

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

Avoiding Value Killers In A Business Sale

10 Factors That Reduce The Value Of Your Business Sale Deal

“Learn from the mistakes of others. You can't live long enough to make them all yourself” - Unknown

If you are like most mid-market business owners, your business is your single largest asset. To get the most value for this asset it behooves you to understand what reduces the value of your business and minimize or eliminate these value killers. The purpose of this article is to help you identify the value killers in a typical business sale and help you take steps to get a higher value for your business.

Here are the key value destroyers in a typical business sale:

1. **Unplanned Sale:** The most expensive mistake that sellers make is not taking the time to plan a sale. If you have to sell in a hurry, the chances are pretty slim that you will get what you deserve. Planning for the sale should begin a minimum of one year and preferably three years before you need to sell. A good [M&A advisor](#) will start with a comprehensive presale plan and get an action plan in motion to maximize your return.
2. **Lone Acquirer:** The second most expensive mistake that sellers make is that they get themselves into a [single buyer auction](#). This typically happens when the seller got an unsolicited bid from an industry player. The other common situation is when a seller tells his banker or CPA or attorney that he is planning to sell and the well meaning counsel introduces the seller to someone who is looking to buy a business. Regardless of the reason, if there is just a single player determining the value of your business, you are very likely to get an offer that is well below the market price. Engage an M&A advisor to run a soft auction to get the best price and terms the market has to offer.
3. **Surprises:** Once you get the deal and terms you want make sure there are no surprises in the deal and you deliver to the acquirer what you promised. Any negative surprises can dramatically alter the deal as the acquirer starts questioning the surprise and begins wondering if there are any other issues with the deal and redoubles his/her due diligence. Negative surprises can lead to changes in price and terms of the deal and in many cases end up becoming deal killers. Anything that can be perceived negatively by the acquirer should be put on the table early and managed properly to reduce the downside risk.
4. **Losing Focus:** One of the most expensive mistakes that sellers make is taking their eye off the ball during the business sale process. This is especially true if the loss of focus leads to a drop off in the business performance. This tends to be not only expensive but traumatic as the buyer renegotiates price and terms of a deal that you think is “done deal”. Here again, a competent M&A advisor would buffer you from the minutia and stress of the deal and help you stay focused on running the company.

5. **Customer Concentration & Lack Of Recurring Revenue Streams:** Acquirers are nervous about businesses where a high percentage of business comes from a handful of customers. Ideally, no single customer should contribute to more than 10% of your revenues or profits. The best solution for this problem is to diversify the customer base. If that is not feasible, see if you can get the customers to commit to you with long term contracts. Lack of long term contracts, annual service/licensing fees, and other recurring revenue streams make business less desirable and results in a lower [EBITDA](#) multiple.
6. **Lack Of Management Depth:** Acquirers buy a business that they hope will be fully functional and growing *after* the sale. It is tough for the acquirer to place a high value on your business if you are the sole decision maker in the company and the business depends largely on your skill set. Developing your staff so that they can run the business when you are gone can pay big dividends when it is time to sell. If possible, start working on staff related issues at least a year before you plan to start the sales process.
7. **Poor Financial Records:** To many acquirers, poor bookkeeping means increased risk and conveys a lot about how the business was run. Having a set of clean, easily auditable books inspires confidence and helps during the due diligence and negotiation process.
8. **Poor Legal Records & Weak Contracts:** Having poor legal records and having contracts without teeth is a sign of weakness. How well is your intellectual property protected? Are all your independent contractor agreements signed and readily available? Are you locked to your landlord with 5% raises for the next 10 years? Can your suppliers stop servicing you at the drop of the hat? Can your customers drop your line at their whim and fancy?
9. **Lack Of Confidentiality:** Lack of confidentiality about the sale may mean that your competitors may use the uncertainty to their advantage. Customers and employees may be concerned about the uncertainty and leave you. Loss of a key employee or a key customer can be devastating to the company's value. If you are concerned about your key employees leaving you, you may want to consider employment contracts, stock grants and other incentives that give them a reason to stay long term. Beware of the cost of doing this and the impact on the bottom line.
10. **Inexperienced Deal Making Team:** A typical mid-market acquirer is an experienced corporate entity with professional M&A advisors, lawyers, CPAs, and industry experts on their team. Lack of a good team that can balance the experience of the acquirer can be very expensive. Can your transaction management team get a [good deal on price and terms](#) for you? Can your team overcome the aggressive steps taken by the acquirers during due diligence to drive down the value? Can your team make sure the deal closes on time and does not drag out endlessly?

The most important take away from this article should be that the process and approach to deal making also has considerable impact on the [perceived value](#). Avoiding the value killers mentioned above will give you an upper hand during the negotiation process. If your business's [EBITDA](#) is \$3 million, the difference between being paid a multiple of 4 and a multiple of 6 is \$6M in pre-tax earnings. Not bad for doing a little bit of homework!

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