Prepping a Business for Sale: Insights from the Deal Making Community

June 6, 2017

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Who We Are

International partnership of former business owners, senior operating executives and intermediaries.

Being Prepared Results in a Higher Valuation

Valuation = Profit* x Multiple

(V = P x M)

* Revenue may be used in some industries

What do P and M Measure?:

P = Historical company performance

M = Expected future earning potential of a company

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Assay Framework

Industry Benchmark

$$V = P \times M$$

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Assay Framework

Industry Benchmark

Risks

- M

Assay Framework

+ M

Strategic Assets

Industry Benchmark

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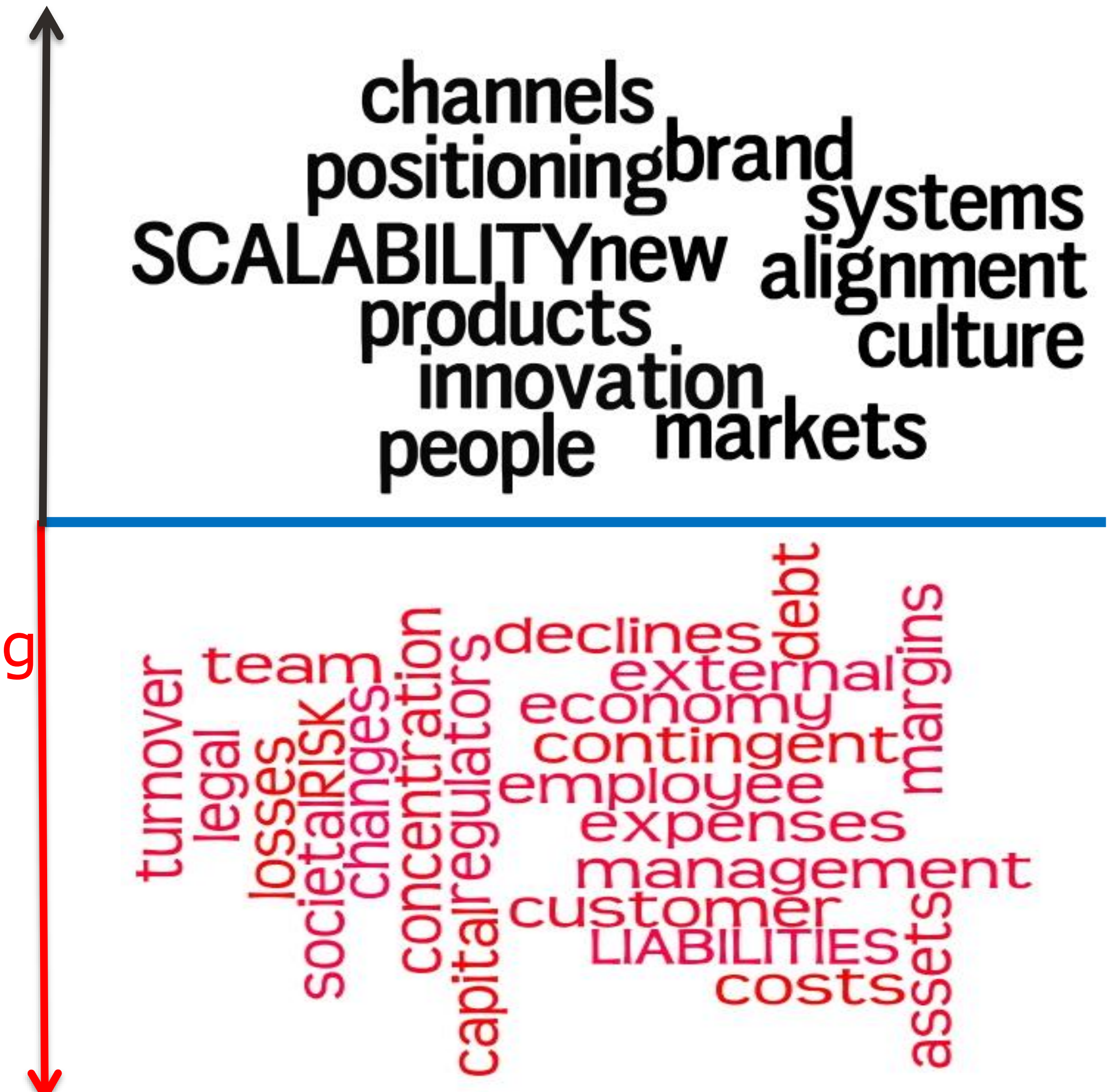
Assay Framework

