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## Winning strategies to close on the sale of your company

**B**usiness owners may be surprised to learn that most businesses held out for sale don't actually sell. Middle-market companies have a greater chance of selling than small businesses, but according to industry estimates the success rate is still below 50 percent. Deals fail to close for a variety of reasons or circumstances, but some common origins of deal demise can be mitigated or avoided if properly managed.

Common origins of deal risk include the upfront communication of alluring company prospects that can't be substantiated under scrutiny as the deal progresses. Deal risk also originates from delayed communication of pertinent negative facts. However, nondisclosures due to lack of seller awareness are among the most difficult of deal-risk circumstances from which to recover.

To illustrate, I recall a deal in which a former colleague auctioned the sale of a middle-market manufacturer. The company's product line wasn't a strategic fit with its parent company. It was a typical "non-core subsidiary" story that's usually well received by potential acquirers. This auction was no different and it proceeded smoothly — until the buyer conducted due diligence and discovered an undisclosed fact that the seller should have been aware of, but was not.

The discovery would have been manageable, if identified and handled upfront, but surfacing during due diligence amplified its significance. The seller was caught off guard and unprepared to effectively respond to the buyer's concern. The buyer deepened its due diligence, changing the tone from confirmatory to discovery. Indications suggested the buyer was navigating toward reducing his purchase offer. Additional discussions and analyses followed and the deal timeline was derailed.

Frustration prevailed and the buyer and seller went their separate ways. It was a reminder that even sophisticated sellers and their advisers can be burned by not following one of the basic fundamentals of selling a company — know what you're selling and know it better than anybody else.

■ **Know what you're selling.** Sell-side due diligence is a pre-emptive discovery process performed by sellers at the start of the sale process to get organized and gather the internal and external facts important to a buyer. Middle-market companies often work with



an adviser to conduct sell-side due diligence. Small-business owners are well served by simply rolling up their sleeves. Either way, the information you learn from this process is key to effectively positioning your company for sale, promoting a smooth sale process, or optimizing deal value.

At the most basic level, sell-side due diligence involves:

- Identifying and evaluating your company's strengths and weaknesses.
- Identifying and addressing issues of potential concern to buyers.
- Assessing the competitive landscape and your company's future prospects.

However, sell-side due diligence adds significant value when it reaches beyond a review of the books, facility, and other hard assets. Develop additional insight to your company's value proposition and increase the chances of successfully closing the sale by following these key steps:

■ **Identify intangible strengths.** Don't overlook intangible assets such as your reputation and brand quality, customer lists, distribution network, technical leadership, and intellectual know-how. These are key investment considerations and value drivers that will help attract buyers and maintain their interest throughout the sale process. Ideally, the largest component of purchase price will be derived from intangible assets and their contribution to enterprise value. In fact, it's often the combination of intangible assets and your future prospects that substantiate a purchase price beyond that of the fair market value of your hard assets.

■ **Demonstrate future prospects.** A comprehensive sell-side, due-diligence review considers your company's future prospects, such as opportunities for revenue growth, margin expansion, and cost reductions. It should also

consider external influences on your future prospects such as changing market conditions, emerging technologies, and new regulations. Be prepared to fully discuss your company's prospects and strategy to capitalize on its opportunities and navigate through the challenges. Buyers want to be comfortable in their understanding of the seller's future prospects and their translation to the projected pro forma.

■ **Justify financial projections.** Develop a clear financial roadmap that bridges historical financial performance with the projected pro forma. The underlying rationale should be clearly articulated and documented. Deals fall apart when the buyer feels the price originally agreed to is not supported by the facts made available during buy-side due diligence.

■ **Head-off buyer concerns.** Look at your company through the eyes of a buyer and develop strategies and action plans to mitigate or minimize any potential deal issues. Strive to avoid pre-sale quick fixes and instead focus on implementing and documenting updated practices that meet or exceed best standards for your industry peer group. Buyers will quickly recognize and dismiss balance-sheet dressing, yet reward actions that result in meaningful contributions to enterprise value.

■ **Solutions, not surprises.** Avoid surprising a buyer by disclosing upfront any potential issues of concern that you're not able to address prior to the sale. However, manage the potential impact and build credibility by being prepared to discuss the challenges and lead the buyer through a set of possible solutions. Otherwise, you risk conveying negotiating leverage and conceding deal value if you permit a buyer to lead the way through problem resolution.

In summary, performing an unbiased deep dive into your company and its prospects is essential to effectively positioning your company for sale, optimizing deal value, and avoiding common pitfalls that prevent a successful closing. Following the key steps of a structured and pre-emptive discovery process, such as sell-side due diligence, is a winning strategy to increase your chances of successfully closing on the sale of your company. □

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