



Position your company for maximum value

Invest in the ongoing growth and development of your business.

Don't cut corners in management or maintenance.

By Jim Dwyer

YOU'VE WORKED HARD and built up a successful family business. Now you are considering selling your company—perhaps spurred by thoughts of retirement or eagerness for a new opportunity. What steps should you take to ensure it all goes smoothly and to your best financial benefit? Based on my experience working with family business owners, here is some advice on best practices for those contemplating a sale.

Invest in your company's ongoing development

1. Don't skimp on management. A strong management team offers significant advantages to business owners. These include the technical and functional expertise needed to grow and control the company, depth to provide reasonable back-up should someone leave or become disabled, and mitigation of key person risk in the eyes of corporate buyers.

In far too many family companies, the owners opt to skimp on key management. Sometimes the decision is based on the owner's desire to maintain the status quo and keep the company at a level that's easier to supervise, and sometimes it reflects the owner's efforts to manage costs or overhead. These choices can be costly.

Companies that chronically underinvest in their management infrastructure may experience cost savings in the short term but typically receive lower multiples of earnings than their better-staffed peers. These businesses suffer from missed opportunities to grow and suboptimal per-

formance due to ineffective corporate structure, lack of quality or financial controls, and forgone opportunities in the marketplace. In addition, these undermanaged entities seem more prone to significant liabilities that detract directly from value, such as the need for environmental remediation.

These shortcomings will manifest themselves during a sale process and will likely have a negative impact on value. In addition, lack of focus on management can leave a company with no depth in its organization chart; if key individuals get sick or injured, the company will be left in a vulnerable condition or resigned to a hastily arranged sale on suboptimal terms.

2. Maintain your physical assets. Companies that fail to adapt to new or improved manufacturing, assembly or distribution technologies often struggle to meet ever more rigorous customer quality or delivery standards. Their growth potential is limited because they are unable to adapt to changing market conditions and operate at an uncompetitive cost structure. And skimping on maintenance can have serious safety and environmental implications.

When a company is put up for sale, its appearance is important. If the plant's roof leaks, the packaging facility is dirty, the parking lot is crumbling or employee safety protections have been neglected, the company will not make the kind of impression on a buyer that supports the highest achievable sales price. In particularly dire situations, buyers may wonder whether they should buy the company or just take the customers when the target company goes out of business.

3. Get outside advice. As your company grows, you should identify and consult qualified legal, tax and accounting advisers. Skilled legal advisers will help ensure that key corporate assets such as leases, intellectual property, product licenses, and customer or supplier contracts are property structured. These can have a sig-



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nificant impact on value when it comes time to sell.

Effective corporate tax planning yields benefits through the life of the company and enables business owners to manage tax liabilities when the company is sold. Similarly, reputable accountants can provide guidance on effective financial controls, which can enhance transparency for family business owners; facilitate timely closing of the company's books on a monthly, quarterly and annual basis; and provide protection from fraud. Additional benefits include guidance on common industry accounting practices and use of accounting policies that are in accordance with GAAP. These last two issues take on special importance when the sale of the company is contemplated. When our firm is approached by family business owners considering selling their companies, we advise them to invest proactively in their outside accounting services. If they currently have compiled financial statements, we suggest a review; if they have reviewed statements, we advise them to consider an audit.

Avoid common pitfalls

Family business owners sometimes fail to grasp that as nice as a buyer may seem in the initial meetings, the buyer has a fiduciary duty to its shareholders to buy a company at the lowest price and most advantageous terms that it can achieve.

Business owners occasionally make the mistake of sharing unadjusted financial statements with a prospective buyer. Typically, these do not present what the seller's business can really earn for the buyer and thus make it more difficult for the seller to maximize value. An investment banker can help by producing a memoran-

dum describing the client's key attributes and adjusted financial performance along with enough information to enable buyers to put forth an initial bid.

Another common mistake made by business owners is to entertain acquisition discussions with a single buyer. It's preferable for the seller to structure a competitive process that forces potential buyers to come forth with the highest offer and best terms available.

Working together with the business owner, the investment banker, attorney and accountant should gather all relevant due diligence information on the family company. This information can be catalogued and stored physically at the offices of the seller's counsel or accountant, or it can be scanned and archived online in a secure virtual data room.

The benefits of a well-organized data room are significant. It conveys to buyers that the business owner is on top of the myriad details of the business. This translates to a perception of lower risk to the buyer, which in turn can support higher value and better terms for the seller. In addition, gathering key documents ahead of time can speed up the due diligence process and eliminate potential delays to closing. The shorter the time to closing, the smaller the risk that an unforeseen event derails the transaction and the sooner the seller gets his money.

Building value in tough times

Proper preparation of your company is especially important during difficult market environments like the one we are in now. The steps described above will help family business owners to build value in their companies over time and to realize maximum value upon the sale of their businesses. FB