By Robert L. Hulett

As a wall and ceiling contractor, you work very hard and take sizable risks regardless of whether you started your business yourself, bought it or inherited it. And, you probably ask yourself periodically if this is the time to sell it. There are days when some business owners would sell their company, maybe even give it away! On the other hand, the vast majority of subcontractors feel like they’re marrying off their daughter or son when they sell their business. More emotion than business is frequently involved in the decision. Before any decision can be made, you must ask. Why sell at all? The following are some of the most common reasons for selling:

BUSINESS REASONS. Sometimes it is more efficient, easier and therefore more profitable to operate two businesses together under one roof than it is separately. For example, a product or service developed by one company may be better marketed by another perhaps larger company. On the other hand, technological changes or poor economic conditions may make it impractical to operate a business in its present form and time doesn’t permit restructuring the company either from an operational or financial standpoint.

REDUCING RISK. Selling your company and diversifying your investments may result in a higher risk return relationship to the owners since closely held companies don’t always produce high enough returns to match the risk associated with operating them.

TAX CONSIDERATIONS. Sometimes estates would be better positioned if their assets were more liquid than that offered by an investment in a closely held company. Additionally, sales of closely held companies can be structured to allow for capital gain taxation or possibly tax-free exchanges which defer the tax to a future period.

Enhancing the Value . . .

Once you have decided you will sell, a number of questions arise such as: How do I sell my company? What is it worth to someone else? When do I sell and under what terms? To whom do I sell it and how do I find that person?

If your decision is to sell, an entire-
“The best time to sell is when you don’t have to sell, and the best price may not always be the highest dollar amount.”

ly new set of decisions need to be made, which requires a different perspective. One difficult step in selling your company is to look at the deal from the buyer’s perspective. In order to sell your business and have it succeed after the sale (which is important to you and which you should evaluate), a clear understanding of the buyer’s desires, operating ability, and financial capability.

When you make the decision to sell, there are a number of steps to be followed in concluding a successful sale which will provide some guidance to the questions that you will face.

By far the best way to present your company for sale is to prepare a short package called a business plan which explains the history of the company, its future, the markets the company serves, its manufacturing capabilities, its management, its strategic plans, its financial capabilities, its products or services, and the price and terms of the sale. The business plan should emphasize your strengths yet point out those weakness you feel could be improved upon without detracting significantly from the value of the company. The price and terms of the sale should be based on recognized methods of valuating companies and not just on what it’s worth to you from an emotional standpoint. Those recognized methods of valuation are adjusted book value (book value adjusted for appraisal increases and unrecorded liabilities), capitalized earnings, discounted future cash flow or comparable sales of similar companies.

Adjusted Book Value is based upon assets minus liabilities taken from the financial statements based upon historical cost. Added back or deducted from this number are additional values that aren’t recorded in the financial statements such as additions for Goodwill and Appraisal Increases of real estate or deductions for Unrecorded Liabilities.

The value for Capitalized Earnings is based on a multiple of current adjusted earnings to yield the desired rate of return to the buyer. For example, if the buyer wishes a 20 percent return on their investment, then net earnings multiplied by five is the amount a buyer would be willing to pay for that company in order to yield a 20 percent return. The earnings of the company must be carefully analyzed to determine if there are expenses or higher than necessary salaries charged to the company that could be eliminated in the future. These items should be added back to calculate adjusted earnings.

The value determined by the Discounted Future Cash flow method takes the cash flow of the company by
year in perpetuity and discounts it back to the present value to determine the current value that a buyer would be willing to pay for an investment that would yield those cash flows if the buyer wanted to earn a rate of return equivalent to the discount rate.

Value determined by Comparable sales of similar companies is based upon the value, terms and conditions of recent sales of companies that are similar to your company. In closely held companies, comparable sales value may be difficult to find but they can be determined.

Finding A Buyer . . .

After you have prepared the business plan, you should market your company for sale by riffling it to the most likely candidate first. Don’t use the shotgun approach—rather determine to whom your company would have the most value, and who might understand your company’s operations. Approach those people first. Shotgunning your company’s being for sale is not only unproductive but dangerous to employee morale and customer and supplier relations. The most likely candidate could be a competitor who wants to expand, a supplier or a customer who want to vertically integrate, an employee who understands the business or a group of investors. Each of these potential investors will place a different value on the business depending on their expectations of the future and their goals.

Preliminary Negotiations . . .

During this phase the buyer is determining whether or not to proceed with the negotiations. Frequent friendly visits occur with considerable exchange
of information between the two parties. It resembles a courtship in as much as the two are trying to decide if the other is to be trusted, if they can work together, if their attitudes toward business are similar, etc. Great consideration should be given to the terms of the purchase price requested by the seller in order that it take into consideration the desires, capabilities and restrictions of the buyer. Sellers should present the deal structured in a way you think it will make economic sense to the buyer while still achieving your objective. The best arrangement is achieved when both sides feel “they came out whole” from the negotiations and that they weren’t one-sided. If they are one-sided, then there will be increased risk that one side will not cooperate after the sale. Since most sales require both sides to work together after the sale, the better the relationship, the less the risk, for both sides.

Serious Negotiations . . .

During this phase many sophisticated alternatives of the original deal are discussed, such as should the sale be of stock or assets, should there be goodwill paid and in what form, cash or earn-out, is the goodwill in a form that can be deductible for Federal Income Tax purposes, will there be a non-compete, how will the financing be arranged, etc.

After an agreement in principle has been made, the attorneys for each side begin to formulate a written contract to evidence the sale. Also during this period, the buyer begins the “due diligence” period which is a period of time for the buyer to review in depth or audit certain information given to the buyer by the seller. It is the step in the process where the buyer satisfies himself that everything the seller gave him to make his decision is in fact true. That which can’t be proven by the buyer will usually be warranted by the seller in the contract.

Closing the Sale . . .

The closing occurs when the contract is prepared and the due diligence is completed. At this final meeting, the contract is executed, money changes hands, and the new owner takes over.

In summary, you have completed the sale of your company. The success of that sale will not be determined until the future, however, and your continued interest in the success of that business probably will not diminish if a deal has been concluded that is both fair to both sides and accomplishes both sides objectives. The best time to sell is when you don’t have to sell, and the best price may not always be the highest stated dollar amount. Allow yourself plenty of time to sell your company, since most sales take several months to complete. And finally, the process of selling or buying a company can be very complex at times; therefore, an investment in professional advisors to help you often increases your chance of a successful sale done on a confidential basis.