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MAXIMIZE THE VALUE OF YOUR COMPANY FOR SALE

By Rick Williams

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Selling a company – large or small – is a long, complex process. Value is established well before the company is offered for sale. Getting a high sale price requires understanding the firm's potential value to the most likely buyer and preparing the company to be as close as possible to the *High Value Profile*™ most valued by that buyer. Preparation – over 1 to 3 years – will maximize the selling price.

You have built a successful company. The company has been your life's career. Or you are CEO of an investor backed company. Your investors want liquidity. Another possibility is that you and your team see a huge opportunity for the products and technology you have developed. But you do not have access to the financing or markets needed to capture the value potential.

Selling the company is on your mind. Where to start? What is the process and how can you capture the maximum value from the sale. ***Start with the Rule of 6 Ps. <u>Poor Preparation Produces Piss Poor Performance.</u> The value of your company will be set long before it is offered for sale.***

Press reports about the sale of multi-billion dollar companies often imply that these transactions are fast decisions by the buyer and seller - much like buying a used car from a dealer's lot. Occasionally that may be the case, but more often and particularly for smaller and mid-sized companies, the selling process is long and complicated. ***If your objective is to maximize the value of your company, you may need several years to prepare the company, reduce buyer perceptions of risks and develop the relationships necessary to sell the company.***

This discussion focuses on maximizing the value of the company to a potential buyer. We develop the concept of a *High Value Profile™* for the company. And we outline the steps you can take to improve your chances for a successful sale.

The Process of Selling Your Company

To do this right, take yourself and your team through these six steps:

1. *Decision to Sell - Why am I selling the company.*
2. *Assemble the team to help you prepare the company for sale.*
3. *Identify your most likely buyer and create the High Value Profile™ of your company for that buyer.*
4. *Develop the plan for moving the company close to the High Values Profile™.*
5. *Execute on the plan.*
6. *Offer the company for sale.*

For some owners, the sale price of the company will be important but other factors such as job security for the employees, buyer assumption of liabilities, or guaranteed payment of the purchase price upon sale will also be important. The steps outlined here should be followed in these cases as well. Prepare the company to be seen by the buyer as a valuable asset. Overlay non price considerations when you evaluate the buyer proposals.

Don't go through this process on your own. Selling the company will be difficult for you and your staff. Issues of bandwidth, emotional separation and difficult choices are real. You want to get a high price and a favorable deal structure. Achieving these goals will only come from assembling a top flight team of advisors and preparing the company and yourself for a difficult and lengthy process.

Questions & Key Decisions

As you go through the sale process, identify core questions to be asked and answered. And identify key decisions that must be made and when these decisions must be made. Be specific. Continually challenge yourself and your team as you go through the process.

Use these questions to get started:

- *Why am I selling the company?*
- *What do I hope to get from the sale for myself, my investors and my team?*
- *Who is likely to buy the company?*
- *Do you really understand how potential buyers see the company?*
- *Do I have the right management team and advisors to make this happen?*
- *What will the company have to look like to realize its highest value from the most likely buyer?*
- *Am I willing to make changes to the company and how it is run in order to increase its value to a buyer?*
- *Do I have realistic expectations for the value of the company?*

Develop a similar list of key decisions. Being clear about what must be decided is half the battle. Deciding to move ahead with staff changes when long term relationships are involved is hard to do. You may also have long term customer relationships that are not profitable and should be ended. Decisions delayed or avoided are decisions in favor of the status quo. *When the company is offered for sale, the buyers will value the company as it is and not how it could be if you had made the more difficult changes.*

Who Is the Buyer? What Will the Buyer Value?

Reasons for selling a company could be: investors want to realize gains or cut loses; founder/owner wants to retire; or a major infusion of capital or access to markets is needed to grow the company to its potential.
The motivation for selling must be matched to buyers who are looking for a company in those circumstances.

When thinking about your company, be creative about who a buyer might be: strategic investor; competitor; financial investor; customer; supplier; CEO looking for a new gig; company who wants your IP, customers, brand, management or real estate; or a company who wants to enter your geographic territory.

