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Planning is key to maximizing value when selling your business

Entrepreneurs often ask, "What do I need to do to get myself in a position to go public or sell or recapitalize my business?"

For most people building a business, the focus is on growing revenue and market share, managing operations, controlling costs, building a team, developing culture and building brand, but not on selling or going public.

BUILDING BUSINESS

BILL BOYAR

While little attention is paid to planning for an exit, there is of course the typical conversation about creating value and someday realizing that value through a sale or an initial public offering.

However, few private company owners actually build their companies to sell, so that, when the time comes for a liquidity event, they are ill prepared for the process.

BUILD TO AN OUTCOME

The focus that most growing companies place on operational and capital issues typically derives from necessity.

While the owners grapple with the challenges of growing and developing the organization, little attention is typically paid to the strategic imperatives of exiting the business.

When management perceives that the operational and capital issues are under control and there is time for development and execution of strategy, focus shifts to the strategic issues related to exit, and this often occurs late in the game.

A more valuable approach is to build to an intended outcome.

Project out to a point in time when the company might reach revenue, market share or profit targets that makes a liquidity transaction possible.

Research the market to understand whether an IPO is a realistic option and what the minimum requirements would be to accomplish such a transaction.

In evaluating a sale or recapitalization, research who the buyers and investors are and what kinds of transactions they are executing. Identify the industry players (the strategic buyers) and wealthy individuals, private equity, venture capital and hedge funds (the financial buyers) who invest in your industry. Understand how companies are valued and deals are structured. This provides context for future decision-making on issues such as capital structure, people and capital investment, as you guide the company to meet the desired metrics and terms.

BE EXIT READY

Often when an exit opportunity presents itself, the company is not ready. Governing documents are not in order, contracts are not executed or complete, permits and licenses are not readily available, books and records are not in auditable condition, systems and processes are not in place or well documented, and/or the management team is not sufficiently developed to withstand close scrutiny.

To successfully navigate through professional due diligence, the company must be prepared in four key areas — operations (including management), financial statements, documentation and corporate formalities. Develop a discipline in these four areas and the company will be poised to respond to careful due diligence. This is critical to facilitating a transaction.

UNDERSTAND THE PROCESS

Before embarking on a direction, fully understand the process.

If an IPO is an option, the steps include:

- Developing a transaction outline with a deal structure;
- Putting together a team consisting of an experienced investment banker, accounting firm and law firm;
- Producing the offering materials;
- Obtaining regulatory approval; and
- Marketing.

The sale or recapitalization process requires a different approach.

Often the company is solicited by an interested party who wants to preempt any sale or recapitalization process. The problem this creates is that contrary to the public capital markets, there is no public market for confirmation of the value of the company.

In many industries there are well-recognized valuation methodologies that apply to companies of a certain size and profile. In other industries there are no metrics that govern and valuation is ultimately the subject of negotiation. In those industries, the only way to maximize value with any confidence is to conduct a process.

In simple terms, this involves hiring an adviser to help develop a full description of the company, the industry and the investment opportunity, and to introduce the opportunity on a confidential basis to a wide but targeted audience of strategic buyers and financial investors.

An effective adviser will assist the company in identifying more than one acceptable alternative and will manage the process of selection, negotiation, contracting and closing.

ORGANIZE A GREAT TEAM

Another key component of a successful sale, recapitalization or IPO experience is to compile a great team of advisers — investment bankers, accountants and lawyers. All play critical and complementary roles in any sale, recapitalization or IPO. Don't go it alone or rely on inexperienced professionals to help navigate these waters. If you do, prepare for a turbulent ride.

BE PATIENT

A final key word of advice —- be patient.

The process of building to the right outcome can take longer than planned. The evolution from tactical to strategic can be difficult.

Working with investment bankers, accountants and lawyers on a complex transaction can be frustrating. Dealing with the multiple options that might result from a sale or recapitalization process can be confusing and challenging.

Negotiating a transaction with sophisticated parties can be intimidating and emotional.

If your company is built to sell, you understand the process, you are surrounded by the right team and bring a level of patience, the outcome can be as planned and your dreams realized.

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