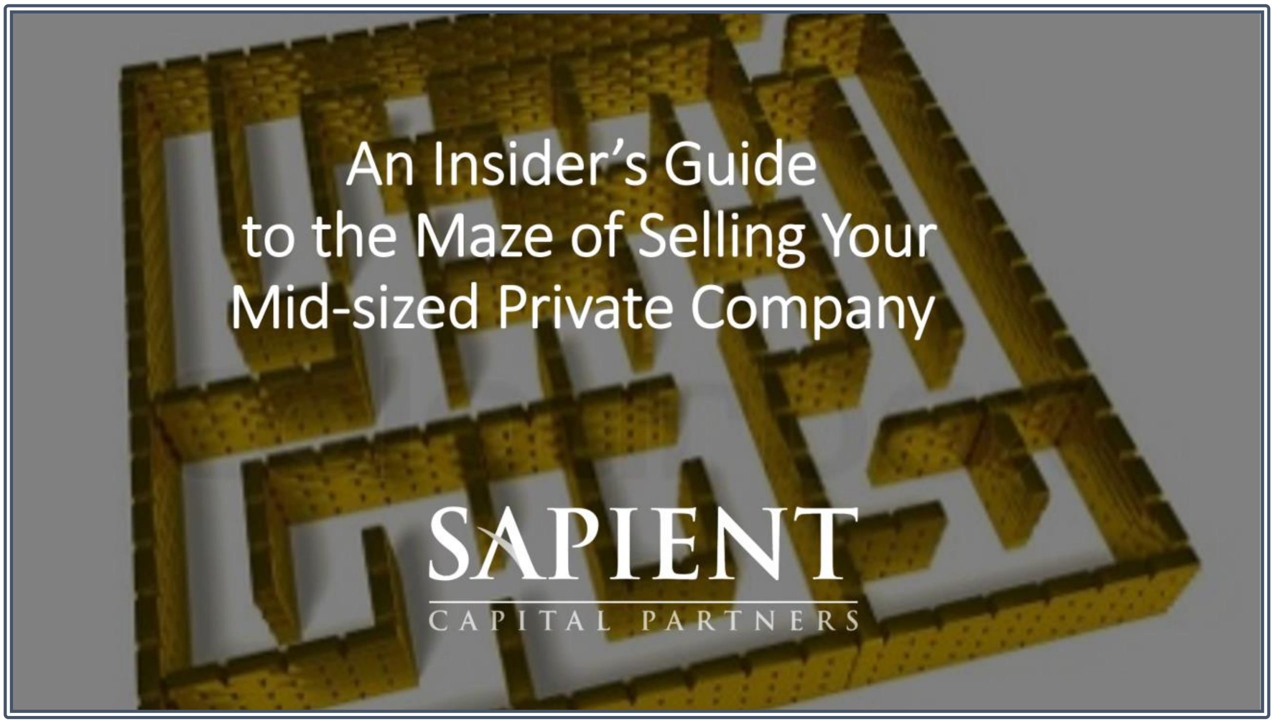


Whether you are a corporation looking to sell off a non-core business holding, or an owner looking to sell the company you've built, you want the same thing:

First, to intelligently consider, compare and evaluate all your options.

Then, if it is a sale you desire:

To sell at an optimal value.

To ensure your employees are fairly treated.

To achieve the sale without endangering the business, its competitive position, or its intellectual property.

To canvas all the possibilities with utmost discretion.

To do it all in a time- and resource-efficient way.

To get back to your core business. . .

. . . or to your new life.

Then there are the many tactical questions and considerations.

The following are only some of the questions and concerns we have gleaned from our clients and personal experiences over the years, as advisors, principals and private company executives:

What is my company worth?

If need be, how do I increase the value of my company?

When is the right time to market and sell the company?

How do I do it, exactly?

What is the optimal process for me?

Where do I start?

What are the key steps?

How do I protect myself and my company?

How disruptive will this process be?

Can I do it with my team, or do I need an advisor?

What are the costs of this process and the terms of engagement?

What are the timelines of this process?

