5 Steps to A Successful Sale

Considering whether to sell your business? Although each transaction is unique, this outline should provide a general starting point for any seller to think through the practical aspects of selling their Health Care business. Although I always recommend you seek out and obtain the best possible professional help when attempting to sell your business, being informed, and reasonable knowledge of the transaction and process will ensure that you are able to understand, supervise, and participate with your professional advisors to create the highest value and best terms in your sale.

Step 1 - Planning

The best way to get where you want to go is to know where you are going. These preliminary considerations will help you focus and save time and energy.

Defining Objectives

Many sellers skip this basic step. Your objectives should include far more than simply getting the best price for your company. Do you want to stay with the company or exit? How will you spend your time during and after the sale? What is your next project or passion? How do you want the sale to affect your employees, your business partners, your family? After you list many objectives, take time to rank them in terms of importance. Often, intangibles will surprisingly rank high on your list.

Understanding Your Company Relative to the Market

A through competitive analysis includes more than just a list of names that compete for you customers. Your market is often affected by complimentary products and services, large economic trends, changes in preferences or technology. Many of these indirect factors greatly influence how desirable your company will be to a buyer, who might be looking at several industries with different trends.

Other Aspects of a Great Plan

The most important aspect of a great plan is time. I tell sellers to begin preparing for a sale two to three years before they expect to sell. Professionals will tell you it takes an average of 6 to 14 months for a smooth deal to consummate. Now is the time to start organizing information, keeping better records, and gearing up for a successful sale. The best plan is crafted with the help of a great team. Know whom you will have on your team, or whether you will play multiple roles on your own. Each role you play takes away from your time running and growing your business. For each role you place in other hands, clearly define the objectives and the means of communicating progress toward those objectives.

What They Don't Tell You - Personal and Emotional Considerations

Often, the most difficult part of a transaction is the stress of change. Owners who do not acknowledge the impact of this significant life change affect deals in ways that make progress difficult. Have a plan for yourself during and after the deal closes. If you are not excited about the next phase of your life, you will likely not be excited about moving the sale of your company to conclusion.

Step 2 - Preparation

Being prepared means less downtime during the negotiation of your deal. The slower a deal moves, the worse things can become.

Marketing Materials - The Descriptive Report/Company Profile

You should be able to anticipate roughly 80% of the questions a buyer will ask. You should include this information in a report that is well written and well organized, so that a potential buyer will be able to form a strong opinion about whether or not to buy your company. The more comprehensive the report, the less time you waste, and the more likely it is that an interested buyer will actually wind up purchasing your company.

Finding Buyers

Commanding your highest value means having several buyers interested at the same time. A good professional advisor will approach hundreds or even thousands of potential targets hoping to generate interest from dozens and letters of intent from several. You can find buyers from networking, online research, and through databases that contain company and investor information. Many professionals maintain their own private databases of buyers.

Evaluation Offers

Evaluation of offers is much easier when you have clearly ranked your objectives. An old deal saying goes, "You pick the price, I'll pick the terms." Accordingly, understand the details of the terms of the offers you receive.

Step 3 - Valuing Your Business

This is a critical step that a business owner must take to determine if they are ready to sell. If you have no idea what the business is worth how will you know if you are ready to sell? In order to produce a valuation tax returns and/or company financials will be utilized as well as other factors to determine value.

Gathering Information

Often, small and midsize companies are focused on growth rather than on clean operations. It may take a great deal of time simply to organize and document your financials. Remember that a buyer won't believe your numbers, and you'll be expected to provide support for nearly everything. When you don't provide support and have to negotiate what might be reasonable, then the value of your deal likely decreases. Always document any large one-time expenses and other owner benefits that a new owner may not continue to pay.

Recasting Financials

Financials are more art than science. To properly demonstrate the value of your company, I suggest reconstructing what free cash flow might look like if a new buyer were to continue to run the company by the letter without any new expansion. This means adding back excessive compensation, or capitalizing expansion, or even ignoring certain onetime expenses (such as an unusual catastrophe, a changeover to comply with new laws, or an unusual legal matter). This is a service I provide at no charge to all of my clients. If you are interested contact me and I will let you know what I need to prepare the recast/valuation.

Projecting Earnings

Once you have a decent starting point that reflects today's actual cash flow, consider past trends and future impacts to create a reasonable earnings stream in the future. An exaggerated projection hurts your deal: a realistic project can increase your value.

Comparables and How to Find Them

Deal professionals are your best source of actual comparables. Industry rumors are the worst source, and often are exaggerated and set incorrect expectations. Remember that terms make the deal. A 20 million dollar deal that is paid out based on unachievable performance objectives is often a much worse deal than a 5 million dollar deal paid out as a secured employment contract. Make sure you are comparing apples to apples, which is something a professional can help you do.

