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!

Focusing on one particular, critical aspect of an acquisition process — i.e. how a buyer begins to look at your company, what they see and hone in on from first introduction — can be critical.

After all, this is often what drives a buyer's decision to purchase your company, and how much to pay for it.

Failure to understand this usually leads to unrealistic expectations, and ultimately disappointment, particularly in current markets.

For the most part, the thoughts that follow pertain to private companies with approximately $5 - 25 million in revenues.

They also subsume a wide range of industries, from manufacturing, to software, to technology-enabled services, while recognizing there are certain industries that have their own unique vernacular and dynamics.

Today's bogey for buyers is an oldie-but-goodie

With this context, this is what today's prospective acquirers are looking at:

In the current market, what first catches their eye is the past one to three years of earnings before interest, taxes, depreciation and amortization, or EBITDA. Yep.

This is essentially the company’s gross cash flow from operations.

Historically low interest rates and cloud-based technology have largely depleted the materiality of the “I” and “DA”, although the “T” will likely rise in importance looking forward in a debt-encumbered post-COVID world.

As for the EBITDA measure, they may look at the most recent year, or the average of the past few years.

They might be willing to look at the most favorable permutation from the seller’s point of view — say, overlooking one bad year that occurred for identifiable, non-recurring reasons—say, COVID-19.

But this is what they see before pretty much everything else, and it colors the rest of the discussion.

It will drive the type of buyer interested in your company, whether financial (private equity, venture capital, corporate venture capital, family office, or individual) or strategic (corporations in the same business as yours).

Bottom line, companies with more than $5 million of annual cash flow will be appealing to a much broader audience than those with, say, $2 million or $3 million.

There is only a small niche interested in companies with less than $2 million.

This will also critically drive valuation.

And, other than pure technology-acquisition deals, it is the starting point for the buyer’s thought process.

Only then will they look at the unique aspects of the company, both positive and negative.

On the positive side are patents and intellectual property, above-average historical and future growth potential, high operating margins, high recurring revenues, and synergies with the buyer’s company.

And most importantly today, the ability to show resilience in the face of COVID-19, and the ability to maintain or quickly regain, momentum.

How you define ‘momentum’ is part of the art of the deal.

Negative factors include below-average profitability or negative cash flow from operations, weaknesses in the management team, and current or emerging challenges to the company or its business model in the marketplace.

Bottom line, what this all amounts to is that under current market conditions, the vast majority of company valuations tend to be based on very conservative, traditional methodologies.

Back-to-basics for sellers

And despite the growing mountain of uncommitted financial capital still sloshing around in the capital markets, it largely remains a buyer’s market.

The best most targets can typically hope for in this market is a multiple of this historical cash flow at the high end of the historical range.

The actual range of multiples is very industry- and market environment-specific.

You will need to do some work to figure out the appropriate ranges.

Now, you might be thinking this is an unfavorable way to value your company, that the past is largely irrelevant.

Your company, you believe, is worth much more under a future-looking methodology.

Perhaps.

But if you want to sell your company, it is what the buyer is thinking that is determinative.

It’s their money and the future is getting harder and harder to predict.

That’s not to say you can’t convince a buyer of the unique potential of your company, but again, it will generally only push them toward the upper end of the traditional multiple range.

Buyers today don’t generally pay for future potential, because they consider themselves critical to achieving it.

Why would they pay for something they would be creating?

Today, future potential is more important for increasing the probability of a deal, than for the valuation beyond the traditional multiple range relevant to your industry.

So what should a business owner do next if they are thinking of selling?

First and foremost, recognize that the process of selling your company is a time-, resource- and energy-consuming activity, which is not without risks to your company in terms of distractions and unforeseen effects on key employees, among many others.

For these reasons, you need to go into it with realistic expectations.

You don’t want to get into a long and bruising sale process that ends with you walking away from an inadequate and disappointing offer.

If you do the analysis upfront, and find you are not in the value range you want, you may be better off looking at ways to take the next six or 12 months, or longer, to increase your cash flow.

You may also look at alternatives to a sale, such as joint ventures, a staged exit via a financial partner, international expansion, or other strategic growth initiatives.

This way, you will be in better position to benefit from the improvements that can be made to your business — rather than the buyer.

Planning ahead will allow you to maintain control of the selling process to achieve your key objectives.

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

Brad Cherniak,
Partner
Phone 416 322 0993
Email brad@sapientcap.com

www.sapientcap.com

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