**Tips for Selling Your Community Association Management Company**

People sell their business for multiple reasons, retirement, burn-out, business or partner problems, or health reasons. Owners should prepare an exit plan when the business begins. An exit plan is a contingent plan for opportunities and challenges that present themselves. Selling a business can be an emotional roller coaster so it’s important to be prepared. Finding the right buyer with experience, integrity, and capital is vital to clients and the buyer for a smooth transition.

**Optimal Sales Methods**

Private party or family memberis usually related to financial buyers and family members of a closely-held private business that has offspring or other family of an age and capability to take over the business is a sales option. Management buyout occurs when management forms a team that is already in house to buy the business, and has a high degree of success since the managers have experience in running it. Another method, Employee Stock Ownership Plan (ESOP), is selling to employees through a loan while the stock shares are kept in a trust. As the loan is paid down, the corporate shares are released and distributed to the employees. This type of transaction, while not simple, has tremendous tax advantages. Finally, mergers and acquisitions is defined in two parts. A merger is the joining of two companies into a new corporate entity merging the assets and liabilities of the joined firms. In an acquisition, one company purchases another and operates it as a subsidiary or as another entity under a larger corporate umbrella. Similar corporate cultures and putting aside egos are critical to this method’s success.

**Business Valuations**

Knowing the value of the business before going to market is useful in providing an objective purchase price. There are two basic approaches: the valuation of assets and the return on investment. The valuation methods are based on assets, income, market comparison, present value or future earnings, and capitalization or CAP of current net earnings valuation. The CAP method is the primary valuation approach and based on what the company proves it can earn. It assumes that owners are entitled to a fair return on the value of the business over and above a fair wage. Hiring a third party that specializes in business valuations for the community association industry to validate the value on both methods is strongly encouraged and helps support the purchase price.

**Operational Strategies to Improve Profits**

Improve income and minimize expense*s* by evaluating all ongoing service and material contracts/agreements and renegotiate to ensure the lowest possible price at an acceptable level of quality and reliability.Check outthe business’s physical location. Is the space optimized for the need? If not, consider moving to a smaller, less expensive space. Compare employee costs with the need and value added relative to the employee cost. Look at the office equipment and computer softwareto make sure it provides a competitive advantage, increased revenue, and possible cost savings. Limit all non-necessary owner expenses such as personal travel to increase profits. Finally, review all products and services and their stand-alone profitability, while considering all costs associated with each. The evaluation may lead to increased revenue or an introduction of new products or services. Cost reductions will take time to improve the bottom line so allow one to two years for profit optimization.

**Other Preparations**

It’s important to obtain either audited financial statements or Certified Public Accountant (CPA)-prepared financial statement to provide an added level of confidence for the buyer. Now is the time to settle all outstanding lawsuits, tax liens, and employee disputes and carefully document and disclose any to buyer. Most sales are asset sales so look closely at the service and management agreements. Rewrite contracts to provide a higher degree of reliability in a recurring revenue stream, bringing a higher value for the corporation. Ensure your contracts can be assigned and renewed annually rather than month-to-month. Confirm all owners agree to sell, and what their views are on the business valuation. Make sure all insurance coverage is in place and adequate. Now, is a good time to refresh the company’s website and marketing material, and prepare a “book” that contains all pertinent information; company overview, financial history and forecasts, product/service descriptions, and employment contracts. The “book” will contain sensitive and confidential information and should be provided to a potential buyer only after a Letter of Intent and Confidentiality Agreement has been signed.

**Tax Consequences**

There will always be tax consequences when selling a business. Consult with a tax specialist to understand all tax consequences early in the process. The after-tax funds received will be significantly impacted by the type of sale that occurs. Generally, the sale of stock is taxed at capital gains rates and asset sales, which are typical, are taxed as ordinary income tax rates.

In many cases, the seller takes a promissory note for some portion of the overall purchase price and elects to treat as an installment sale by the IRS. Converting a C corporation to a sub-chapter S allows the sale of corporate assets and passes the gain to individual shareholders. The shareholders will be taxed at the personal rate with no corporate level tax. A sole proprietorship or partnership does not gain tax benefits by converting to a corporation in anticipation of the sale.

**Select Professional Advisors**

No matter the size of the business, obtain legal and accounting advice before and during the sale. Otherwise, there is a chance you won’t get the best value, or you may have a substantial liability issue. Select an attorneywho specializes in corporate and/or business affairs, as well as a CPA with a team of specialists, who have experience with general financial accounting and business acquisitions. In most cases, the CPA also will represent the client on personal tax issues. In addition, choose a Certified Financial Plannerwith more than 10 years of experience to assist with how best to invest after the sale.

**Now What?**

No matter what the seller’s personal situation is—retirement, new venture, philanthropy, or other endeavor, have an idea and plan on what to do with the proceeds well before receiving the funds.

*Co-authors Bill Blanton and Robin Storey from CINC Capital, LLC. Bill is the founder and CEO of CINC Capital and CINC Systems and Robin is the Managing Director of CINC Capital, LLC* which *specializes in providing capital for business acquisitions of small to medium sized community association management companies across the country. In addition, CINC Capital provides advisory services to community association management companies to prepare to sell. Both Bill and Robin have extensive experience in the community association industry and have assisted small to medium sized companies through buying or selling a business plus financing of the acquisition. www.cinccapital.com*