Lakelet Advisory Group LLC

Focusing on Business Results

NEWSLETTER

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The ABCs of Selling Your Business

You're the owner of a company. You always thought that you'd hold on to the company forever. But did you really? We all know in the back of our mind, that we will pass on the company at some point. A strategically planned exit or transition doesn't wait for the time to sell. But where do you begin? One thing for sure, is the need to plan ahead, know what you want from the sale or ownership transition of your company and chose your buyer with care.

You hired the right people, made more good decisions then bad, and now the time to let go is here. You get your accountant to crunch the numbers and put a price tag on your company, you find a buyer, and they acquire your business, right? It sounds straightforward however; it's really anything but. As you well know, conducting business oftentimes is not linear. Selling a business is no different.

It's a process littered with challenges and oftentimes the seller is left feeling like they're on an emotional roller coaster. The company is the seller's baby, and always will be. You know the value is greater than the sum of its parts. And what is the buyer going to do with the company? Sounds like the exception, but it's not.

That's why before you move forward, it's vitally important to ensure you do in fact want to sell your business. At this moment, you may be thinking: of course I do! But consider this statistic: over 15% of companies that "truly" claimed to be for sale were not sold due to non-price issues. In other words, you can bring an owner to the altar, but in many cases he or she walks away even though price and conditions are met. And if you're one of the owners who reconsiders and backs out, then you've wasted significant time and resources for all parties involved.

Planning the sale or ownership transition of your business just makes good sense. It prepares you emotionally and financially in the event of life-changing circumstances or in a planned exit. Finding the right buyer, one that is amendable to your sweet spot, begins with engaging a strategic advisor.

So what does it mean to strategically plan to sell your company? Here are a few things to consider:

- Your company is likely one of your greatest assets – treat it that way, not like a personal piggy bank. It is one thing to have the company pay for your golf club membership – it's much more difficult to delineate employment of family members, entertainment, or other 'discretionary expenses.'
- Hire the right people, treat them equitably and discuss their future with the company. Oftentimes, the C-level executives or technically knowledgeable personnel are one of your greatest selling points. Don't discount the laborers, they represent your company and are a reflection of its worth.
- A rolling stone gathers no moss - reinvest and reinvent yourself. Make continuous improvement part of the company culture. Always look for ways to be the very best at what you do.
- Recognize when the company is at an inflection point – or better yet, plan administrative capacity thresholds much the same as you would physical infrastructure.

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- Perform forward-looking assessments, proactively engage an independent, objective business advisor.
- Book all activity, pay some taxes and don't get 'cute' when structuring transactions. By all means, fully utilize all legal and ethical means to the company's benefit, but don't put the buyer in a position that they have to perform undue forensic investigations.

At first read, these seem like sound advice for conducting business – not an exit strategy. The key is to always consider what course of action you take today in context of a sale at a future point in time. That's not always the same decision that would be made when considering the near-term direction of the company, but they don't have to be competing interests. When it comes time to bring on a strategic equity investor, sell the company or transition to another owner / family member, you will be well prepared to realize the maximum price with terms that are important to you.

Finding the right buyer begins with a clear understanding of what you want from the sale of your company. Here are some key considerations:

- Valuation – determining what your company worth is an art, not a science. Today's market is a seller's paradise, but it is still important to be realistic and attract the right buyers. Engage a certified business valuator with the expertise and experience to provide a value-added business valuation that holds up to due diligence.
- Your future with the company. After making the final decisions for a number of years, it is difficult to be a minority interest. However, with the right buyer – someone that recognizes your contribution and historical knowledge, it is entirely reasonable to have a satisfying role in the new company. If you are looking for a clean exit, look for a buyer with a network of resources to complement your existing management team. A strategic buyer – one that has a presence in your industry may be advantageous, but can also be incompatible culturally.
- Financial Terms. Are you prepared to put some 'skin in the game'? Buyout options, holding paper, or retaining an equity interest can signal your faith in the value of the company and its future financial return. Many times a company needs the expertise and resources to take the company to the next level. A minority equity interest offers the seller the opportunity to 'take a second bite out of the apple' when the company realizes the expected growth.
- Community involvement. Oftentimes companies are successful because they are good standing members of their community. A buyer who respects and is committed to retaining your standing in the community can go a long way in overcoming the inherently emotional issues that arise. Your name is likely synonymous with your company – a buyer that will act in a similar fashion with respect to your philanthropy can have a lasting impact for generations to come.
- Finally, get to know the buyer. Nothing overcomes challenges better than a solid understanding of the buyer as a person and how they conduct themselves in a business setting. Be willing to candidly discuss your business, its strengths, and its weaknesses. Be clear about your expectations and expect the same from the buyer.

Half-Year Scorecard - Why Wait for December 31st?

Does it sometimes feel as if you're spinning your wheels? You set ambitious goals in the new year and now you're well into the second half of the year and those goals are starting to look way out of reach. Don't panic. What you need is a half-year assessment.

These changes are so pervasive that making this type of the business plan a continual practice may be warranted. Take advantage of the calendar and readdress the position of the company vs. the goals previously set. These changes can potentially be for the better (exceeding the goals) or for the worse (major disruption or not achieving the goals). Not having a formal strategic plan is the worst situation to be in. *A failure to plan is a plan for failure.*

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Financial reporting and analysis are retrospective processes, so why wait until the end of the year to assess results and drive growth? Generally, year-end results are not available until late in Q1 of the following year, and relying solely on this data does not allow the organization the opportunity to assess performance on a proactive, continuous improvement (CI) basis. Strategic CI requires an accurate set of measurement / metrics and financial information – the information need not be annual, semiannual, rolling 12 month, or even quarterly. The key is timely, accurate information from which to gauge progress and determine where alternations may be beneficial.

