

INTERPRISE M&A, LLC

NEWSLETTER

SPRING 2008 NEWSLETTER

EXPERTS IN THE SALE OF PRIVATELY-HELD COMPANIES

The Top 10 Costliest Mistakes Owners Make When Selling Their Company

Each issue of our newsletter will present one of "The Top 10 Costliest Mistakes." The entire list may be viewed on at www.interprisema.com.

MISTAKE #8: Not Clearly Understanding Buyer Motives

Understanding the buyer's motives — and why a particular company may be important to them — can be of great benefit to a business owner when the goal is to optimize value. For many corporate buyers, acquisitions are an integral part of a preferred strategy for achieving growth and expansion goals, improving operating efficiency, and/or increasing profitability.

Many have found that its easier and more cost- and time-effective to buy market share rather than build it internally or 'organically.' Business owners who can view the M&A sale process from the perspective of potential buyers tend to benefit the most when it comes to maximizing their exit options and sale proceeds.

THE EXIT/TRANSITION PROCESS

If a business owner/entrepreneur wants to successfully exit or transition their business — that means to actually enhance its value or sell the business for maximum value — it is essential that he or she understand that this is a process and not an event!

What should a business owner do in order to properly plan a profitable exit? Here are a number of important considerations in that process:

Change is the only constant we truly have in life. Denial, unawareness, or ignorance of this fact only kills positive change, but change will nevertheless occur.

Therefore, strategic planning is required in order to exit a business under the best terms and at the right price. We can choose to acknowledge that change is inevitable and have a plan in place to make it work to our benefit, or we can deny or ignore it and let it take its own course, which will probably not be in our best interest. It's never too early to plan an exit strategy, but it is often too late!

All businesses will inevitably — some day, sooner or later — transition. They will either close or pass to heirs or be sold. Most business owners understand that selling their business is typically the most profitable route.

Recognize that the principal reason buyers purchase is for a Return On Investment (ROI). Whether they are purchasing for strategic reasons, personal or economic motives, or financial gain, all buyers ultimately are seeking to profit from their purchase by getting a suitable ROI. Therefore, it is critical to a successful exit plan to think like a buyer, not like a technician or a collector or

someone parting with a precious heirloom that they are reluctant to let go of. These emotional indecisions will kill more potential sales than any other single factor.

The fact is rarely, is a buyer buying for the same reason that a seller is selling. The buyer is likely not buying for where the business has been, or even where it is today, but rather where he or she can take it in the future. Therefore it is in your best interest to do the research so you will understand the "intangibles" of the business and their appeal to a cross-section of buyer types by knowing your industry sector.

In addition to knowing your own business and industry realities and cycles, it is vital to understand the factors external to your business or industry that dramatically affect value. Market timing is often critical to maximizing value due to factors totally outside the individual business owner's control. High interest rates will depress prices and limit buyers. Weak alternative investment opportunities will enhance business values and increase buyer interest. Elements like the economy (local, national, or global), natural or man-made disasters, wars or commodity shortages are all outside the



GENE SARTIN

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BRINGING WALL STREET RESOURCES AND EXPERTISE TO MIDDLE-MARKET PRIVATELY-HELD COMPANIES

Exit/Transition Process, continued

business owner's control but have a dramatic affect on value and opportunities for a successful exit.

Another important consideration is the understanding that in a single-buyer situation, that buyer is the sole decision maker. In a one-buyer scenario, the seller loses control. In a limited auction – that is attracting more than one buyer — the seller is in control and can play one off against the other to attract a higher offer. Consequently, getting maximum exposure (broad area marketing, probably nationally and internationally, over an extended period of time) is often critical to getting maximum value for a business.

Remember that not everyone sees the world — or your business — the same way you do. What is exciting and attractive to one buyer can be perceived by another as inappropriate and unappealing. That is true of individual businesses as well as entire industries. Yet another reason to seek as many buyer prospects as possible is to find the one or more who may have a serious and abiding interest in your type of business.

Businesses are bought, not sold. If there are no buyers, simply wanting to sell does not make it happen; and price alone is often an insufficient motive for buyers to take action. Terms and conditions, “bank ability” (the capability to obtain financing for the purchase), may be just as or even more important. The deal — terms and conditions — have to be perceived by the buyers as positive for them and not just for the seller, so asking price is just one piece of the process.

Be cautious — very cautious — in just how you seek these buyer prospects. “Loose lips sink ships” is the old WWII saying and it is apt for exiting businesses as well. Confidential exposure is critical to avoid the negative, even disastrous effects of employees leaving, customers bailing, competitors bad-mouthing your business, suppliers

shortening terms, lenders calling loans.

Finally, the “prepared” usually are the winners; the “unprepared” often experience defeat. As the saying goes, “luck is when preparation meets opportunity!” So, seek “professional” help to be properly and sufficiently prepared. The “best” in any endeavor always seek a coach rather than depend on “dumb luck” or their own devices.

Perhaps the legal expression “he who defends himself has a fool for a client” may best describe why getting professional help — proactively and early — is so important; so there is enough time to not only create a professional exit strategy, but to implement it. Professional help starts with an expert assessing strengths and weaknesses, marketability, and suitability to “go” (sell) or “grow” (enhance value). Rarely does the business owner have sufficient or accurate, up-to-the-minute information on hand, or an objective perspective, to guide him or her in making and executing proper tactical and strategic decisions that properly plan for the future.

IN SUMMARY:

- Change the way you think and learn to think like a buyer.
- Retain professional help to analyze the business, recast the financials, and obtain an accredited third party professional valuation to get a baseline of what is true about your enterprise value.
- Be able to show (and understand) the “real” past and present of the business with independent documentation prepared by experts.
- Have a professionally prepared Confidential Business Review that can assess strengths and

weakness, show enhancement opportunities, and portray the future of the business so that prospective buyers can see it and get motivated.

- Realize that transition is inevitable and be prepared with a Professional Exit Strategy.
- Do all of this with a critical concern to keep it all confidential.
- Know that it is a process — a series of actions and initiatives that take place over time — and not a single event.
- And “commit” to the process the time, resources, and attention it requires for you to implement the plan, get over any emotional roadblocks, and be prepared to play to win so that you can be empowered to taste success!

Gene Sartin, President and CEO of SUCCEL, Inc., works directly with middle market business owners who are considering a transition for their companies. He understands the challenges of business ownership as well as the issues involved in successfully exiting a business. Sartin has a unique and broad background in corporate management as well as mergers and acquisitions. More information on Mr. Sartin is available at www.succelinc.com.

