

Successfully selling your business in difficult times

With all the negative economic news, you may be thinking this is not a good time to sell your business. Well, you may very well be right...but then again you may not!

Waiting for a better economy may not necessarily equate to a greater value for your business. In both good times and bad, there is a market for good companies, and with so many companies struggling these days, growing profitable companies can actually attract a premium valuation in many circumstances. This is especially true if a significant portion of your business comes from a predictable, recurring revenue stream. However, one fact is relatively undisputed - it does require more work and preparation to maximize the proceeds from a successful transaction in a down economy.

The velocity of middle market acquisitions were actually up 28.4% in Q3 2010 vs. then same period in 2009, with dollar volume up 35.2% during the same period, according to Chicago-based investment bank Robert Baird. And, while valuation multiples in most sectors remain below their peak levels, many have rebounded nicely off their 2009 levels.

If you are thinking about selling your business any time in the next 3 years, give attention to the following items and you will improve the value of your business. No single task is that difficult or costly to implement, and each will go a long way toward maximizing the selling price and enhancing your ultimate wealth.

First, think like a buyer. Take a critical look at your business and think more about what a buyer will place the greatest value on and less about “selling” your business. Anticipate buyer concerns and address them before entering into discussions with potential buyers.

Second, be prepared. Get your house in order. Operate efficiently, rather than trying to convince a buyer there are cost reduction opportunities after closing. Minimize the dependency on the owner, and reduce your dependence on key customers. Train key employees and delegate more to those that will likely be retained by a buyer. Maintain good documentation; it shows the company has a solid foundation. Keep your training procedures, employee manuals, job descriptions, safety manuals, etc. up to date. Keep your accounts receivable current. Write off receivables that are uncollectable. Clean receivables indicate an attention to detail and good credit management. Perform required maintenance and upkeep on facilities, equipment and software. Identify questions you would rather not have to answer. Then gather information and be prepared to eliminate or adequately address them.

Third, find the right buyer(s). You should recognize that all buyers are different; finding the right ones is very important to maximizing the value of your business and ensuring the future success of your company. Finding the right buyer for your business does not happen overnight and it does not happen by accident. Rather, it is the direct result of a carefully planned and well-executed process. Buyers may come from organizations unbeknownst to you, or companies totally unexpected by you. There are many types of buyers, each having completely different motivations. Buyers may include: Individuals - buyers looking for an investment as well as a job
Groups - two or three individuals with complementary skills looking for an investment as well as

jobs; Strategic/Synergistic - direct competitors, vendors, customers or buyers from indirect markets that have synergy with your business; Financial - individuals, larger companies or private equity funds looking for a good investment and do not plan to be a part of the day-to-day activities. Determine the best buyers for your business and do your best to identify multiple buyers. Competition generally results in a higher selling price and the most favorable deal structure.

Fourth, engage a team of trusted and experienced professionals. Your accountant and your attorney will play key roles, and their expertise will be invaluable in supporting a successful transaction. Make sure that they are experienced with Mergers and Acquisitions, however, as this area of accounting and law are specialized, having a true professional can be worth their weight in gold. In most cases you will also benefit from the assistance of a reputable merger and acquisition (M&A) firm that specializes in selling privately owned businesses. An experienced M&A firm understands the entire process and will assist you in getting your company prepared, finding the optimum buyers, creating a controlled auction and negotiating the best possible terms, while you remain focused on running the business. One of the biggest mistakes that many business owners make is trying to run the process themselves, thinking “how hard can it be?” This process often leads to management getting distracted with the sales process, and the financial performance of the business slips to suboptimal levels, causing the valuation to erode, and the entire process to be at risk.

If you are considering selling, do it right. You will probably only get one opportunity to sell your business and - given that this is probably your single most important wealth-creating opportunity in your life - it is no time to take shortcuts. The upshot of carefully preparing, finding the best buyers and getting the right advice usually equates to a higher price for the business. Quality sells and good companies are in demand. Even with the tremendously high unemployment rate in California, most employers still tell us that there are not that many great employees available on the job market – the same is true of companies. As one private equity fund manager recently said after being outbid on three potential acquisitions, “the three companies were ideal strategic fits for our fund. We were simply overbid by some overly aggressive fund managers. There’s a lot of money chasing good deals.” For some business owners the best strategy may be to improve the value of the company to maximize the proceeds from selling their business, rather than putting the idea on hold while waiting for the economy to improve. For others, now may be the perfect time to strike. If you would like to get feedback on how the market is likely to respond to your business in the current environment, give DCA a call and we will give you a quick (and free) assessment.