Furthermore, it is imperative for management to understand how their organization performed during the first half of the year. Traditional revenue and cost analysis continues to be a rudimentary measurement of profitability. Metrics such as EVA, foot traffic, production by labor hour, sales calls to clients, and others, provide the underlying yardstick for performance measurement. The key is to preview, and not just review, performance. Additionally, when going through the process, focus on strengths, set challenging goals, and make it a productive exercise.

Entrepreneurs tend to be optimists in nature. Believing the next quarter is "the quarter." Placated by theories that improvement is around the corner, these reactions just stave off the admission that outside intervention is necessary. Attaining the acceptance of this will allow objectivity to take action. Objectivity is also critical in evaluating procedures and processes when there is not a crisis on the horizon. A fresh set of eyes providing an independent review should include benchmarking against like companies, industries, and geographic location. And professionals with operational expertise and financial acumen should perform it.

Businesses that have an organization-wide buy-in of strategic objectives are among those that thrive. A realignment of priorities to instill a collaborative understanding of performance measurements may be necessary. A period of flat production is an opportunistic time to shed holdouts unwilling to accept change. Communication of performance results – the results of the organization as a whole – along with clearly defined benchmarks and milestones provides motivation and increased efficiency. Performance efficiencies attained during slow-growth periods should be accomplished during periods of expansion and increased production.

A half-year scorecard provides for financial and non-financial metrics from internal and external perspectives. Benchmarking provides a yardstick for evaluating key performance measurements. This is especially true when budget to actual measurements are outliers on the scale of predictable results. Year-end analytics, even those that are prepared on a quarterly basis, are not providing the information when it is needed. A year-end analysis to communicate that milestones were not met, invites justifications rather than providing for innovation and a learning opportunity. A half-year scorecard will provide timely information that can be utilized to produce solutions while they are still pertinent.

Can Small to Mid-Market Firms Avail Themselves to Chapter 11?

Small to mid-size businesses (SMBs) face a host of challenges in the proportion of bureaucratic regulations, taxes, and permits, ad infinitum. SMBs constitute the vast majority of the U.S. economy. The U.S Small Business Administration statistics demonstrate this very fact.

- SMBs account for about half, or 56.1 million, of the nation's private workforce;
- Almost all firms with employees are small. They make up 99.7 percent of all employers nationally;
- Firms with fewer than 100 employees have the largest share of small business employment; and
- Nationally, small businesses created 2,175,253 positions. The biggest gain was in the smallest firm size category of 1-4 employees.

Despite the evidence that SMBs are the core of our economy, in reality they are not provided the same protection in bankruptcy as their "bigger brothers." Explore the fact that since 1990, on an annual basis, the Chapter 11 bankruptcies have decreased by over 64.5%. The process of SMBs entering and exiting a Chapter 11 is negligible. A debtor entering Chapter 11 only has a 6.5% chance of confirming and performing a plan, i.e., surviving as a rehabilitated entity according to uscourts.gov. The percentage of SMBs achieving a "successful" Chapter 11 is less than half of the aforementioned statistic.

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"The only source of knowledge is experience."
Albert Einstein

"What you are will show in what you do."
Thomas A. Edison

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The reason a Chapter 11 bankruptcy is so expensive, is because it involves two separate elements: a reorganization plan and a debt repayment plan. The reorganization plan has to convince the court and your creditors that you can turn a profit fairly soon. This plan must be detailed and supported by reliable research. Then, you have to show a type of budget where you outline how you can repay your creditors over the next several years. Undoubtedly, you will have to negotiate terms of the plan with the court and with your creditors. Then you'll need to account for the monthly filings.

At a minimum, if you have inexpensive attorneys and no disputes over your reorganization plan, you will probably pay at least $15,000 in total fees. However, it is much more likely total costs and attorney fees for a Chapter 11 bankruptcy will exceed $100,000. Again, this amount can vary greatly depending on the attorney's hourly rate and the number of disputes filed by creditors.

Perhaps the answer is to development a Chapter 11(a) and 11(b) – one for the SMBs and the other for their "bigger brothers." If the objectives of a bankruptcy are:

- Fair settlement of the legal claims of the creditors through an equitable distribution of debtor's assets; and
- To provide the debtor an opportunity for fresh start.

Then perhaps a new approach for the SMBs is needed.

What's Happening With Lakelet This Quarter?

- Lakelet has expanded their operating partners in healthcare to include those with on average +25 years of experience in their respective fields of expertise including hospitals, physician practice management, regional health systems, skilled nursing, and assisted living facilities. In other industries - the operating partners have expertise in manufacturing, industrial engineering, materials control, chemicals, advanced material manufacturing, consumer goods / dry goods, environmental companies, multi-channel distribution, technology, retail, software companies, automotive, and aerospace.
- *Buffalo Business First* recognized the successful launch of Lakelet Acquisition Corporation in its May article titled *Purchase Power: Lakelet Advisory jumping into private equity*. Lakelet Acquisition Corporation will use the firm's existing expertise in financial structures and management to acquire lower to middle market entities for acquisition in both the U.S. and Canada. To view the article in full visit www.lakeletac.com/news/
- Michael Koeppel will serve on the NYSSCPA Bankruptcy and Financial Reorganizations Hotline. The technical hotline exists in order to assist practitioners with their professional issues and questions.

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