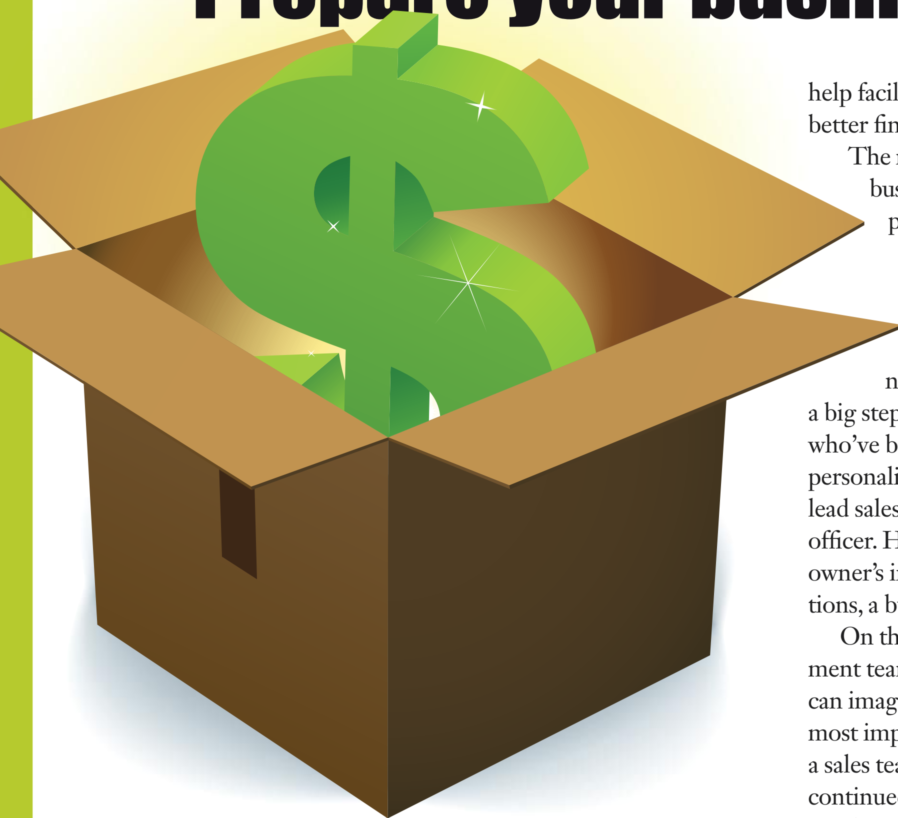
HOW-TO

Prepare your business for sale



BY RON EDMONDS

Preparing a business for sale usually isn't one of a landscape contractor's highest priorities for two reasons: A Green Industry business owner usually doesn't start his business with the goal of selling it, and the complications of a daily business operation often keep business owners from planning for the future effectively.

Nevertheless, business owners have to confront the reality of needing to sell or transfer their business. All owners will sell their business, transfer it to a family member or liquidate their interest, planned or unplanned, during their lifetime or at the time of their death.

Often, the need to sell is triggered by unforeseen circumstances, such as death, disability or divorce, which might add pressure and make effective planning and decision making difficult. Basic steps taken in advance will help facilitate a smoother process and likely produce a better financial result when the time comes to sell.

The most important thing to do when preparing a business for sale is keep it growing and operating profitably, generating consistent, positive cash flow.

Team dynamics

Another key issue is structuring the business to thrive without the owner involved. That's a big step for many Green Industry business owners who've built their businesses around the talents, skills and personality of the owner. The business owner often is the lead salesman, operations supervisor and quality control officer. His name is often the name of the business. If the owner's involvement is crucial in terms of sales or operations, a buyer likely will be wary of an acquisition.

On the other hand, if the business has built a management team and has depth in operations and sales, a buyer can imagine taking over the operation and retaining its most important assets—its people and customers. With a sales team and system, a buyer can see a pathway to continued growth and profitability, making the business much more attractive.

An objective look

It's a sound idea to take an objective look at the business and consider what attributes it has that would make it attractive to you if you were a potential buyer. Focus on what you can affect positively in the period before a sale is made.

Identify the areas that will be most attractive to likely buyers and emphasize them. In many cases, buyers will put a premium on recurring revenue, such as contractual maintenance, lawn care and irrigation service revenue. Unless you have significant lead time, it's not practical or a good idea to change the focus of the business completely, but it might be possible to make changes that enhance the recurring revenue components.

Additionally, by implementing effective systems, you might be able to make theoretically nonrecurring revenue have characteristics of recurring revenue. For example, although design/build projects aren't recurring revenue, if you have an effective system for generating new design/build projects on an ongoing basis, that segment of the business can be attractive still.

Financial focus

Also address the quality and timeliness of financial information. Sit down with your accountant and discuss your financial statements, focusing on what can be done to improve their quality and timeliness. A buyer will be wary when the financial statements he's given are full of errors. If financial reports aren't timely, or it takes a long time to respond to a buyer's questions, buyers often will lose interest.

Look at your balance sheet and consider how much working capital is tied up in the business. Managing the business to minimize working capital (mostly accounts receivable minus accounts payable) often will increase the value of the business, even if working capital stays with the seller. The

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less money a buyer will have to inject into the business as working capital after a sale closes, the more the business will be worth to him.

Another important step is identifying potential roadblocks to completing a transaction and working to resolve them. Examples of potential roadblocks include unpaid taxes or unfiled tax returns. In many cases, these issues won't derail the deal if they're identified and addressed. However, if a buyer finds this kind of issue during due diligence, his confidence will lessen. Another potential roadblock is unresolved litigation. If possible, these matters should be resolved. At a minimum, they should be discussed openly with the potential buyer so their impact can be evaluated and a solution can be found.

THE MOST IMPORTANT THING TO DO WHEN PREPARING A BUSINESS FOR SALE IS KEEP IT GROWING AND OPERATING PROFITABLY, GENERATING CONSISTENT, POSITIVE CASH FLOW.

One more potential roadblock is ownership, which should be made clear to the buyer. Are there former partners who, legally, still retain an interest in the business? Another problem can arise from promises of equity ownership that might have been made to a key employee. Such promises often are forgotten by business owners, but rarely by the key employees to whom the promise was made. If these issues emerge late in the sale negotiations, they're more difficult to resolve without unexpected costs, difficulties and delays.

QUICK TIP

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Consider impressions

Another important step involves facilities and equipment. Do they present a favorable impression of the business and its operation? For example, a junk pile of old equipment somewhere behind the main warehouse facility presents a generally negative impression, and it might raise questions in a buyer's mind about potential environmental liabilities.

Cluttered and disorganized storage facilities present a negative impression, even if the facilities aren't part of a proposed transaction. The condition of facilities and equipment will affect a buyer's perceptions of the value of the business, especially if he perceives a significant amount of deferred maintenance that will have to be addressed after the transaction is closed.

As you plan for the sale of your business, assemble your team of advisors—your lawyer, accountant and merger-and-acquisition advisor. Make sure they're deal makers, not deal breakers. Your team will guide you through the process and help you avoid mistakes.

Taking steps to ready your business for sale often will improve the value of your business and its marketability. Preparation can help increase the sale price of your business and make it more likely to sell within a reasonable time frame. LM

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