CONTEMPLATING A SALE: A GUIDE FOR MAXIMIZING VALUE

Merger and acquisition ("M&A") transactions can raise a series of important considerations that significantly impact business owners. When is the right time for an M&A transaction? What steps are required? When selling a company, how can business owners achieve liquidity and maximize value while still looking after the best interests of their company and its employees, customers, and vendors?

In today's environment, many business owners are evaluating a range of strategic decisions to determine whether and when to sell their business. This important inflection point takes into account market timing, economic considerations, competitive trends, tax strategies, and future capital requirements as well as a variety of other company-specific variables. Selling a company is not a decision to be taken lightly and careful deliberation is paramount to a successful outcome.

PREPARING A COMPANY FOR SALE

Selling a business can take many months, and careful preparation before launching a sale process is critical to the success of a transaction. Advanced planning will not only help to maximize value, but also will minimize disruption to the company's day-to-day operations during the process.

Prospective buyers spend a significant amount of time and resources performing detailed due diligence on the target company. In general, prospective buyers' evaluation of a company falls into four major categories:

- Financial (e.g., accounting, financial systems and controls)
- Business (e.g., products, customers, facilities, operations)
- Legal (e.g., contracts, records, intellectual property)
- Other (e.g., environmental, human resources, insurance)

As such, planning for a sale process should cover virtually every aspect of the company's operations, from maintaining clean, well-organized and efficient facilities to demonstrating a company's marketing strategies and long-term business plans. If contemplating a sale of a company in the near term, it is encouraged that a company evaluate itself as a buyer would, which may require business enhancements to potentially optimize the outcome of a transaction:

- Reinforcing management depth and strength
- Improving financial and IT systems
- Confirming financial performance (an audit is recommended)
- Strengthening sales and marketing infrastructure
- Deepening customer and supplier relationships
- Identifying potential growth initiatives
- Correcting any operational issues
- Addressing contingent liabilities

As with all other phases of a transaction process, a sophisticated financial advisor can assist a company in its advanced preparation for a sale. Through careful organization and planning, a company can stand out as a well-organized, efficient business with knowledgeable and capable employees and strong growth characteristics – attractive valuation drivers for any prospective buyer.

DETERMINING THE “RIGHT” TIME TO SELL

The decision of when to sell a company can be one of the most challenging decisions that business owners face. The optimal timing is largely dependent on M&A market conditions, the health of the broader economy, and the readiness of the business and its shareholders. In general, a successful sale process is affected by the following market and company specific variables:

- Company’s financial performance
- Near-term projected company growth
- Industry-specific trends
- Financial / lending environment
- Broader economic conditions
- Shareholders’ preparation for a sale
- Management team’s commitment
- Addressing contingent liabilities

A strong financial advisor will provide a thorough assessment of market conditions and activity within your specific industry sector to help determine the optimal timing to launch a sale process.

POTENTIAL BUYER TYPES

Prospective buyers are typically categorized into two groups: strategic buyers (also called corporate or trade buyers) and financial buyers (also called private equity investors). Both categories of buyers are aggressively seeking acquisition opportunities as a means to supplement their growth.

Strategic buyers are public or private companies that use acquisitions to grow their businesses. They typically engage in operations similar to those of the company being sold. Strategic buyers utilize acquisitions to expand their businesses by increasing its product offering, geographic presence, or customer base, or to create efficiencies within their value chain. These buyers often have the opportunity to realize incremental revenue and/or cost saving benefits (known as synergies) which can result in premium valuations for selling shareholders. While there can be sensitivity associated with sharing potentially competitive information with strategic buyers, a good financial advisor can navigate this issue and help to minimize information leakage during a sale process.

Financial buyers are investor groups that utilize a combination of their own equity and new company debt to complete an acquisition. Financial buyers, such as private equity groups, typically invest in companies for a 3- to 7- year period of time in partnership with current shareholders, and later resell the company to realize a return. This option can be an attractive alternative for shareholders interested in maintaining some degree of equity ownership and involvement in company operations going forward. A well-established M&A advisor will have a strong network of private equity contacts and can assist shareholders in determining the right criteria for selecting the best private equity partner for the business, based on both value and cultural fit.

IDENTIFYING THE RIGHT PROFESSIONAL ADVISOR

The process of selling a company can be complex, challenging, and extremely time consuming. Most savvy business owners hire a financial advisor specializing in M&A advisory (in addition to their normal cadre of M&A attorneys, tax specialists, and wealth planners) to aggressively represent their best interests during a sale process.

Financial advisors specializing in M&A are experts in executing an efficient and successful transaction. An M&A advisor will work closely with a company’s shareholders to develop a customized transaction process best suited to meet their objectives while ensuring the continued success of the company.

As part of this process, a qualified M&A financial advisor will focus on delivering value-added expertise and skills to a transaction process, such as:

- Properly articulating the company's historical successes and its growth prospects
- Positioning the company as a "must have asset" for any prospective buyer
- Engaging prospective buyers and maintaining interest throughout the duration of a transaction process
- Implementing an efficient process to ensure proper use of management time and resources
- Creating a competitive environment requiring buyers to put their "best foot forward"
- Skillfully negotiating the purchase price and other critical transaction terms and conditions

Selling a business can be a very emotional decision, and a good M&A advisor will provide unbiased and objective advice to their clients throughout the sale process.

ABOUT HARRIS WILLIAMS

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