r.a.cohen consulting
M & A experience when you need it most

PREPARING FOR THE SALE OF YOUR COMPANY

By
Bob Cohen and Sam Sacco

Many industry observers expect to see increased consolidations within the staffing industry in the next few years while the economy is growing. The industry is loaded with companies offering similar services, which in their search for increased market share, have continued to drive down operating margins. As smaller firms realize they need to unite to maintain economic and market viability and large firms feel the need to grow to remain globally competitive we expect to complete considerably more M & A transactions in the near future. How can you prepare your company to maximize the value of this very important transaction?

Of course, good timing is very helpful but predicting when the economy will start and stop growing so you can maximize your sales transaction is nearly impossible. If you don't wait and try to sell at the very peak of market pricing then odds are you won't find yourself constantly trying to predict the top of the market and possibly having to sell at a lower point or as part of a fire sale. Certainly both external economic as well as internal company conditions should be considered but there are several actions you can take to make sure that your company is always prepared for a sale if that right offer for you is presented. Here is a six-pack of suggestions.

ONE: Ensure that your financials are clean and clear, preferably audited or reviewed and easy for potential buyers to read. Most small firms (under $10 million) only have compiled statements, unless their banks demand more. Ideally your financials should be audited or reviewed by an outside accountant and include income statements, a balance sheet, statement of cash flow, cash flow forecasts and pro forma income statements, supported by adequate notes.

TWO: Analyze the tax consequences of the sale in advance of going on the market. In a C corporation, if the owner sells the assets, money earned by the company is taxed twice: when it is earned and when it goes out to the shareholders; if the owner sells the stock of a C corporation, the money bypasses the company and goes directly to the owner; therefore, he only pays taxes once. In an S corporation, an LLC or an LLP, the owner can sell the assets and/or the stock without any concern of double taxation.

THREE: If your lease is up for renewal, make sure the new agreement is transferable in the event of the sale of your business. Also make sure that you have employment agreements with your key staff members, preferably with a non-compete, which can be transferred to the new owner. More than one deal has fallen through simply because a buyer could not secure satisfactory leasing arrangements from a landlord or a key employee decided they would leave at the time of sale and take valuable client information with them.

FOUR: Strong, healthy companies will always be in high demand. If there is room for improvement in your firm, now is the time to make changes to preserve your future. Some items that will affect the value are: your market sectors served, gross profit percentages, year-to-year revenue growth, net-adjusted earnings, key management, number of offices and location, client concentration/diversification, higher than normal workers comp and unemployment insurance rates, specialty or niche market participation, market reputation and percentage of perm to staffing revenue.

FIVE: Limit your attorney’s participation to the legal aspects of the sale. The attorney’s job is to protect you legally, not run the deal. Attorneys are often more accustomed to win/lose transactions than dealing with the win-win approach needed with a prospective partner; some can set the wrong tone for negotiations.

SIX: Choose the correct method of valuing the business. Make sure all normal and accepted pro forma adjustments are included in your adjusted earnings. We strongly suggest consulting a mergers and acquisition advisor, preferably one with staffing industry expertise. There are several very qualified advisors with many years of industry and transactional experience. This is too important a transaction to enter into without strong, capable representation on your side of the table. A good advisor will more than earn their fee. Be sure to check references before making a decision.

Sometimes a seller is overly optimistic about their company’s potential and begins to feel that they may be selling themselves short on total consideration and the terms of payment. We know a seller never wants to leave money on the table, and we caution against this as much as anything else, but if you have a viable buyer prospect in other ways and a good reliable understanding of what current market values are at the time of sale it is often wise to play out the hand as dealt, as well as it can be played, but not to the point of chasing away a good prospect for your business because there is no assurance the next hand will be any better.

The decision to sell your business is one of the most significant issues you can face, because the implications for you and your family can be extremely far-reaching. Since most owners do this once in a lifetime, it’s important to do it right. In the present economic environment, it is particularly important to continue to manage your business aggressively until the transaction closes, and beyond, especially if there are earn outs involved, which are often part of the way deals are structured.

The good news is that the improved economy has produced more buyers with a clearer set of acquisition criteria and better access to capital thus creating far more suitors for sellers and in many cases multiple purchasers for each available firm.

Bob Cohen and Sam Sacco are partners of R. A. Cohen Consulting, a trusted and experienced M & A advisory service who have advised on more than 100 successful staffing industry transactions. They can be reached at:

sam@racohenconsulting.com bob@racohenconsulting.com

(910) 509-0691 (416) 229-6462