Which of my employees do I bring into the loop?

Are the market conditions right for a deal?

What are the current deal terms?

How should I structure the transaction, cash vs. shares for example?

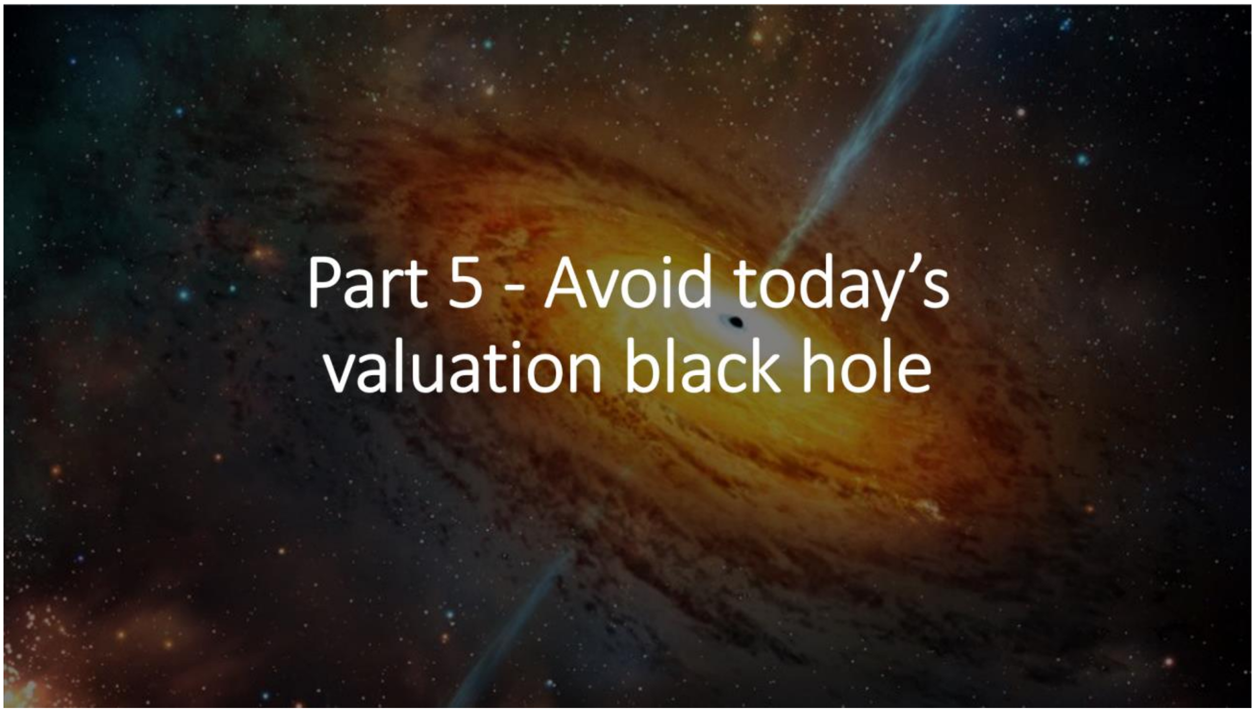
What can I be doing now to get prepared?

Where do I go from here?

Over the next ten instalments, we will attempt to provide insights on many of these and other important questions.

We can't cover all the bases here, but hope we can illuminate the topic of selling your private, mid-sized company and planning for the exit, and providing insights on areas for further examination.

Watch for upcoming instalments, and happy reading!



Black holes are those fascinating and mysterious distant formations in our universe — big, dark and dangerous, and you shouldn't go near them.

Which is exactly how owners of private companies looking to sell should view the 'valuation black hole' in the market today.

Falling into this black hole can be confusing, unpredictable and costly.

The regions around the 'valuation black hole'

The world of private companies and mergers and acquisitions transactions can be broken down into the following value levels:

A. Companies considered "**leaders**" in their space, with strong historical and forecast sales and operating margins, and few-to-no perceived weaknesses. Strong performance during and post-COVID.

