today "Use a methodology you have confidence in," Mr. Cherniak says. "Understand what your value is doing

over a fairly regular period--quarterly, semi annually-- so you have a true sense of what it is doing. This critical piece of information will help you realize what is driving you to sell. For example, is it to meet financial obligations? Do you see trouble down the road? If it's not worth as much as you think, it might make more sense to run it for a few more years and then liquidate it. Once you know what it is really worth, you can more objectively look at why you are selling and whether it still makes sense."

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