MATERIAL HANDLING WHOLESALER

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The Ten Commandments of Selling Your Material Handling Dealership

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1. THOU SHALT NOT WAIT TOO LONG.

Have you ever heard, “I sold my business too early?” Compare that with the number of times you’ve heard somebody say, “I should have sold my business two years ago.” Unfortunately, waiting too long is probably the single biggest factor in reducing the proceeds from the sale of a privately held business. The erosion in business value typically is most pronounced in that last year before exiting. The decision to sell is often times a reactive decision rather than a proactive decision. An individual who spends 20 years running their business and controlling their outcomes often behaves differently in the exit from his business. The primary reasons for selling are events such as a serious health issue, owner burnout, the death of a principal, general industry decline, or the loss of a major customer. Exit your business from a position of strength, not from the necessity of weakness. Don’t let that next big deal delay your sale. You can reward yourself for that transaction you project to close with an intelligently written sale agreement containing contingent payments in the future if that event occurs.

2. THOU SHALT BE PREPARED PERSONALLY.

We all create business plans both formally and informally. We all plan for vacations. We plan our parties. We need to plan for the most important financial event of our lives, the sale of our business. Typically a privately held business represents greater than 80% of the owner’s net worth. Start out with your plans of how you want to enjoy the rewards of your labor. Where do you want to travel? What hobbies have you been meaning to start? What volunteer work have you meant to do? Where do you want to live? What job would you do if money were not in issue? You need to mentally establish an identity for yourself outside of your business.

3. THOU SHALL PREPARE THY BUSINESS FOR SALE.

Now that you are all excited about the fun things you’ll do once you exit your business, it’s time to focus on the things that you can do to maximize the value of your business upon sale. This topic has enough content for an entire article; however, we will briefly touch upon a couple of important points. First, engage a professional CPA firm that knows the industry to do your books. Buyers fear risk. Audited or reviewed financial statements from a reputable accounting firm reduce the perception of risk. Start to delegate management activities immediately and identify successors internally. Buyers want to keep key people that can continue the momentum of the business. Analyze and identify the growth opportunities that are available to your business. What new products could I introduced to our existing customer base? What new markets could utilize our products? What strategic alliances would help grow my business? Capture that in a document and identify the resources required to pursue this plan. Buyers will have their own plans, but you'll increase their perception of the value of your business through your grasp of the growth opportunities.

4. THOU SHALT KEEP THINE EYE ON THE BALL.

A major mistake business owners make in exiting their business is to focus their time and attention on selling the business as opposed to running the business. This occurs in large publicly traded companies with deep management teams as well as in private companies where management is largely in the hands of a single individual. Many large companies that are in the throws of being acquired are guilty of losing focus on the day-to-day operations. In case after case these businesses suffer a significant competitive downturn. If the acquisition does not materialize, their business has suffered significant erosion in value. For a privately held business the impact is even more acute. There simply is not enough time for the owner to wear the many hats of operating his business while embarking on a full-time job of selling his business. The owner wants the impending sale to be totally confidential until the very last minute. If the owner attempts to sell the business himself, by default he has identified that his business is for sale. Competitors love to get this type of information. Bankers get nervous. Employees get nervous. Customers get nervous. Suppliers get nervous. The owner has inadvertently created risk, a potential drop in business and a corresponding drop in the sale price of his business.

5. THOU SHALT GET MULTIPLE BUYERS INTERESTED IN THY BUSINESS.

The "typical" business sale transaction for a privately held business begins with either an unsolicited approach by a competitor or with a decision on the part of the owner to exit. If a competitor initiates the process, he typically isn't interested in overpaying for your business. In fact, just the opposite is true. He is trying to buy your business at a discount. In our mergers and acquisitions practice the owner often approaches us after an unsolicited offer. What we have found is generally that unsolicited buyer is not the ultimate purchaser, or if he is, the final purchase price is, on average 20% higher than the original offer. Unfortunately, in the material handling business you have limitations on how you can sell your business. Dealer service agreements normally spell out the "transfer" procedures you have to follow. Consequently, you have a limited number of potential buyers; dealer selling the same line, dealer selling competing line, management, ESOP (to some extent) and a manufacturer. You will not see a full-blown auction for your business, but you should be able to get a better price than if you just have one buyer.

