

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

How to Sell Your Manufacturing Company

10 Step Plan To Exit A Mid-Market Manufacturing Business

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

A mid-market manufacturing business is typically characterized by a differentiated product line, patented or specialized products and processes, strong customer relationships, long term contracts, recurring revenue streams, excellent customer support, reputation for quality, extensive/specialized manufacturing equipment, and sizable amount of inventory and work in process. This combination of assets creates a unique set of challenges when it is time to sell.

You have worked hard for many years to build your business. When it is the time to exit your business you need to make sure that that you get what you deserve. Here is a 10-step plan to maximize your return on the sale of your mid-market manufacturing business.

1. Be aware that for a manufacturing company with a valuation in the \$3 million to \$100 million range, 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? For manufacturing companies with substantial asset base, being a C-Corp can be a major tax disadvantage. In a [C-Corp asset sale](#) you get taxed twice – once at the company level and once at the individual level! Regardless of the type of entity you have, if your company has a large depreciated asset base, depreciation recapture may be a big issue for you. For most Manufacturing company owners, a stock sale is the preferred way to go.
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 profit margins or Return On Net Assets (RONA) compare with the industry. Some of the value in the deal comes from the acquirer's perception of how you rate in your peer group. The manufacturing industry is asset intensive and acquirers prefer high margin niches. Are your systems sophisticated or outdated? No professional buyer wants to pay a premium if your assets are not performing and your margins are low. Excellent companies get excellent valuations and mediocre companies get mediocre valuations. A competent M&A advisor can help package your company to get the best deal.
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 revenue stream is under contract or recurring? Are they long term? Do you have any maintenance contracts? Do any of the supplier contracts provide meaningful exclusivity? How dependent are you on one supplier?
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 service contracts? 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 manufacturing business transitions easily to the acquirer. Do you have a reliable sales team and customer support 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 with your M&A advisor to make sure that they do not become a drag on valuation or become deal killers. Addressing the negatives 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 California Central Valley businesses with revenues between \$1 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.