The Best Prepared:

Can Prove They Can Transfer the Strategic Assets…

While Demonstrating the Risks are Well Managed.



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The Panelists

Christopher Andersen – Assay Advisory
Consulting and Intermediary

Marc Lim – Andersen Tax
Tax Planning and Consultation

Steve Osborn – Osborn McDerby
M&A and Corporate Attorney

Conor Riley – Global Capital Markets Inc.
Investment Banking

John Stiffler – West Monroe Partners
IT Due Diligence and Post-Close Planning/Integration

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1. What are the "best practices" and "to-be-avoided" practices for a M&A transaction?

Tax: To-be-avoided: Bringing in the tax professionals at the 11th hour and not having planned or focused on the tax implications until late in the game.

Law: Best practices: Clear vision of what the deal is to accomplish and appoint one lead negotiator to represent the seller.

IT/Process/Integration: Best practices: Humble team. Have an honest sense of where they are and where they need to be. Understand and accept the challenges in M&A transactions.

2. What is the #1 advice to give to sellers.

Tax: Determine whether you want to sell the entire business of part of the business. Do you wish to restructure before selling. Plan ahead and be prepared.

Law: Avoid the fire drill and being reactive. Plan 1 year ahead before launching a sale process. Work on putting a team together to focus on the transaction. Identify material risks. Network with potential acquirers before launching a formal process. Get your name "out" before you go to market.

IT/Process/Integration: Focus on operations and technology and where you can improve. Key areas included cybersecurity, payment processing (if you accept credit cards for payment in your business) or other complex regulatory requirements that your business is subject to, including all aspect of IT.

3. What risks are people most often unprepared for?

Tax: Distinguishing between financial buyers – focused on the number and generating cash upon assuming ownership – versus strategic buyers who are taking a long-term view and may possibly be more likely to retain all your employees.

Law: Understand the ancillary issues, such as your ERP systems, and that it might be antiquated and need to be replaced. Don't fight the buyer and whatever you encounter, be prepared to work with the buyer as opposed to against the buyer. The process should be collaborative in many respects.

IT/Process/Integration: Identifying technology that needs to be upgraded, improved is one thing many sellers are unprepared for. Determine the cost of fixing things pro-actively and try to remove IT issues from even being part of the discussion before you start a sale process.

4. What are some of the new things you are seeing?

Tax: People are starting to focus on pre-sale diligence, both financial and non-financial issues to be better prepared for a sale.

Law: Sellers have great options when it comes to escrows, deductibles, insurance, … so don't sweat the small stuff and focus on the big picture

IT/Process/Integration: People are focusing on holistic issues more, so the money isn't everything. They want a collaborative process and a "fit" with the buyer.

5. What are you seeing with respect to preparation sellers are making?

Tax: Sellers are trying to better identify the "tax profile" of what they wish to sell, especially if they have multiple divisions or businesses. They are identifying intercompany transactions and making sure they have properly accounted for dealings and business between various divisions.

Law: People are taking time to also get tax, wealth management and estate planning advice in connection with preparing for a sale.

IT/Process/Integration: People are focusing on their "investment thesis" on the buy side. They are planning better on what they wish to do with the acquired business. Sellers are focusing on using data analytics to better analyze their business when preparing for a sale. People are understanding that it can take 12-24 months to fully prepare a business for sale.

CONCLUSION: Plan ahead (as much as 24 months) to fully prepare a business for sale. Assemble a team (lawyer, tax advisor, IT professional, …) to cover all aspects involved in a transaction and, at the very least, get all the advisors together in the beginning to jointly plan ahead.