The Exit Planning Methodology That Will Position Your Business for a Premium Sale

The major portion of your net worth is in your company. Here's how to maximize it.

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Key Takeaways

- If you are going to sell your company for a premium, you need to answer the question: "Who will buy my company, and what are they looking for in an acquisition?"
- To answer this question, you first need to analyze your company to know what you bring to the table in an acquisition.
- You must also understand the major buyer types — strategic acquirers, sophisticated financial buyers, lifestyle buyers and industry buyers — and learn what they're looking for in an acquisition.

You founded your business with two financial objectives in mind — to make enough money so that you and your family could lead a decent lifestyle and to build something of value that you could eventually sell. Depending on where you are on your career path when you exit the company, the proceeds from the sale will hopefully fund your next business venture or your retirement.

You've built a good company with multi-million dollar revenue and good profitability. You have good, loyal employees, and everything seems to be in good working order. You've now reached a point in your career where you're thinking about an exit. Your children have all moved on in different directions and have no interest in the business, and your employees don't have the managerial or financial resources to buy the company. If the proceeds from the sale of the company are to fund your activities going forward, you must find a third-party acquirer.

You ask, "Who will buy my company, and what are they looking for in an acquisition?" You need to know the answer to this question if you are going to sell your company for a premium. Otherwise, you'll have to settle for the best offer from various prospective acquirers based on whatever valuation method they employ.

But how do you get the answer to the question "who will buy my company, and what are they looking for in an acquisition?" Let's examine one methodology:

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Rating your company

First, you need to analyze your company. What does your company have that prospective buyers would want? What are your company's strengths and weaknesses? How does your company compare with other companies in your industry? What opportunities does your company present to prospective acquirers? How does your company rate with respect to the value drivers of your business? You need to know what you bring to the table in an acquisition.

Second, you need to rate your company using various techniques discussed below. You need to be brutally honest when rating your company's performance with respect to your value drivers.

Some tools that you can use are:

- **Ratio analysis:** Financial ratios are useful indicators of a company's performance and financial condition. Ratios can usually be calculated from information taken from the Income Statement and the Balance Sheet. They can be used to analyze trends and to compare the company's performance to other companies in the same industry. They can be classified according to the information that they provide. The following types of ratios are frequently used: Liquidity Ratios, Asset Turnover Ratios, Financial Leverage Ratios and Profitability Ratios.

- **SWOT analysis:** A SWOT analysis provides a means for you to analyze your company's Strengths, Weaknesses, Opportunities and Threats. For a complete discussion of the SWOT technique, click here.

- **Ansoff Matrix:** It's important to be able to show potential buyers that your company has a way to grow well into the future. The Ansoff Matrix is a tool to help you strategize a growth path. The Ansoff Matrix shows four ways that companies can grow from the least risky method to the most risky. For a complete discussion of the Ansoff Matrix click here.

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What are the buyer types?

Third, you must learn the buyer types and what they are looking for in an acquisition. The major buyer types are:

- **Strategic acquirers:** They are either public companies or large private companies, and they will pay a premium if you have specialized technology, synergistic products, skilled employees or a desired geographic location.

- **Sophisticated financial buyers:** They can be a Private Equity Group (PEG) or a group of private investors. They are looking for good cash flow, a good management team in place and good growth opportunities.
- **Lifestyle buyers:** This is usually an individual, and they are looking for an income and the ability to build equity.
- **Industry buyers:** They usually approach you unsolicited and regard your company as vulnerable and inferior to their company. They are interested in select assets that they can buy at a discount.

Fourth, you will match what your company has to offer with what the different buyer types are looking for in an acquisition. If your revenues are under $3 million or so, the likely buyer will be a lifestyle buyer. In order to attract a strategic buyer, you must have something they are looking for, as mentioned above. Strategic buyers, PEGs and investment groups are usually looking for companies with EBITDAs of $1 million or more.

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You should be able to get a good idea of who you match up with in an acquisition using this methodology. In order to obtain a clearer picture of where you stand in the acquisition arena, you will need more detailed information about the current M&A marketplace.

What industries are hot? What companies are involved in roll-ups? What companies are making strategic acquisitions? What are the common deal structures by buyer type? A good broker/advisor can help you with this process. This could easily be a two-year effort, so make sure you start the exit planning process early.

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