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Mistakes to Avoid When Selling an HVACR Business

Maximize Value with Strategic Steps to Avoid Costly Errors

Successful HVACR business owners know what it takes to run a company well, generate profit, and capture market share. They understand customers, staffing, and how to keep the business going and growing. But selling a business requires a different expertise.

Years of advising HVACR business owners has given us the knowledge of what works and what doesn't — how to avoid the most common and costly mistakes made during a sale process. Avoiding these potentially disastrous mistakes can ensure optimal value and success in what might prove to be the biggest transaction of an HVACR business owner's career.

Mistake #1 to Avoid: Not Being Totally Prepared

HVACR business owners who fail to plan ahead for a sales

transaction often leave a substantial amount of value on the table. Sufficient planning is utterly essential to ensure you have enough time to implement strategic initiatives to maximize value.

Planning ahead requires looking deeply into all facets of the company through the lens of a potential buyer. With your advisors, evaluate how buyers would look at your business from the outside. Consider their perspectives, protocols, and business goals. This gives you an opportunity to control the narrative instead of playing catch-up and defense.

Planning and preparation allow you to avoid leaving yourself open to the prospective buyer being the first to identify problems and using them as a negotiating point to lower the value of the offer. If a buyer identifies problems first, this puts the level of trust toward the

seller in question, and trust is a critical ingredient of a successful transaction. You always want to carefully avoid instilling any doubt into the mind of a potential buyer.

Analyzing your business through the eyes of the buyer gives you the ability to inoculate your business from otherwise damaging issues. A few of the common — but easily remedied — shortfalls in an analysis include:

- obtaining supportable financials;
- ensuring all your patents and trademarks are up to date; and
- “protecting” key employees with a non-compete or non-solicitation agreement.

Mistake #2 to Avoid: Not Understanding Where the True Value is in Your Company

The reality of a sales process is that the value of a business is determined by the buyer as much as any other factor. One of the biggest mistakes is when valuation is simply set based on a multiple of EBITDA (earnings before interest, taxes, depreciation, and amortization). This “simple” calculation leaves millions of dollars on the table and less in the pocket of the

As the seller, it is your responsibility to paint a compelling picture of the future, allowing prospective buyers to understand the accretive value the acquisition can bring. The key is to understand what the company is worth to the buyer, considering their economics and potential to grow the business and increase its value.

It is a fact of business and human nature that buyers also tend to pay much more for a deal that they believe is competitive. Running a competitive bid process involves a broad-based search and discipline along with negotiating, creative deal making, and people management skills. For the seller, the competitive process provides optionality, allowing them to negotiate on various terms to drive the value and optimal outcome.

Mistake #3 to Avoid: Falling for a so-called “Offer you can’t refuse”

You probably learned a long time ago that if an offer seems too good to be true, it is a red flag. The same cautious approach is exponentially important when it comes to selling a business.

HVACR business owners are sometimes courted by companies that would like to acquire them and want to start the process immediately. Owners can fall prey to the flattery of being offered a number that is higher than they ever imagined their business could be worth.

This is the time to take a step back and consider if this is a prudent approach. Key questions are:

- What are the value drivers that are attractive to this buyer?
- Could there be other interested buyers?
- How might you negotiate a better deal?

Owners who do not fully understand their business value often leave 20-50% of its value on the table. When someone makes you an offer — versus you and your team of advisors running a full sale process that will generate multiple offers — it is called a single buyer process. This process lacks the competitive dynamic that broader auctions provide. When a single buyer is left to determine business value, a below-market price is often the result.

Even if the offer from a single buyer sounds good, you have no comparison for how much you actually might earn if a competitive process is initiated. Lacking this knowledge can be tremendously costly and is avoidable if you work methodically with advisors to spark and consider multiple offers.

Maximize Your Chances of Success

You only sell your business once and you cannot afford to make a mistake. Selling an HVACR business involves a different skill set than building or running the company. It requires nuance, experience, and the ability to view the enterprise through a much different lens than an owner has — the lens of the buyer.

With so much at stake, selling your own company is not a task you want to take on without the assistance of experts who can navigate the process and bring value to the table. The best way for business owners to earn the maximum value for their company is to plan early and hire knowledgeable, trusted M&A and legal advisors who can help strategize, orchestrate, and negotiate the sale. The investment made in these experts is well worth the value they bring to the table.



About
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Len LaPorta is a managing director of The DAK Group, an investment bank specializing in middle-market, privately held companies. Len advises business owners on sell-side and buy-side transactions, capital advisory and valuations. He is a veteran of the U.S. Navy and former owner operator of a contract manufacturing company. He can be reached at lloporta@dakgroup.com.



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