

FAMILY-OWNED BUSINESSES

SPECIAL REPORT



Why business founders have decided to cash out rather than weather the pandemic storm.

By **KATHERINE TANGALAKIS-LIPPERT** Staff Reporter

As the coronavirus continues to disrupt business across industries nationwide, owners of small and family-run firms in the Valley region are opting to sell – taking advantage of surging profits in some cases – rather than try to continue weathering the storm.

“I’d say the number one driver is companies that have done well from COVID, or recovered from COVID, want to take advantage of their strong earnings and are selling now,” **David Bonrouhi**, investment banker and managing director of **Calabasas Capital**, said. His company frequently facilitates the sale of businesses with revenues between \$10 million and \$100 million and has seen a significant increase in activity over the last year.

“The second biggest motivator I see is the potential for significant tax increases, especially as it relates to capital gains tax,” Bonrouhi added in reference to potential legislation this year.

Business owners who are approaching retirement age have been more inclined to

sell their businesses sooner than prior to the pandemic, Bonrouhi said.

For some, selling comes on the heels of a surge in profits as services became more in demand due to the pandemic. For others, continued disruptions to the supply chain and the threat of business restrictions has encouraged more sales.

In addition to the continued coronavirus concerns, rumors of proposed changes to the capital gains tax have accelerated the sale of businesses that may be impacted by a sale in 2022 or beyond. The continued uncertainty of markets has prompted more sell-offs than usual, especially among health care, software and manufacturing companies.

“It’s not specific to family businesses,” Bonrouhi said. “Privately held companies from a wide range of industries, whether they’re family owned or owned by entrepreneurs or partners or investors have been very actively looking to sell their business this year.”

Recent sales and purchases specific to the Valley area include Bel Air Internet, an internet service provider, was purchased by **M/C Partners** private equity firm last December. **Avantus Aerospace**, a Santa Clarita-based aerospace manufacturer owned by a London equity firm, purchased several smaller businesses in 2020, including **Fastener Innovation Technology Corp.** and **California Screw Products**.

“We’re also seeing a trend within the last little over a year, like a lot of other things, of people moving more outside of the major metro areas,” **Peter Siegel**, founder of **BizBen**, an online platform for selling businesses, said. California businesses, he noted, are opting to relocate to other states such as Nevada, Arizona, Texas and sometimes Florida. “They can do so, especially if it’s a service-based business, and they can really be anywhere. We’re seeing

a lot more of that.”

Seeking advice

While sales and business relocations have noticeably increased across the past year, according to financial advisors for **Bank of America** and its subsidiary **Merrill Lynch**, the considerations when advising business owners who are looking to sell have also changed.

“There was more predictability of the earnings stream in the past, and now that we have to insert COVID into it, it’s uncertain. Some companies are doing much, much better; they’ve been able to embrace digital growth that has happened with businesses,” **Judith Chipps**, managing director and wealth advisor of the Encino-based **Chipps Group** at **Merrill Lynch Wealth Management**, said. “Now, these are successful companies that are doing great. They have orders, and sometimes they can’t fill the orders because of supply chain issues. So all of this adds uncertainty to the ultimate decision, which is: is this the best time for me to sell my company or for me to leave the company to my family?”

Chipps said when she prepares clients to begin the process of selling their business, the conversations about what it would look like to sell are largely driven by the concerns surrounding economic stability, where they once would have focused on maximizing profits.

“The transitions definitely have been different from the past. You know, COVID brought on a lot of fear, which causes kind of a chain reaction, if you will, to think about survivorship and the next step. And so I would say it has absolutely changed from 2019,” **Redonna Carpenter-Woods**, market executive for **Bank of America** in the Los Angeles market, said. “Before COVID, their mindset was different because they were growing; there was no pain point, which

caused them to stop and look, stop and listen.”

The sales of small and family-owned businesses, whether inspired by COVID-related profits or concerns, will alter the complexion of local economies. Most often, buyers are larger companies in their industries or in related industries, frequently owned by private equity firms. Occasionally an entrepreneur may seek to purchase an established business, usually while shifting out of another industry, but the sales generally go to larger entities and firms, resulting in a changing business landscape.

“I think it’s going to continue throughout the next couple of years, where we’re going to see the consolidation of businesses. Depending on how we gain better control of COVID, I think the Delta variant really kind of puts clients back in a defensive position,” **Carpenter-Woods** said. “They’re not going to spend, they’re not going to make decisions until they have a pretty good indication of the business environment, and that they have capital. That’s really their driving factor. Where will they get capital to grow?”



CALABASAS CAPITAL

HEADQUARTERS: Calabasas

MANAGING DIRECTOR: David Bonrouhi

BUSINESS: Wealth management and financial advising services

NOTABLE: Financial advising firm is the most busy it has been in 15 years, largely due to business sales



Merrill Lynch

CHIPPS GROUP AT MERRILL LYNCH WEALTH MANAGEMENT

HEADQUARTERS: Encino

MANAGING DIRECTOR: Judith Chipps

PURPOSE: Wealth management and financial advising services

NOTABLE: Advisors see a significant increase in small and family businesses looking to sell.



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