Harris Williams & Co.
middle market®

Thinking about selling your business? Consider this your roadmap.

Whether you have made the decision to sell your business or are just exploring your options for the future, understanding the road ahead can mean the difference between success and disappointment. We have interacted with thousands of owners and management teams over the years, and while the sale process for each business is highly customized, a common thread between every successful transaction is preparation.

To maximize your value, both financially and personally, it is critical to plan carefully before entering into any sale process. Even if you think you're many years away from selling, planning now can ensure that you can take full advantage of future opportunities.

Businesses aren't sold overnight; these are complex transactions that are influenced by multiple variables. Planning ahead can increase the likelihood of a successful transaction and potentially enable you to navigate relevant tax considerations. An experienced investment banker who is familiar with your industry can ensure that your business is positioned to achieve maximum value and that the sale process is managed properly. Knowing who may be a likely buyer for your business is only one part of the equation.

Accessing those buyers, knowing what makes them interested, clearly articulating your company's unique value position, and working through the many logistical, legal, and financial variables are what enable a potential transaction to close.

A skilled advisor can do all of this, while providing an invaluable buffer between you and the interested parties.The first thing to consider is what you want to achieve from the sale. As an owner, the clearer you are about your objectives, the easier it will be to create the right strategy. Are you looking to sell the business completely, or would you like to maintain some level of ownership? Do you want certain employees to remain with or become shareholders of the business after your departure? Your objectives will ultimately guide the sale process.

"Once I felt we crossed to where the business was worth more to others than it was to our family, the decision to sell was easy. Harris Williams & Co. walked us through a process that was much more complex and time-consuming than any of us imagined. There were high points, low points, and some frustrations along the way, but the Harris Williams & Co. team was with us as a trusted partner and confidant. They were there for our family and management team throughout the process at all hours of the day, and there were some long days! Obviously, what ended with a very positive outcome all seems great looking back, but even during the tough days, I always felt that Harris Williams & Co. was there working for my family."
- Rich Longacre, CEO
Farm & Home Oil Company

Preparing to Sell Your Business

Ideally, you want to make sure that your company is running at an optimal level before a sale. While business owners know their businesses, it's important that they really *know* their business when selling. There should be nothing that advisors or potential buyers can uncover that you don't already know. No one likes surprises during a sale process.

When the buyers start performing due diligence, they will focus on three main areas: the business, its financials, and legal issues.

The Business

When buyers look at your business, they are assessing the market, growth opportunities, and your company's position in the industry. They will be interested in many things, including your company's products or services; facilities; any agreements that have been made with customers and suppliers; and the depth of your management team.

Understanding the competitive landscape of your industry and where growth opportunities lie can help buyers understand the value of your business. You will need to be able to explain to buyers why your product or service is unique and what investment opportunities are ahead.

It is important for your company to have a strong, confident, and experienced management team. If there are key positions that need to be filled, fill them. Owners who plan a full exit from the business will need to ensure that the management team can run the business smoothly and efficiently. Equity incentives can be valuable tools to keep managers motivated during this complicated process. It is important to have an excited team in place that can clearly articulate the vision of the company.

Spend time with your management team creating or refining the company's strategic plan. Potential buyers will want to see that the team has a vision for the business and a track record of executing against it.

Manage your customer base proactively — it is a key component of growth. Work to make sure your supplier relationships are in good standing by, as an example, negotiating future contracts. Buyers do not want to get into a situation where supplier contracts will expire right as they are taking ownership. The relationships at both ends of your value chain are critically important to getting buyers comfortable with paying a premium valuation.

The Financials

When buyers look at your company's financials, they are interested in the accounting records; financial statements; systems and controls; taxes; working capital; and any capital expenditures.

A clean and accurate balance sheet sends the right message to a buyer. Maintain diligently organized documents and a detailed paper trail of non-recurring expense items. Establish a monthly reporting package that highlights key top-line and bottom-line metrics. Buyers want transparency, and having systems in place that demonstrate the company's financial health will make your business more attractive. Having audited financial statements are also very helpful.

As you paint a picture of the past, comprehensive and thoughtful projections about the future add incremental value. Develop robust forecasting capabilities that illustrate growth opportunities and earnings expectations.

