THEBENCHMARK

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Timing is everything, but be careful

Right now your phone probably is ringing with every "business broker" and "deal guy" saying they have a deal for you. Sound familiar? Are you ready to sell? The industry has been buzzing as word spread about a mega deal between ValleyCrest Landscape Cos. and the Brickman Group.

The fact is activity is picking up and so are business valuations. What information can you trust? How do you evaluate a "sale" pitch for your company?

Ask for help and, as the economy continues to improve, think about a 12- to 24- month window for planning an exit. Here are several factors to consider.

Revenue: Business mix still matters. More than 60 percent of your revenue should come from maintenance and turf care contracts. This includes enhancement sales for contract customers. Sales need to be trending up, and you should have retention better than 85 percent. It's important to be able to present department financial statements showing revenue and expenses. Depth in your sales team (i.e. salesman besides an owner) and a strong customer relationship management (CRM) system are big pluses.

Earnings: An adjusted earnings before interest, taxes, depreciation and amortization plus add-backs (EBITDA) of 15 percent or better puts you in the driver's seat. This equation is easy to define with the right guidance. It's important to understand what "add-backs" are legitimate and defendable. You must "recast" your operating profit for each fiscal year, including the most recent trailing 12 months. Your 2014 and 2015 projections must be defendable. This means don't tell me you're going from an adjusted EBITDA of 12 percent to 18 percent in one year.

Strong balance sheet: Low debt and strong working capital will enhance the amount of total purchase price you net. Capital more than a working capital requirement (5 percent to 8 percent of revenue) could be added to your purchase price. This is a highly negotiable item, and it's often where sellers leave money on the table.

Don't underestimate the negative impact of an old fleet and worn equipment. Buyers will cut some or all of a depreciation expense (add-back) if they need to make large purchases to update your fleet and equipment. You should spend a minimum of 2 percent to 3 percent of revenue on fixed assets to maintain a good fleet, etc.

Secondary markets: Small- to medium-sized markets (think: Nashville, Tenn.; Greenville, S.C.; Charlotte, N.C.; Richmond, Va.; and Cleveland) are getting interesting and could be attractive to the right buyer. Less competition from the "big boys" on labor resources, pricing and quality makes operating a branch or satellite in a smaller market more appealing. Don't discount your opportunity to get something done just because you're not in Texas, Florida or California.

Cost of procrastinating: For those of you who believe your window is three to five years until you get out, consider and calculate what you gain in dollars by operating longer. Items that may cost you purchase price dollars in a deal with bad timing include: tax increases, erosion of valuation multiples, fuel cost increases, insurance issues, a singular buyer and limited availability of labor to support growth.

Continued role of owner: Plan to sign an employment agreement for one to three years. It's important you're ready to work for the buyer. Smooth customer and employee transitions are a must and you'll be the person expected to help. This is mentally exhausting, and you'll have different opinions and philosophies. Don't underestimate the difficulty of this task. Your deal structure will be key for peace of mind.

Exiting your business is emotional and difficult. Assemble a plan that quantifies your options and takes emotion out of the equation. Now is the time to get started with a simple business valuation and net cash projection. Deal structure is vital, meaning when and how you'll get your money and with what strings. Timing is everything, as they say, but be cautious of jumping in if you don't understand the game or know your company's value equation.