



**February 2016**

### **Stops and Starts**

I had a conversation with a builder last week that I thought I would share. He said that he was going to put his company up for sale in three years and he was already taking the appropriate steps to get ready.

That's great, I told him, and asked him what steps he was taking. He mentioned a number of things – some I thought were spot on, some a waste of time, and some were probably 100% the wrong things to do. I listened politely and told him I'd call him in a few months to check in.

It seems that I have these conversations a lot. Some builders are convinced that they know exactly what steps they should take to prepare their companies for sale. I can tell you from experience, they don't always.

If you are thinking about selling your company in the near future, here are some helpful starts and stops to consider:

#### **Starts**

- 1) Eliminate all ongoing lawsuits and customer complaints: When potential buyers are doing due diligence, they find out everything, good and bad. True or not, it all ends up on the Internet. Google yourself and your business and see what people are saying. It is better to put all of the bad stuff behind you and not have it become an issue.
- 2) Remove non-business activities from your company's financials: Many builders treat their businesses like personal checkbooks. For example, they may have relatives on the payroll, they may fund their wife's businesses or they have car lease expenses for the entire family. These additional costs distort your true profitability and are difficult to explain to a potential buyer. It is best to keep the financials clean and not have to explain after the fact.
- 3) Begin thinking about what you want to achieve with a sale: What are goals? Why do you want to sell? What do you want to be doing in 3-5 years? Do you have a number in mind? Do you want to continue to work? The time to do soul searching is long before you start the sales process, not during the process.

- 4) Have your financials statements reviewed by an outside accounting firm: Although most builders do a good job with their accounting, few do a great job. An outside firm (it can be your tax accountant) can clean up and simplify your financials and ensure that your books are in good order. Financial transparency and accuracy are extremely important for any buyer.

#### Stops

- 1) Don't try and time the market: If I had ten dollars for every time a builder told me he was going to sell next year vs. this year because the M&A market will be better, I wouldn't have to work. No one can time the market; so don't try. Sell when it is best for you.
- 2) Don't try and guess what potential buyers want: Builders tell me all the time that they will sell when they get to a magic number of closings or a magic number of lots. The truth is, there aren't any magic numbers. Different buyers want different things. Sometimes, they don't even know what they want. Trying to hit the right numbers is like knowing what number the roulette wheel is going to stop on.
- 3) Don't take your eyes off your business: Don't stop running your business. Some builders get so caught up in the sale process that they forget that many deals don't go through. You have to continue to run your business as if you are never going to sell.
- 4) Don't discuss with your employees or trades: Keep your thoughts to yourself and your closest advisors. People fear change, even if it is for the better.

There is no perfect checklist to follow. What works for one builder may not work for another. But keep in mind that buyers hate complexity, lack of transparency, and liability. Take the steps now to keep your business as clean and straight forward as possible and whatever the outcome, whether you sell or not, you and your business will be better off.

*David Rosen and Long Grove Capital have been working in mergers and acquisitions in the homebuilding sector since 2004. If you are interested in learning what your company may be worth, how the sale process works, how to prepare for a sale or have any other questions, please feel free to contact him at [drosen@longgrovecapital.com](mailto:drosen@longgrovecapital.com) or call him at 847-215-6475. ([www.longgrovecapital.com](http://www.longgrovecapital.com))*