Lastly, make sure the company has been tax-compliant, with returns filed on both the state and federal levels in a timely fashion. Although this seems obvious, outstanding tax issues can delay negotiations.

5 Simple Steps to Maximizing Value During a Sale Process

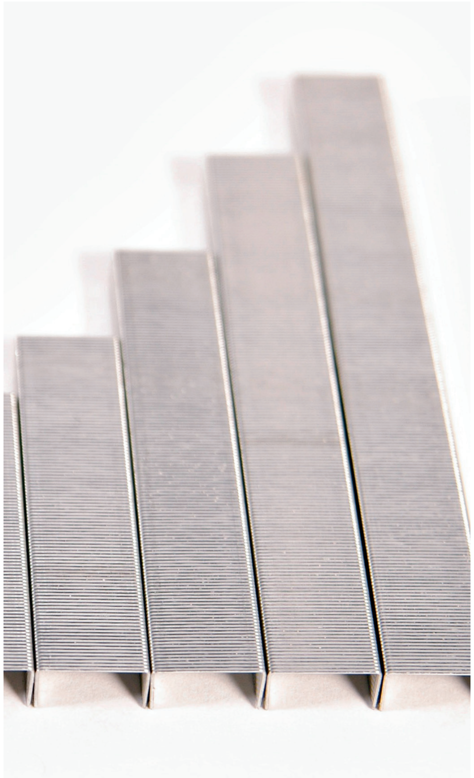
1) Set clear objectives

2) Look at your business from the buyer's eyes

3) Seek the advice of experienced and trusted counsel

4) Do your housekeeping inside and out

5) Establish a well-thought-out growth plan



Legal Considerations

Buyers want to minimize their exposure and rest easy with their decision to invest in your business. Clearly identify your company's intellectual property, any pending liabilities or litigation, and other potential vulnerabilities.

The owner should know where all the patents, pending patents, copyrights, and trademark documents are located. Companies should work to clear up any lawsuits and document outstanding legal obligations. Make sure all records, contracts, and agreements are organized. Potential buyers will also look into areas such as insurance coverage, environmental impact, and human resources. Make sure your company has the proper permits in place and has settled any violations. EEOC filings should be in order, and any employee disputes or non-compete agreements should be well documented.

Today's market offers new opportunities - whether you elect to seek a minority investment or to exit the business altogether. With private equity firms flush with capital and strategic acquirers on the prowl, that too-good-to-pass-up offer may be right around the corner.

With nearly 25 years of market leadership serving clients from family-owned businesses to private equity-backed companies and public corporations, Harris Williams & Co. has helped individuals make ownership transitions, access growth capital, and realize the potential of their investments. **For more information about how we can help you, email info@harriswilliams.com or visit our website at www.harriswilliams.com.**

What are M&A and private equity? Is either an option for me?

The phrase "mergers and acquisitions" (M&A) gets thrown around a lot, but, simply put, all it really means is the buying, selling, and combining of companies. Though megadeals get the headlines, 90% of all transactions occur in the "middle market," which is full of successful and established businesses across all sectors. There is a wide universe of buyers who appreciate the growth opportunities in this market segment.

Corporations interested in building their platforms through acquisitions are referred to as strategic buyers. They include competing companies, businesses within the supply chain, and those interested in diversifying their product mix or expanding their geographic reach. Strategic buyers often take advantage of their own balance sheets to fund transactions, so they are less reliant upon the availability of credit. Because an acquisition can yield synergies with their own operations, strategic buyers are often willing to pay a premium price to complete the transaction.

Private-equity firms (also known as PEGs or financial sponsors) have become tremendous drivers of M&A activity over the last decade. They raise money with the specific intent of buying and selling businesses. They typically buy a business by leveraging debt. They work with management to grow the business, and then they sell it to generate a return for their investors. Most hold periods for PEGs are 3-7 years. Private-equity professionals are sophisticated investors with experience growing businesses, and many will welcome partial sales, which allow the owners to stay involved with the company while taking some money off the table.

As you consider the objectives for your business and the trends within the market, you can determine if a strategic or a financial buyer would be right for you.

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