With some idea of the type of buyer and perhaps some names, get specific about why a buyer would acquire your company. What is the value in your company that could be compelling to the buyer and justify the hard work involved in an acquisition and the risk of failure?

- *Your customers could buy their products.*
- *Quality management is in place.*
- *Buyer wants to be CEO/owner and you want out.*
- *Your products can be sold through their sales channels.*
- *Your company has demonstrated success and potential for significant growth.*
- *You have IP or technology and they have funding to exploit your assets.*

- *You are doing OK in a sector with big potential.*
- *You are a category defining company/technology.*
- *Your technology/IP is a key enhancement for their technology/IP.*
- *You are a successful regional firm in a fragmented industry.*

Start with a good idea of who the buyer is likely to be and their motivation for buying your company. This could go all of the way from the buyer who only wants the brand name of your primary product and will shut down the company to the financial investor who wants genuine growth prospects and wants you to stay on to make sure growth happens.

Create a High Value Profile™ for the Company

With the likely buyer in mind and attributes of your company most likely to be of value to that buyer, outline a *High Value Profile™* of the company – what the company will have to look like to get the highest valuation from this buyer.

The profile could include categories such as:

- *Revenues over time.*
- *EBITDA over time.*
- *Sales margins, inventory turnover and other performance metrics.*
- *Customer profile/concentration.*
- *Audited tax returns.*
- *IP and other financial assets.*
- *Capitalization table/leverage.*
- *Liabilities/law suits/regulatory exposure.*
- *Key leadership/staff plans after sale.*
- *Key supplier and resource commitments.*
- *Real estate*

The *High Value Profile™* is not a profile of your company today. ***This Profile identifies key characteristics of the company that the buyer will evaluate in a company like yours. And also describes the values of those characteristics that will be most attractive to the buyer.***

High growth companies and owner run companies are often not making a "profit" and are not trying to make a profit. Instead, cash is going to build market share or to support the owner's life style. The owners of these companies may need to demonstrate that they can make a profit for a couple of years - or get EBITDA where it needs to be - before the company can be sold at a reasonable valuation. A history of strong revenue growth or demonstrated profitability might be required.

Other buyers will primarily value your customer list, real estate, brand name or IP. Demonstrating that the company will be a profitable business going forward is less important. On the other hand, a financial investor may want to see leadership that will guide the company after the sale. This leadership will have to be in place before the company is offered for sale.

The *Profile* may suggest a company like yours will get a higher valuation multiple on revenues or EBITDA if it is larger. In these cases, you could consider acquiring a competitor. The combined larger company could get you across the step thresholds in these value multipliers before presenting yourself for sale.

Once you have developed the *Profile*, test your assumptions with investment bankers and even potential acquirers. Get feedback and adjust.

Your Story

Before having real conversations with potential buyers and even selecting your investment banker, create *Your Story*. This is your elevator pitch.

- *the company's business is …*
- *today we are …*
- *tomorrow we expect to be …*
- *our unique value proposition to a buyer is …*

This is a very short description of the company that will be offered for sale including your vision for the future and why the company will be valuable to a buyer - the buyer you have in mind. The Story is the fist impression your buyer will have of your company. Take the time to get this right. Test and revise.

Execution Plan

You have now identified the likely buyer for your company and their motivation for buying. You have outlined your company's *High Value Profile™* - what your company will have to look like to get the highest valuation upon sale. You have created *Your Story*. ***Now you need a plan - probably multi-year - to move your company from where it is today to as close as possible to the High Value Profile™ . That is where you want to be when the company goes on the market.***

Start by profiling the company as it is today using the characteristics in your *High Value Profile™*. The Current Profile is your starting point. Your objective in the execution plan is to move the company from where it is today to the *High Value Profile™.*

Elements of your execution plan could be:

- *schedule - including key milestones*
- *budget*
- *management & staff changes*
- *upgrades to legal/accounting*
- *changes to capital structure*
- *changes to customer profile*
- *changes to key supplier relationships*
- *sell your real estate or get control of it*

Don't seek perfection in this process. Developing the plan will help you think like your buyer. And focus your time and resources on the few big changes that will most impact the selling price. If second order changes can be made without losing focus, get them done when you can.

