SBell Consulting LLC

Helping Companies Conquer
Their Financial Challenges

Pre-Sale Strategy – Positioning Your Company For Maximum Value

Companies owned by professional investors usually put in place a strategic plan to build their organization and its public profile. Their intent is to maximize returns upon the eventual exit of its investors. All major business decisions to pursue acquisitions or investment in facilities, geographic or product expansion, technology, systems, personnel, etc. are influenced by the short and long term goals of ownership and the strategic plan. The management team and their advisors are familiar with the preparatory steps necessary to position the company for an eventual transaction. They each play a part in building the company's profile so that it is appropriately positioned when it is time for an investor exit.

Other companies do not focus on exit strategies when making operating decisions. They apply their attention to day-to-day operations and building sustainable revenues and profits. While placing efforts in this direction is not an impediment towards an eventual exit, these companies may find themselves unprepared in the event that the sale of the company becomes a nearer term objective and need to gear up unexpectedly for a sale. Why do companies have these sudden changes in plans? It can be because of a turn in the financial markets, a recent sale of another similar company at an attractive valuation, changes in the goals of ownership or for other reasons. Whatever the reason, when a sale is the right next step, many companies are unprepared. They cannot just hang a for-sale sign and start the process. A company sale is a complicated, multi-step strategic effort. Some of these steps need to be performed well in advance of any internal or public communication of the intent to sell.

One significant pre-sale step involves determining the company's value and how to position the company's profile to have a sale process that maximizes that value. Prospective buyers will ultimately calculate the value of a company based on a multiple of its earnings (net income, EBITDA, adjusted earnings, cash flow, etc.). That multiple will generally be determined based on similar transactions in the industry for similar companies ("comparables" or "comps") and can span a wide range of multiples. But what is your industry and what companies in that industry have a similar business model that a buyer would associate as a comp? It may seem obvious to you but may not be as obvious to others.

A particular industry usually has a wide variety of product and service models within that industry. Valuation multiples within an industry can often span wide ranges. Companies with products or services that are considered commodities or have lower expectations for growth and profits will generally have comps at the bottom of the range of multiples. Companies that offer growth potential, a unique business model, or new technology, for example, may result in comps at the top of the range. But these lines of definition are not always clear. Your company may be similar in profile to one of these types, or you may find yourselves somewhere in the middle resembling both types of companies in different ways. That lack of clarity can be detrimental to a sale process. It allows prospective buyers to position your company where it is more advantageous for them. It is your responsibility to clear up the fog and paint a profile that is supportive of your positioning when your company hits the market for sale. It is important that as you plan your sale that you strategically build a company profile that is clear and concise and emphasizes the attributes of the higher comp companies when applicable.

Building a company profile to benefit from high comps is a strategy that requires planning, execution and time. You cannot effectively position your company for a sale if steps are not taken well in advance to maximize the most important and valuable traits of your business. These steps include updating your public footprint, promotional materials, company presentations, and most

importantly, making sure that management understands and promotes the key points of the profile that you have embodied.

Regarding your public footprint and promotional materials, your website is the most available public information for any buyer researching your company. Can you imagine how hard it would be to position your company in a sale process only to have contradictory information on your website or in your customer brochures? They need to be clear and supportive of your profile positioning. In addition, all of your other social media outlets need to be supportive of the profile.

Other areas that need to be conformed to the profile you are promoting include industry publications, analyst reports, press releases, and your company board, business and customer sales presentations. During sale diligence a prospective buyer will request various types of information including these presentations. They all must conform to the positioning to support the valuation multiple you are looking to achieve.

Last, management needs to talk-the-talk. The sale process starts with several layers of management presentations. The success of these presentations can be a decisive factor in whether a potential buyer is interested in moving to the next step of the process. The company profile that is presented at these presentations must be clear and convincing. Management must also be able to effectively answer probing questions regarding the profile positioning. As additional management members are brought into the process, they also must be able to clearly support the positioning.

During the sale planning process, a company may decide to solicit input and advice from outside advisors such as investment bankers. Bankers will have intimate knowledge of your industry and all of the public and private companies that may be potential comps. They can provide guidance to help you build a strategy to maximize value based on their knowledge of the comps. When going outside the company and bringing a banker into the fold, you need to be selective with who you speak with. You should only have these communications with advisors that you trust.

Building your company profile and getting your comps right can be the difference between hitting a home run and striking out in a sale process. Appropriate planning and execution are essential.

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