

FOR EXECUTIVES SEEKING TO BUY, SELL, OR RECAPITALIZE BUSINESSES

Waiting For The Big Sales Contract To Come Through Before You Exit Your Company

When Is It The Right Time To Sell My Company?

“All good things arrive unto them that wait - and don't die in the meantime” – Mark Twain

We recently had a client who had intentions of selling his business for a long time but was unable to decide when to start. His big dilemma was that he was expecting to be rewarded a government contract and believed that his business would be worth substantially more once that happened. The seller did not want to put the business in the market until the contract came through. Sounds like the right thing to do, doesn't it?

Our advice in this and similar situations is for the business owner to consider the trade-offs of starting the business sale immediately as opposed to waiting until the “big sale” closes.

First, let's look at this type of contract from a potential acquirer's perspective:

- If the company that is being acquired has recently landed a big contract, how desirable is it and how much life is left in the contract?
- If the company has not gotten the contract but is likely to get it, what could it be worth?
- Is this contract potentially a large percent of the company's revenues and does the contract pose a material risk to rest of the company if something were to go wrong?
- What is the economic benefit of it going forward? Is this contract a sustainable one or is it more of an aberration?
- Can the contract be leveraged into something bigger and better?

Now, let's look at the contract from the business owner's perspective:

- What is the lead time for the contract? Is it 6 months? A year? Longer? Assuming delays or disruptions, which are common for big contracts, does the business owner have the time?
- What if the business owner does not get the contract or, worse yet, the process drags on? How will it affect the company's operations? How long can the seller wait to recover?
- For most companies, the sales pipeline is almost always bigger than the current backlog. What are the chances that this contract will materialize or that there will be another bigger deal on the horizon after this deal? What does history say about how the company grows?
- The time it takes to sell a mid market business is typically about a year. If the business owner waits for the contract to put the business in the market, how much of a residual value will the contract have, post close?

- Between now and the anticipated close date of the business sale, is the competition getting stronger? Is there new competition? Are there deep pockets moving into the niche and threatening to make it more difficult for existing players? Does the business owner who is planning on an exit have the energy and drive to take on the new competition?
- How about the market? Are there any fundamental changes that are likely to happen over the next few years? Are there big investments needed to continue growing?
- Is there any potential upside an acquirer can bring to the deal? Is it more likely that the company will get the contract with the current management or with the acquirer?

So, what should the business owner do once the trade-offs are understood? The critical element to consider in this situation is the reason why the business owner wants to sell the business in the first place. Does the business owner not have the energy to continue driving the business aggressively? Is he/she under any time pressure for health, personal, or other reasons? Does the future look brighter now compared to what it will be after the contract? Does the owner not have the deep pockets or risk tolerance necessary to drive the business to the next level? Does he/she need the backing of a larger company or a PEG to continue to grow? Whatever else the reason may be, is it still valid? If the answer to any of these questions is "yes", now is the time to put the business sale process in motion.

If you are in a similar scenario, the faster you attract the right acquirer, the better your chances are for a more favorable outcome. A competent M&A advisor can get the right acquirers to the table - the acquirers who are willing to pay for the future. The payout may not be upfront cash and could be an earn-out based on you winning the contract or generating the revenue growth. The measurement and payout could be any terms that are mutually acceptable. While the M&A advisor negotiates the deal for you, you can focus on making sure that contract comes through and other attractive deals in your sales pipeline materialize. If the acquirer is a name brand or a PEG with deep pockets motivated to drive the growth, your earn-out could be worth a lot more than it would be if you were running the business all by yourself.

In this particular case, the seller needed to be done with his business sale within 18 months due to his own personal reasons that had nothing to do with the business. The choice was clear!

When it comes to waiting for a big sales contract before you sell your business, consider the trade-offs before you make a decision.

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