

Improve the Odds for a Successful Third Party Sale

Before you put your house on the market, you might fix a broken step or clean out your garage. Before buying a car you might research the horsepower, gas mileage or long-term value. Before you take on your largest order for products or services in the history of your company, you might give some thought to how you'll deliver on this commitment. And, before you take your company to market, you may also want to do some Exit Planning. If you and your company are prepared and well-informed as you head into the third party sale process, you may find fewer surprises and a process that runs more smoothly.

Preparing for a sale can mean many things, but first we want you to understand the reality of a third party sale process.

Third Party Sales Involve Risk

You may believe that a sale to a third party buyer is less risky than a sale to employees or other insiders. *But this is probably true only if your business can be sold for all cash or if there's simply no time to implement a carefully designed sale to an insider.*

Buyers place emphasis on the areas that are important to them, which may include

- appealing market sector or market position
- strong historic and predicted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
- strong fundamentals, such as customer base, accounting practices and business processes
- unique competitive advantage

You may not be able to sell to a third party for substantially all cash if your business does not meet the buyer's ideal standards in each of these areas.

For those companies that are not in the most desirable segments, the M&A market can be decidedly cool, if not stone cold. Without proper planning, you may go along for years believing your business to be just the thing that buyers are fighting to win, but you may not be correct in that assumption. Is not knowing and not



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being ready worth the risk?

So you may not be ready to sell today, and you may not know what tomorrow's buyers want. Should you just wait until you are ready to retire and find out then what the market thinks about your business? Waiting also involves risk. We suspect that some owners hold to the belief that there's little risk in waiting for a third party buyer because it provides an excuse to "avoid the hassle" of planning. "No risk?" we ask.

- What if a qualified buyer doesn't show up when you decide you are ready to go?
- What happens if, when you are ready to sell:
 - the M&A market is dormant; or
 - your industry niche has fallen out of favor; or
 - your business and/or the economy is in decline or worse?
- What if something happens to you and you are not able to lead the company through the sale process? Will the company be in good shape as your family grapples with what to do?

Why subject your future financial security to these uncertainties? Why not assume control of your exit—your life, really—by creating an exit strategy that allows you to:

- choose your buyer
- name your sale price
- control ownership until you are fully paid
- shift the burden of the company's future performance from your back to the buyer's

Unnecessary Risk is Your Enemy

Business owners take calculated risks on a daily basis. But it is hard to find a business owner who, knowing the alternatives, takes unnecessary risks. Knowingly reducing the chance of a successful outcome is typically not a winning business strategy. The sale of a business, for most owners, is the single largest financial transaction of their lives. So how can you reduce the risk?

Exit Planning for owners who are interested in a third party sale in the future often includes:

- benchmarking the business to see where it is today in terms of value, desirability, competitive advantage, etc.
- pre-sale due diligence to find your own skeletons and clean them out of the closet before the buyers find them
- developing and locking down critical management team members to drive the company forward before, during and after a sale
- getting your own financial house in order so that you understand your financial targets that a deal must achieve and the terms on which you are willing or able to sell

We discuss these and other important issues with every client who believes that a sale to a third party is a desirable or likely path they'll take to exit their businesses. A systematic, action-based approach to positioning yourself and your business for a successful sale doesn't have to be a time-consuming burden that distracts you from your other responsibilities. A series of checklists, an action plan, and a timeline may be just the things that you need to put yourself ahead on this exit path.

We'd be happy to talk with you in more detail about a customized action Exit Plan for you and your company.

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