Things to Consider When Selling Your Business

Today's favorable M&A environment is pushing many middle-market business owners to consider selling their businesses. Strong earnings growth, large cash balances on company balance sheets, ample private equity capital availability ("dry powder") and a lack of good business targets for acquirers are driving up business valuations and tempting many business owners to sell. However, most middle market business owners have little experience in M&A, either buying or selling, and don't know how to navigate the inherent risks involved in a transaction. Kevin Mayer, Managing Director at Western Reserve Partners, has these tips on how middle market business owners can position their companies for a sale process and avoid some of the fundamental risks of M&A transactions.

For an owner considering selling their business, when is the right time to sell?

This is probably one of the most important items for a seller to consider. Ideally, an owner should time the sale of their business with strong recent business performance and strong projections of future earnings growth. Acquirers pay very close attention to future earnings potential. A business with strong evidence of future earnings growth will garner a higher multiple than one without evidence of future growth. The perfect moment to sell a business is when the business is performing well and there is solid evidence to prove it will continue performing just as well, if not better, in the future.

What can an owner do before the sale process begins to prepare the business for a sale?

Preparation is key. It is prudent to clean up financial statements before the sale of the business and resolve any environmental or legal issues before marketing the business. For instance, sellers should write off idle or slow moving inventory, replace or upgrade defective machinery and remove employees or managers that are no longer actively involved in the operations of the business.

In the case of manufacturing, distribution, real estate or companies with any environmental aspect, Phase I or even Phase II environmental studies should be considered before marketing the company to ensure the absence of any environmental issues. Even a small, insignificant environmental issue can taint the image of the business and it is much easier for sellers to resolve these issues before buyers are aware of them. The same goes for any other contingent liabilities. It is very important for an owner to know how any liabilities of this nature will be handled in the context of a transaction.

When talking about M&A we always hear about confidentiality. Why is it important and what can a business owner do to preserve it?

Confidentiality can be important for certain companies because if the market knows a company is for sale, customers, suppliers and employees can get concerned. For companies where confidentiality is important, the challenge becomes involving members of the management team without allowing news about a potential sale of the business to spread. In these cases, we generally advise informing a small group of key senior managers about the sale of the business and incentivizing them to cooperate. This could be achieved through a bonus payable upon the close of the transaction. This aligns an owner's interest with those of his management team and ensures the owner has help throughout the process. It also prevents rumors from spreading. Employees will be less likely to spread rumors about the sale if it is in their best interest to keep it confidential.

How important is hiring advisers?

Many middle-market business owners think they can save on fees by dealing with a transaction in-house. However, in most cases, legal, accounting and financial advisers will pay for themselves. A good M&A team will help favorably position the business for potential buyers, offer help throughout the due diligence process, negotiate the most favorable terms and conditions and ensure the business owner is getting the most value for the company by running a formal process. Additionally, handling a sale requires a lot of work. Running the business and attempting to sell it at the same time typically leads to poor results. Business owners generally don't have the time to draft marketing materials, coordinate the sale process and run their business. Owners also tend to be emotionally invested in their business and it can be difficult for them to realistically price and market their company. Trusted advisers provide fresh, objective views about the company that become crucial when drafting marketing materials and approaching prospective buyers.

For more information about how to effectively position your company for sale and avoid some of the fundamental risks of M&A transactions, contact Kevin Mayer at 216-574-2117 (kevin.mayer@citizensbank.com), or Brandon Derusha at 616-901-1571 (brandon.derusha@citizensbank.com).