6. THOU SHALT HIRE A MERGERS AND ACQUISITION FIRM TO SELL THY BUSINESS.

You improve your odds of maximizing your proceeds while reducing the risk of business erosion by hiring a firm that specializes in selling businesses. A large public company would not even consider an M&A transaction without representation from a Merrill Lynch, Goldman Sachs, Solomon Brothers or other high profile investment banking firm. Why? With so much at stake, they know they will do better by paying the experts. Companies in the $3 Million to $50 Million range fall below their radar, but there are mid market M&A firms that can provide similar services and process. Generally when you sell your business, it is the one time in your life that you go through that experience. The buyer of the last company we represented for sale had previously purchased 25 companies. The sellers were good business people, knew their stuff, but this was their first and probably last business sale. Who had the advantage in this transaction? Engaging a professional M&A firm that specializes in your industry can help balance the M&A experience scales, deal with bankers, provide a comfort level to key vendors, work out contingent payment programs, and provide industry specific business models.

7. THOU SHALT ENGAGE PROFESSIONALS EXPERIENCED WITH BUSINESS SALE TRANSACTIONS.

You need a professional team that can match the buyer's team's level of experience with deal structure, legal, and tax issues. If both sides use experienced professionals to process the transaction it normally gets closed sooner with significantly less aggravation. Experienced professionals know all the potential problems that can arise and how to deal with them. They know what their options are in almost every case. Normally if they have an objection to some point in a contract, they will offer potential solutions to solve it. "Deal" professionals know their goal is to get the deal closed, not have negotiations terminated because every issue is a potential "deal breaker". Professionals with little or no deal experience tend to believe they have to take every word and issue "to the wall" to protect their client and thus tank the deal. Current advisors can take part in the process, but from the standpoint of reviewing what the deal team has put on the table. If you want to improve your chances for closing a deal an experienced deal team is a must!

8. THOU SHALT BE REASONABLE IN EXPECTATIONS OF SALES PRICE AND TERMS.

The days of irrational exuberance are over. Pricing you either heard about or saw related to deals in the late 90's are now few and far between. Strategic as well as other buyers are either very smart or do not last very long as buyers. Bankers have also tightened up, and deals put together in the late 90's could not get financed today. Dealerships still have value; it is just harder to get premium pricing. The trick today is to have a clear handle on the free cash flow generated by your business that is available to cover debt service and continued business growth. Once you have this figured out you can estimate what a buyer can pay in a lump sum, what potential installment notes the cash flow can handle and what, if any, contingent payments can be devised. Normally, a strategic buyer can pay the most if they can eliminate expenses in the process. Competing dealers wanting your market share may offer even more. Perceived new business can be covered with contingent payment programs. Operating agreements can be drafted to protect the seller through the term of the contract. As mentioned earlier, material handling dealerships are unique financial animals. An experienced industry deal team is best suited to deal with industry issues, vendor issues, tax issues, financing issues and cash flow modeling issues. Cash flow models are neat to see, but are not worth much unless you can prove them out. In short, an industry specialist selling your business will earn the fees you pay him/her.

9. THOU SHALT DISCLOSE, DISCLOSE, AND DISCLOSE, AND DO IT EARLY.

A seemingly insignificant minor negative revealed early in the process is an inconvenience, a hurdle, or a point to negotiate around. That same negative revealed during negotiations, or worse yet, during due diligence, becomes, at best, a catalyst for reexamining the validity of every piece of data to, at worse, a deal breaker. No contract in the world can cover every eventuality if there is not a fundamental meeting of the minds and a trust between the two parties. Unless you are lucky enough to get an all cash offer without any reps and warranties, you are going to be partnered with your buyer for some period in the future. Buyers try to keep you on the hook with reps and warranties that last for a few years, employment contracts, or non-competes that last, escrow funds, seller notes, etc. These all serve a dual role to reduce the risk of future surprises. If future material surprises occur, buyers tend to be punitive in their resolution with the seller. Volunteer to reveal your company's warts early in the process. That will build trust and credibility and will ensure you get to keep all of the proceeds from your sale.

10. THOU SHALT BE FLEXIBLE AND OPEN TO CREATIVE DEAL STRUCTURES.

Everything is a negotiation. You may have in mind that you want a gross purchase price of $13 million and all cash at close. Maybe the market does not support both targets. You may be able to get creative in order to reach that purchase price target by agreeing to carry a seller note. If the sale process produces multiple bids and the best one is $11.3 million cash at close. You may counter with a 7-year seller balloon note at 8% for $3 million with $10 million cash at close. If the buyer is a solid company, that may be a superior outcome than your original target because the best interest return you can currently get on your investments is 4%. Be flexible, be creative, and use your team to negotiate the hard parts and preserve your relationship with the buyer.

You may have spent your life's work building your business to provide you the income, wealth creation, and legacy that you had planned and hoped for. You prepared and were competitive and tireless in your approach. You have one final act in your business. Make that your final business success. Exit on purpose and do it from a position of strength and receive the highest and best deal the market has to offer.