Valuation Methods

There are many. The most accurate is what a real buyer will pay for your company. In a performing company, this is often a structure that pays 20% to 30% cash on cash returns. Often, the buyer's goal has nothing to do with how you'd value your company. The buyer's rate of return depends on their leverage, their other investments, and many other considerations. Be prepared to get very different offers that seem inconsistent from your perspective.

Determining Final Value

I suggest that the easiest and most accurate valuation method is most often recasted earnings for the past three years, and the application of a multiple of earnings before interest, taxes, and depreciation. Although your eventual sale value may be higher, this method at least gives you a sense of the current market.

Step 4 - Structuring the Deal

You should understand your objectives and deal terms, yet I do not advise structuring your own deal unless you have significant experience in doing so.

Compensating the Seller

Any dollar the seller receives is still a dollar. This can come in the form of cash, salary, assets, stock, eliminating debt, future promises of payment, options, and many other things. Many sellers mistakenly focus on cash received at close. Often, your return is better if you are flexible about how you'll be paid. It is important to structure any seller financing with an option to reclaim the assets should their be any default in payments and if stock is part of a deal you need to understand the risk if it is “restricted”.

Management Retention Planning

If the buyer is interested in keeping key employees, including you, then it is important to start those negotiations early in the deal process. If you have a great deal already set, and the buyer knows that you like the deal, then your leverage likely decreases if you are negotiating a second deal regarding employee compensation. This is even truer when you want to take care of long time employees, where the buyer may not be as interested in retaining them. The buyer may request access to key employees and part of your deal may require them staying on board. While this is a fragile situation it is important to bring the key employees in to the mix sooner rather than later. In some cases deals have fallen apart when a key employee will not cooperate and in some cases request financial consideration to help the close the deal.

Legal Aspects

You can reduce your cost through understanding and proper management of your professionals, but don't make the mistake of not having a great lawyer review your deal and purchase agreement. To save on some cost get the Attorney involved following the first drafts of the Purchase Agreement. Once you and the buyer have ironed out the big items then have your attorney review to insure you are protected.

Accounting Considerations

Like having a great lawyer, get a great accountant to advise you regarding your deal. This should not be your CFO or your regular accountant unless those professionals have significant experience with mergers and acquisitions. A great accountant will not only understand the nuances of deal accounting, but be able to advise alternatives to the deal structure that will maximize what you receive. Tax planning for the deal, and after the deal is critical.

Step 5 - A "Typical" Sales Process

No deals are ever the same, but the vast majority includes the following steps.

Introductory and Preliminary Meetings

Even though the world has changed, some things remain the same. People like to meet people. The ease of discussion and chemistry of the parties goes a long way to keeping a deal exciting and on track. Make a good impression by being prepared, interested, and authentic during initial meetings. You never know which buyer will wind up actually purchasing your company.

Negotiations

Because you are so involved in your company, and because you might even wind up working for

the
company that buys yours, you are often not the best person to negotiate your deal. Hiring a reputable intermediary will provide the expertise required to garner the highest selling price for your business. Intermediaries have access to comparable sales and valuation tools to validate and determine selling prices. A letter of intent is a significant step, but not always the last word. Buyer's treat LOIs differently. Some have several pending with multiple companies and only expect to close one deal. Other buyers take LOIs very seriously and will want to move more slowly and in a linear fashion (one company at a time). This is a critical document and time well spent in negotiating, as it will become the “blue print” for the Definitive Purchase Agreement. Many buyers will request an exclusivity period at this time since they will be spending time and money reviewing your businesses. It is not out of the questions to request a small non-refundable fee should a deal not come to close. At a minimum, this provides some compensation in the event the buyer changes their mind for no good reason.

Due Diligence

Due diligence kills many deals. You should have prepared most of the information necessary to close your deal well in advance. Having to create due diligence is a stress and takes significant time if done during a negotiation. Also, any surprise pushes the buyer farther away, and decreases the value of your sale. Be prepared in advance: if you don't know if you are prepared, then seek help. This process is critical and you should review and understand each item that is sent. This process typically takes anywhere from 15 to 60 days depending on the size of your businesses. The shorter the time period allowed the better…it keeps the buyer moving…just make sure you can deliver the requested items on time.

Purchase Agreements

If nothing else, have your purchase agreement reviewed by a great lawyer and accountant. The devil is in the details, and the purchase agreement includes all the details. Expect a long detailed document - in fact, a long detailed document is in your favor. Many short deals ignore significant factors, which will come up post close, and which will be frustrating and difficult. When deals fail post-closing, it often means the failing of the company, and everyone loses.

Escrow and Closing

The best deals are in and out of escrow quickly. Some deals don't even use an escrow. This is not the time to negotiate or be performing the tasks that weren't completed early. A break of escrow is never a good thing.

United Health Care Capital is committed to helping small business owners with valuations, business transition and exit plan strategy. If you are interested in learning more, contact United HealthCare Capital to see how we can assist with your business transition and exit planning.

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