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HOW TO WORK BEST WITH YOUR REPRESENTATIVE

Some Suggestions to maximize the sale of your business!

by Bob Cohen and Sam Sacco

Selling your business may be the single largest transaction of your career. Getting the best price and most attractive terms from the most suitable buyer can have a dramatic impact on your family's future security. There is no dress rehearsal; it is "Showtime" as soon as your business goes on the market.

The following are some suggestions to help your representative help you maximize your transaction.

Be Totally Candid

An experienced Staffing firm Intermediary knows that that even the best companies have some blemishes. There is no company that is "perfect" in every way, every day. Reveal every aspect to your representative. We cannot do the best job for you if we are blindsided by factors we should be aware of upfront.

Whatever the issue is, it will inevitably come to light and if not revealed upfront and managed upfront, it will detract from your credibility with potential buyers of your business.

So, if your top producer has just resigned, your workers comp insurance is about to take a big hit, you have recently lost your top customer or you have a unmentioned deadline looming, "reveal it" as the saying goes since you cannot likely "conceal it" and allow your representative to determine the best way to handle the issue to minimize its potential negative impact.

If you are unsure of the importance of the issue to your impending sale, tell your Advisor and they will now how best to deal with it. No one likes surprises, especially those that can have a material effect on the business if not handled and positioned properly. Whenever you learn of any situation that could impact your business, trust your Advisor and let them handle the situation.

Be aware of the true Multiple for your business

Many sellers have a certain price in mind when selling their business. It is best if the price is expressed in actual dollars rather than an "industry multiple". The challenge with multiples is that they are buyer specific and in the eye of the beholder, in other words, what one buyer may accept as an adjustment could be rejected by another buyer and one buyer may be including working capital in their multiple while another buyer may allow the seller to retain their complete Balance Sheet. This is why discussing multiples can be very misleading.

We believe a seller should concern themselves with what dollars they will receive on a pre-tax basis from there it is easy to apply your appropriate capital gains Federal and State tax rates) so they can actually compare competing offers on an actual dollar basis, since we can't spend a multiple.

Be Realistic about your Expectations

There can be a vast difference between the amount of money a seller needs to retire or go on to the next venture and the market value of their business.

By and large most staffing businesses are priced on a multiple of adjusted earnings (EBITDA) which is Earnings Before Interest, Taxes, Depreciation and Amortization, if any.

Please do not shoot the messenger when I say the following: while the length of time you have been in business is nice to show sustainability it won't account for much if it doesn't add to your adjusted bottom line. Unfortunately, this also holds true for your reputation (if it is not good, only bottom fishers will want you, in any case) and any other intangible items that do not add to your profitability.

Buyers are investors whether they are other staffing firms, private equity players, strategic or financial investors and they buy firms that add profits to their bottom lines. In order to get the backing to acquire staffing firms they need to show that they have found a sound investment and then show success by adding profitable growth to build up that investment for their shareholders.

Buyers of staffing firms will rarely pay a premium for what they can bring to the profitability of the acquired firm. They consider these efficiencies a result of their investment and do not want to pay a multiple to a seller for the savings that can be created by their invested capital, whether it is lower processing expenses, stronger marketing or lower insurance costs.

To get an accurate fix on the current valuations talk to a number of experienced industry Advisors and Intermediaries who value these businesses for a living every day. Most Accountants unless they represent a number of staffing firms will usually have no basis to determine your market value. They may know what you will need, however that could be a very different number than what your business is currently worth. Even if you have a valuation performed, even assuming it is performed by a qualified business valuator with all of the letters and credentials after their name does not mean it will represent current market value.

The Internal Revenue Service defines Fair Market Value (FMV) as "the price at which the property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts".

Who could be better at determining what a willing buyer may pay than an experienced, respected and knowledgeable Staffing Industry Intermediary who talks to buyers every day?

Be prepared to manage your Professional Advisory Team

When you are ready to sell, most buyers will need an Accountant (CPA firm) an Attorney familiar with mergers and Acquisitions, a Tax Advisor who may or may not come from the CPA or Attorney's office and a Business Advisor or Staffing firm Intermediary.

Each of these professionals may want to over function and start making their presence felt in areas outside of their role. While all ideas and input are welcomed; it is not healthy for the transaction if your CPA is insisting on legal changes or your Business Advisor is insisting on giving you tax advice or your Attorney is trying to negotiate business decisions for you.

You will need to understand the role each professional is to play and as mentioned we can accept any ideas or suggestions they have however, your CPA, should stick to financial aspects, your Attorney should be protecting you legally and your Business Advisor should be advising you on business aspects of the transaction.

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Keep in mind that after the sale of your business, your Accountants and Attorney may lose your business as a client and they may have a built in conflict they may not even be aware of that influences their actions. This in no way is meant to suggest that these professionals would not act in your best interest, but merely to point out that they have a stake in the outcome whether they realize it or not.

Your Business Advisor often needs to make a deal to get a pay day so it is important to be sure they have a proven record of integrity and will not encourage you to take just any offer. This does not mean that if they encourage you to consider an offer that is less than you had hoped for that they are just trying to create any deal to get paid. It likely means that offer in question may be the best available, today in the current marketplace and if you really need or want to sell your business now you should consider that offer. Hopefully, this would be done after there has been sufficient discussion with a representative cross-section of buyers, not just after the first offer.

Continue to manage your business

Some sellers stop managing their business the same way they built it once they put their business up for sale. This is not a good idea for several reasons. Firstly, until the sale closes, it is still your business and occasionally deals get postponed and in some rare cases deals do not close for a variety of reasons sometimes beyond your control.

Our goal is to help you succeed on the sale of what may be your largest transaction. We hope these suggestions further that objective.

Secondly, most transactions these days have an earn out component; buyers will pay a seller more if they can share the risk going forward. Earn outs always require some blind faith on both sides. The seller is concerned about what the buyer may do after they own the business and the buyer is concerned that once the owner sells the business it could shrink for various reasons.

Both parties can allay some of their fears by the seller finding out what the buyer intends to change upon integration and at what pace those changes are anticipated. During integration a well communicated, consistent plan will be trusted by the employees impacted by those changes. If it appears the buyer is in any way making it up as they go along, the best staff members will be polishing up their resumes. Acquired staff cannot buy-in to an unknown or continually changing plan.

Lastly, learn to embrace your earn out and make it work for you. Buyers, for the most part, (but not all) have gotten a lot smarter about making changes and what changes are really necessary. An earn out allows you to continue to participate in the growth of your business.

Do not waste energy worrying about what the buyer may do, research it and discuss it with the buyer prior to the sale of your business and if necessary get certain commitments in place in writing at least during the earn out period.

TIP: You will get the best information from the new owners' staff who handles the integration rather than from the Senior Management team you meet when doing the deal as they are in the field and are much closer to what actually happens when integrating a new acquisition. ■

For more information, contact Bob Cohen at 416-229-6462 or Sam Sacco at 910-509-0691. We can also be reached at bob@racohenconsulting.com or sam@racohenconsulting.com. Sam and Bob have successfully completed over 100 staffing industry transactions. There are many more articles on our website at: www.racohenconsulting.com