Selling Your Company - Preparing Yourself for the Sale

PREPARING YOURSELF FOR THE SALE

The following is the second article of a series of three discussing issues associated with the mergers and acquisitions sector of the building service industry. While some of the hard, or technical issues will be put forth, it is my attempt in this series to also discuss some of the softer, or human issues that arise during the lead up to deciding to sell one's business or to acquire a company; those that arise during the sale process and those that may arise during the transition, after closing. This article deals with the acquisition process from a seller's perspective.–G.P.

$elling one's company is a very personal matter. Even when all of the signs indicate that now is the time, it can be a very difficult matter with which to come to grips. The company, especially if the owner is the founder and the prime developer over many years, is the owner's identity, at least in part. The owner has lived through the difficult times, the lean times and the good and prosperous times. Now, all of those times are gone and one has to look at life without the company. It can be difficult to conceive that life will be good, even if the company is being replaced by a reasonable and fair price. These emotional ties can be assuaged somewhat if the owner is one of several owners, looking upon the sale of their company as a stepping stone to other business ventures. It is also quite different if the business is being passed on to another generation of family and looked upon as a family business. In this case, there may never be an actual sale. The business simply goes on, adding shareholders as others pass on or cash out. It can become complicated, especially when a shareholder that is not involved in the day-to-day operation exhibits a sense of entitlement that could be perceived as interference to the point of hurting the business, or the effort to sell the business. Therefore, family-owned businesses should be organized in such a way so as to minimize the destructive influence of any shareholder or shareholder group, especially if they are not direct employees of the business.

Timing: When Is The Right Time? The timing of the sale, therefore, is dependent upon one's individual circumstance and mindset, not to mention the inevitability of the passage of time. It is a human trait to not act based on the passage of time, feeling that things will always be the way they are at the moment. Unfortunately, sometimes the unexpected events of life can force the sale of one's company, putting the selling shareholder(s) at a disadvantage. One way to mitigate this possibility is to have a plan that that is periodically updated, covering all pertinent company information and a succession plan, giving a prospective buyer comfort that the business will continue as it has.

After the Sale: What Next? I suppose that one could make the argument that it is better to look upon one's business as a means to an end and having a definite plan for continuing life with an entirely new focus, instead of considering it as an extension of one's self. Being in business is a wonderful opportunity for entrepreneurs to change their business direction several times within their business life. Even active retirement can be a good option; however, I think that it is difficult to find a true entrepreneur that ever retires 100 percent! There will always be opportunity that will intrigue and capture the imagination of the serial entrepreneur. There are countless examples of entrepreneurs going from one successful business to another, well into their eighties!

How Much is Enough? How much money is enough? A difficult question, to be sure. It is more difficult if one looks at the sale proceeds as the end of the line; i.e., an amount that is finite. Some business owners may not have given their personal income much thought during the years that their business was developing, knowing that adequate funds were always there for compensation and extras. Now, when contemplating a sale, what was always considered as being infinite, is defined and has to be viewed as being finite. In reality, the business owner's compensation was never infinite, it is always finite. The answer to the "how much" question, while not simple, can be determined through analysis of one's plan beyond owning the company. One thing is certain: any reasonable plan can work if there is a dedicated effort to make it work. Will things be the same? No. Will life still be good? Yes, probably. Will some things be different? Yes. There may even be renewed vigor, working to fulfill the plan that has been developed. It is very likely, depending on the approach to the new situation, that one will discover that there is fun to be had in any worthwhile new venture or adventure. So, whether sailing around the world, becoming a missionary or starting a new business, finding the new you after the sale can be a very good thing. As always, all of us can determine the course that we want to take. Former company owners are no exception. They, too, can be what they want to be. Still, facing these difficult issues about the future sometimes prevents company owners from making the decision to sell their business on a timely basis.

Finding the Right Buyer Finding a qualified buyer that is a good fit for a company takes work and very careful scrutiny. The seller must gravitate toward prospective buyers that have genuine interest in the company to be sold, perhaps even having a track record doing other successful acquisitions in the past. Their qualification, of course, is very important. Without a financially qualified buyer that can continue the success of the company, there will likely not be a good outcome for either party. The price and terms must, of course, work for both parties. Aside from the hard aspects of a transaction, both parties must also feel that the fit is good. If acrimony exists, there will likely not be a transaction that will work. There are strategic buyers and there are investor buyers. There are certainly qualified groups in each category and the transaction size will have bearing on which category of buyer will have interest in a given company. In general, investor buyers will only consider companies with a minimum of $1.5 million adjusted ebitda (earnings before interest, taxes, depreciation and amortization). Prospective buyers, whether investor or strategic, look for the same attributes in any company for which they are giving consideration. Some of those attributes are: (1) historical and current performance; (2) growth rate; (3) customer retention rate and customer concentration; (4) market area; (5) market sectors served, and; (6) management infrastructure.

Risk: Enough Go Around Risk is always present within any acquisition structure, just as it is always present in the conduct of business. That risk is sometimes overlooked or downplayed during the course of the years while in business, even though in any business life, there are moments when the always present risk becomes evident. Acquisition risk—just as in the case of any risk situation—can be minimized if the acquisition process is conducted in a fair, well-advised manner, using proven buyer/ seller risk-sharing agreements. One common risk-sharing acquisition price component is the earn out, providing for the buyer and the seller to share the risk for a portion of the sale price. Earn outs are often based on gross revenue, gross profit or earnings, providing some relief for the seller if goals are not met and incentive for the seller to assist in making sure that goals are met and even exceeded.

Knowing When it is Time to Back Off As difficult as it may be, one should walk away from any prospective transaction if and when there is the realization that all signs are pointing to failure. It will prove to be better for all parties—even if a commitment has been made—to dissolve the effort. That is why the process is structured in such a way so as to give each party the opportunity to continuously evaluate the likelihood of success. If a problem does arise, it will likely occur during the due diligence phase of the process. For something as important as the acquisition a of a company, whether the buyer or the seller, ultimately, it will be better to abandon the deal than to proceed with a deal that that does not feel right. This is not cold feet, or seller's or buyer's remorse, it is simply saying to one's self, "this will not work." That does not mean that there is never some nervousness on the part of each group for transactions destined for success. Usually, after the letter of intent (LOI) has been discussed and accepted, the process does continue to a successful conclusion. If done correctly and thoughtfully, it is likely that, in retrospect, each party will be happy that the transaction took place.

The Process Once one decides to move forward with selling their company, there will be a process that must take place. In order, that process includes: (1) preparing the company for sale; (2) providing a package of information detailing the company, its history, its historical performance, its people, its customers and more; (3) finding the best prospective

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The Process Once one decides to move forward with selling their company, there will be a process that must take place. In order, that process includes: (1) preparing the company for sale; (2) providing a package of information detailing the company, its history, its historical performance, its people, its customers and more; (3) finding the best prospective buyer among several; (4) arriving at a workable agreement as spelled out in a letter of intent; (5) developing a definitive sale agreement concurrent with the due diligence process, and finally; (6) the closing. To accomplish all of this, the seller needs the assistance of (1) a CPA; (2) a transactional attorney and; (3) a M&A specialist, or intermediary; all working in concert to help bring about a successful transaction. Prospective sellers can expect the process to be a learning experience. Not only will they learn about the acquisition process, but it is likely that they will even learn some things about themselves and their own company, at least how it is viewed by a prospective acquirer. They will gain perspective simply by providing information about their company that they may have not thought about for a long time. The total process can be enlightening and fun too.

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