Article

Due Diligence - Time To Sell The Business

By L. Burke Files, CDDP, President, Financial Examinations & Evaluations, Inc. (01/03/2013)

Our clients typically made their wealth as business persons. They established, ran and nurtured enterprises that grew and provided their families and their charities with great blessings. But now it is time for the sale of the business. What do we, as advisors need to know? I am sure we know most of the basics. Some of the standard answers one might see are grow the business and/or keep margins high. Get your legal and accounting house in order - have files ready to go for a buyer's due diligence team, and make sure you're getting your valuations and reviews from reputable professional firms. OK, it's a bit like the dating advice given to you by your mother - such as brush your teeth, take a shower/bath, use deodorant, and for goodness sake sit up straight! It is all correct, but there is more to consider.

Here are some other things to keep in the back of your mind so you can be at your best as their advocate and counselor.

It might be wise to have your client avoid entering into investments, business deals or compensation arrangements that will potentially make things difficult for the purchasers. Complicated equity rights and exclusive dealing arrangements are particular areas of concern. A potential buyer may not be able to wrap their heads around your clients' intentions and thus may back away or proffer a lesser value on the business. Just because the transaction is a good transaction and understood well by the current owner, does not mean a buyer or their lawyers will understand the transactions.

All doubts in a buyers mind are resolved against the seller's equity.

Don't worry about multiple suitors until a transaction is proffered and could be acceptable. Once you have made a choice that a potential buyer is both serious and able, drop all others and focus on the serious suitor. No other factor will drive valuation higher than having multiple bidders in play... to a point. Do not try and drive that point home to all suitors - if this is tried the client will end up with none.

It is nice to have a full dance card at the beginning of the evening but there must be only one choice when the music stops.

The client should establish a team of confidential advisors to aid in the transition. Some of the professions represented by the team advisors should include the usual list of suspects such as attorneys, accountants and investment bankers all with mergers and acquisition experience. If such professionals are not already present within your existing circle of advisors, find them. Focus on advisors who have had experience with your client's type of business. They will both have a better handle of the details and may have ideas for other suitors.

Insure the team questions everything with the eye to come to terms with everything.

A key challenge with any business about to change ownership is demonstrating continuity once the principals exit the business. How does one ensure that the company will survive post sale, especially if the principals will be carrying back any debt or equity? The client will need to ensure that the key knowledge workers are committed to the transition both in heart, mind and contract. It is difficult to keep talent in a business

Mauritius
Netherlands
Nevis
New Zealand
Panama
Samoa
Seychelles
Singapore
St Vincent & The Grenadines
Switzerland
United Arab Emirates

when the business is being sold. Change raises doubt and the insecurity of a pending sale breeds a need to flee. Binding those important people to the business can be done through agreements. I have seen this done with bonus plans that are generous but do not vest or payout until several months after the completion of a sale or merger. Yes, this is also contradicts what was said earlier about entering into new compensation agreements - but all suitors will understand, also, when the discussion becomes serious, very personal meetings must occur with the owners and the key people so they understand that they are cared for and informed.

> There is no security on this earth, only opportunity; help the key people see the opportunity.

Part of the fun of this for us as a service provider is discussing with the client what the future may hold. We get to discuss grand adventures and the plans they have to keep the money working for them and how they will both use and deploy the funds. This is a very private conversation. While at work they are not to talk about sailboats or mountain retreats. Their words and plans must focus their deeds ever more diligently on the business of the business.

> This is not a time for distraction but clear focus and saying NO to people and events that will blur their focus.

Advise the business owner to leave a good deal of the money in the business that they have been expensing for events, travel and corporate hospitality. They all do it, heck we do it! The reality is that even if the business is selling at a paltry three time net - every dollar left in will be returned at the day of sale three fold. Retain as much cash as possible and push up the margins.

> It is much more profitable to postpone gratification just a little bit longer.

The best advice for you client is not from lawyers, accountants, your wise counsel or even the IFC Review. The best advice will come from someone who has done this all before. Lawyers, accountants, investment bankers are all needed at the deal-making table. Help your client find a person who has already successfully done what your client plans to do. Help them find this person and bring them to the table, not the deal making table but the dinner table. Their private counsel and insight will be invaluable. Insure that they are warmly rewarded for their wisdom.

> Now fill the cup with your client and drink deeply of the drink that clears the past of regrets and future of fears. May we all live to drink deeply the drink that helps others as it is nourishment for the roads traveled and thresholds crossed.