Reduce the Risks to the Buyer

All buyers will evaluate the risks of acquiring your company. Your High Vale Profile™ and your execution plan must focus on reducing these risks. Think like the buyer. What could go wrong? The strong earnings projections you present to a buyer will be discounted by their assessment of:

- *your leadership team's ability to continue the projected growth*
- *reliance on a few key customers*
- *uncertainty of regulatory approvals for new products*
- *unresolved legal disputes, compliance issues or environmental liability exposure*
- *unclear quality of past earnings*
- *customer acceptance of new products or new market penetration*
- *uncertain cost of production technology and systems upgrades required to stay competitive*

Address those risks before the company is put on the market for sale. Recognize that these transactions cannot be risk free. **But the more you reduce the obvious risks for your specific buyer, the higher that buyer will value your company.**

Improve Your Chances for Success

Depending on the ownership of your company and the involvement of key staff in decision making, consider how board members, shareholders and key staff are involved in developing these plans. *Who is making what decision? Who needs to know "the plan"?*

In the end, selling the company will be an important life event for you and many others. Even if you are a "hired hand CEO," the consequences of the sale and the process of the sale can be traumatic to staff, suppliers, customers, lenders and many others. If you have built the company, do not underestimate the emotional impact the process and the sale will have on you - it will not be easy.

The following steps will improve your chances for successfully selling the company:

1. Be clear about why you want to sell and what you hope to get from the sale.
2. Understand that preparing your company for sale may be a multi-year process.
3. Get outside professional support - honest feedback, market knowledge and access, realistic expectations, increased bandwidth for making this happen and separation of the process from your staff.
4. Identify the most likely buyers and create a realistic *High Value Profile™* outlining what your company should look like to get the highest price from that buyer.
5. Get a quality Investment Banker involved who has worked with your likely buyers. An IB knowledgeable about your industry and with a demonstrated record of getting deals closed will be invaluable.
6. If you are the company founder or a major shareholder, your personal financial planning should start long before the sale. Engage with financial planning pros who know how to prepare you and your family for these transactions.
7. Be realistic about the value of your company. Unreasonable expectations by the seller are often the reason companies do not sell.
8. If you can identify potential buyers, build a relationship with them early. Get to know the CEO or the leader of the business unit that will most likely see your company as a valuable addition to their operations.
9. While getting to know potential buyers (could be competitors) be clear about the boundaries of these contacts. Don't reveal confidential plans or even say that you are considering selling the business.
10. Timing is everything! The best timing for you may not be the right time for your buyers. The market could be down. When developing your plans, consider the cycle of the market for companies like yours. Going a little early or a little late may be necessary.
11. Don't shoot the START GUN until you and your company are ready to go. Then go *Fast Forward!* But also listen carefully to the feedback from the marketplace. Is your expectation for how buyers see your company on target, or do they see something different? Be ready to adjust.
12. ***Be ready to say YES. Be ready to move on to the next phase of your life.***

About the Author

Rick Williams serves on the board of directors of tech- nology companies. His CEO and board advisory practice focuses on important inflection points. Raising capital, overcoming barries to growth and maximizing the value of the company before offering it for sale are examples.

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About Williams Advisory Partners, LLC

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Great leaders create the future

Williams Advisory Partners is a Boston based CEO and board advisory practice focused on helping leaders make the critical decisions that will create the future for their companies. Building on Rick Williams' nationally published thought leadership on what leaders can do to make their companies more successful, Williams Advisors generally works with technology based firms in the business to business space.

Broad business experience with a CEO and board perspective are brought to each client assignment. Asking the right questions, defining the problem, developing and evaluating options and finally helping leaders making the right decisions.