B. Companies considered "**good**." They may have suffered a bit in the recent economic downturns, including COVID, but their performance has already rebounded or their outlook is good overall, with few critical weaknesses.

C. Those considered “**average**” companies. Their historical performance has its ups and downs, and their results may not have bounced back fully post-COVID, or at all yet. They may have material, even critical, weaknesses, but are still relatively good companies overall.

D. Companies that are the turnarounds, or “**challenged**” and may be labouring under a flawed business model and/or weak balance sheet. COVID has or will probably turn them into restructurings or worse, zombies.

Looking into the mirror

About now, you may be thinking, “this doesn’t seem to be a big problem for me and my company. Sure we have our flaws, but overall, I would place us as a solid “B”.

That would suggest there is significant buyer demand for my company.

And valuations being volatile for “B” companies suggests upside as well as downside.”

But the crux is whether the buyer universe rates your company the same as you do.

Today’s buyer mentality

In part due to the state of the global economy, the moneyholders are in a position of unprecedented power in the mid-market.

Interestingly, for “A” companies, the opposite is still true, post-COVID as it was pre-COVID.

“A”s often experience buyer feeding frenzies that can result in crazily high valuations, even today.

In a dangerous, volatile world, but with lots of capital to invest, there is no better place to put it than with the market leaders. Right?

These tend to be larger companies, whether private or publicly listed.

But back to the more typical small to mid-sized business, and the valuation black hole.

Risk-averse and generally stressed about everything, buyers are having a difficult time finding what they consider to be “B” companies.

To make matters worse, the criteria to distinguish between “B” and “C” companies is amorphous and subjective.

Often, the same set of facts with the same buyer will result in a different assessment.

That might be due to the smallest thing in discussions with the prospective buyer or in due diligence.

What it really means is buyers are looking for reasons to make you a “C” at the least provocation.

This is self-serving, of course, as the valuation of a “B” company can be twice that of a “C”, all else being equal.

The result is a large number of B companies have been painted as “C”s by prospective buyers, so while buyer demand for “B”s is high, deal activity in this segment is somewhat depressed.

At the “C” level, buyer interest and deal activity are both very low, although the segment is very large.

This is the ‘valuation black hole’.

Staying out of the ‘valuation black hole’ – the tried-and-true steps

Much of what you need to do to avoid the black hole is pretty traditional stuff, but it is surprising how many companies fail to check these boxes.

It is also surprising how long it takes and how costly it is to do so if you leave it too late.

In a nutshell, they are:

— **Clean up your balance sheet**, don't force the buyer to do it. This can take time and involve some cost, but this stuff can kill your deal late in the due diligence phase, the worst of all worlds.

— **Get rid of extraneous investments or lines of business** that complicate the assessment of your company and its fundamentals — also time consuming and costly. It is exceedingly rare for a buyer to attribute much if any value to non-core assets.

— **Carefully craft the message of the opportunity your company represents.** Don't just lay out the facts and hope the buyer gets the core message. This is how you stay off your heels in the deal process, and how you find your buyer.

— Find ways to **create or maintain a pattern of growth in sales and profit margins** that buyers look for. Be ruthless and obsessive about it, especially post-COVID.

— **Have a good process for identifying, approaching, assessing and ranking potential buyers.** No replacement for experience here.

— **Assess your team and fix any holes now.** Many sellers fall into the trap of presuming the buyer can and wants to do this. Bad mistake.

— Have **several years of financial statements**, ideally audited or reviewed. Not optional.

— **Tidy up your contracts and records.** Be ready for buyer due diligence. Don't scramble late in your deal—time is your enemy.

— Have a **robust forecasting/budgeting process** and show you can hit your targets and explain variances. This is a critical one for getting into the "B" category. It's how you get a buyer to pay attention to your forecast, which today can be more important than ever.

— **Avoid being reactive to the buyer and being put on the defensive.** Lead the agenda as much as you can, in every element.

The bottom line

Ensuring your company is a “B” can take years of preparation, so plan and act accordingly.

The reward for doing so can be great.

. . .

If you want to discuss selling your company further with us, contact:

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