Preparing for Sale

By Steve Hancox and Leonard Eppel, Financial Resource Associates (FRA), Winter 2013

The time to prepare a company for sale is long before the contemplated transaction. Buyers will be studying the prior three years' financial results at the very least. Since the seller will want those results to be as attractive as possible, it is wise to begin preparation no less than five years before the target sale date.

The best way to approach the process is from the buyer's perspective. Depending upon its size and nature, the company may be attractive to strategic buyers and/or financial buyers. This distinction is important, as it will determine a focus of your efforts.

Strategic buyers are typically already in the business, they know the industry, and they seek to augment their strategic position by acquiring a firm. It may be your company's market niche, trademarks or patents, brand name, or even the thought of removing a competitor that makes the company of interest to a strategic buyer. Typically, these buyers are looking for synergies following the sale, leading to the whole being greater than the sum of its parts. They tend not to look at the acquired company as an entity, but instead project the future of the combined company. A smooth transition, the quick assimilation of attributes, and the elimination of overhead and duplicative expenses are often the drivers at the forefront of the strategic buyers' minds.

Financial buyers, conversely, are seeking to maintain and grow the acquired business. Financial buyers may be private equity firms or wealthy individuals who seek to resell the company within a few years at a profit, or they may be executives who intend to buy and hold the firm for the long term. Financial buyers focus on free cash flow and on the robustness of the existing processes. They typically want to assure themselves that the business is strong enough to sustain its current cash flow until the acquirer's efforts lead to improvements.

These differing perspectives will cause some buyers to carefully scrutinize certain areas that other buyers might ignore. For instance, strategic buyers are likely to eliminate acquired back-office functions such as HR, accounting, and IT, as they combine the work into their existing infrastructure. Financial buyers would typically spend significant time understanding the strength of these functions, as they would depend on them in the future.

Common to both buyers, the company's most recent three years' sales, profits, and cash flow will have a huge impact on the price they will be willing to pay. By starting early, the seller has time to make the strategic changes and investments that will improve these results.

M&A experts will prove valuable in marketing the company and in helping the seller highlight the areas important to strategic and/or financial buyers. Profit improvement consultants should be brought in several years earlier to maximize the sale price by improving the key performance measures.