

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

## **How to Sell Your Distribution Business**

### **10 Step Plan To Exit A Mid-Market Distribution Business**

“He who fails to plan, plans to fail” – An old proverb

You have worked hard for many years to build your distribution business. It has provided you income, satisfaction, prestige and purpose. Now is the time to do one final deal on the business and exit your business while making sure that that you get what you deserve. A mid-market distribution business, the type of business you have, is typically characterized by strong customer relationships, good logistics and material management system, moderate amount of equipment, and sometimes a large amount of inventory. This combination of assets creates a unique set of challenges when it is time to sell.

Here is a 10-step plan to maximize your return on the sale of your mid-market distribution business.

1. Be aware that for a distribution company with a valuation in the \$3 million to \$100 million range, funding from the Small Business Administration is not feasible and there are very few individual buyers capable of financing this type of deal on personal credit. The most likely acquirer is another private company, a public company, or a PEG (see “[Is Private Equity The Right Option For Your Business](#)”). These are professional buyers who have experience from multiple deals. Hire a competent M&A advisor or an investment banker to bring deal making experience to the table. Acquirers think in terms of multiples of EBITDA for comparable companies when it comes to valuation. A good M&A specialist will help increase the EBITDA, ratchet up the multiple, and expose the strategic value of the business to get you more for your business. An M&A Advisor will also be keenly familiar with the tradeoffs necessary to maximize your after tax proceeds.
2. Check if your corporate structure is the appropriate one for a business sale. Are you a C-Corp? S-Corp? LLC? Do you have multiple entities with multiple purposes? Regardless of the type of entity you have, if your distribution company has a large depreciated asset base, depreciation recapture may be a big issue for you. For distribution companies with a substantial amount of assets, being a C-Corp can be a major tax disadvantage as most acquirers prefer an asset sale to a stock sale. In a [C-Corp asset sale](#) you get taxed twice – once at the company level and once at the individual level! For most distribution company owners, it is worth getting your M&A advisor to fight for a stock sale.
3. Make sure your books are in order and your financial statements are compiled, reviewed or audited as may be appropriate for your business. Your current bookkeeping practices and tax structure may be designed to keep your taxes low on an operating basis but they may not be right for exiting your business (see “[What Every Business Owner Needs To Know](#)”).

[About Taxes & Valuation](#)"). If your CPA firm does not have any deal making experience, consider working with a firm that has the experience. In mid-market transactions, good tax advice may be worth hundreds of thousands, if not millions, of dollars.

4. Retain the right attorney for the deal. An attorney with transactional experience as opposed to litigation experience is more likely to help put together a successful deal. Many deals collapse due to attorneys who are not familiar with transaction negotiations.
5. Understand how your competition is performing and how you measure up. Some of the value in the deal comes from the acquirer's perception of how you rate in your peer group. How good are your profit margins? How about inventory turns? Is your equipment outdated? Do you have a lot of dead inventory on the books? Excellent companies get excellent valuations and mediocre companies get mediocre valuations. A competent M&A advisor can also help package your company to get the best deal out of it.
6. Reduce risk by diversifying the customer and supplier base. What percent of your business is tied to one customer? What percentage is tied to the top 5 customers? What percent of your business is under contracts? Are they long term? How much of your business is recurring? Do you have any maintenance contracts? How dependent are you on one supplier? Do any of the supplier contracts provide meaningful exclusivity?
7. Understand and have a documented plan for your growth. A good growth plan makes sales projections more credible. How do you plan to grow? Wider product lines? More services? Increasing geographic coverage? What part of your business is online? How good is your website? Do you do business outside of the immediate geographic area? What differentiates you in non-local markets?
8. Take steps to ensure that your distribution business transitions easily to the acquirer. Do you have a reliable sales team or do the customer relationships begin and end with you? What can you do to ensure the customers and suppliers will continue to stay with the business after the business sale? Are your contracts being written so that they can stay with the business regardless of ownership changes?
9. Do you have any known latent liabilities? Key employees or customers threatening to leave? Legal actions? Workers comp issues? ESOP issues? Do you have reasonable insurance coverage or are you exposed to that one shipment or warehouse catching fire and taking you down with it? Can you convert some of the liabilities into assets? For example, can you convert your product supports liability into maintenance contracts with revenue streams?
10. Be cognizant of the fact that business valuations are not written in stone and there is a huge variability in what you can get for your business (see "[The Myth Of Fair Business Valuation](#)"). The more you would like to get for your business, the more planning and work your deal making team needs to do and the longer it is likely to take. Address potential negatives before putting the business up for sale. If not, discuss these with your M&A advisor to make sure that they do not become a drag on valuation or become deal killers. Addressing these issues is especially important if you are seeking a tax advantageous stock sale.

Plan early if you want to maximize your return. Good luck with your business sale and let us know if we can help you.

Chak Reddy is a Mergers and Acquisitions Advisor with Elite Mergers & Acquisitions, Inc. [Elite Mergers & Acquisitions](#) specializes in selling and recapitalizing businesses with revenues between \$5 million and \$100 million - Businesses too large for business brokers to adequately handle but too small for the national M&A firms. Mr. Reddy is a business M&A and Marketing expert, and is the chief deal maker at Elite. You can reach Mr. Reddy at 916-220-3052 or by email at [creddy@elitemanda.com](mailto:creddy@elitemanda.com) .

**For assistance with selling or recapitalizing your mid market company, contact:**

Chakradher (Chak) Reddy

Elite Mergers & Acquisitions Inc

[creddy@EliteMandA.com](mailto:creddy@EliteMandA.com)      [www.EliteMandA.com](http://www.EliteMandA.com)

2260 E. Bidwell St #1114, Folsom, CA 95630

Ph: 800-335-3068; Fax: 888-502-3817

*Disclaimer: This document is for informational purpose only and should not be construed as tax or legal advice. Please contact your CPA/attorney for advice on your specific situation.*