As Published In

ENGINEERED SYSTEMS

By Alan Scharfstein, President, & Len LaPorta, Managing Director, The DAK Group

# Properly Facilitating the Sale of Your HVACR Business

## Look for ways to increase earnings and maximize profitability now so you will have an established track record by the time you go to market.

You have invested many years and much energy building a successful HVACR business. If you are contemplating or moving ahead with a sale, you will want to do all you can to be prepared.

Whether you plan to sell to a financial or strategic buyer, your management team, or transfer ownership to the next generation of family, focusing on the following steps will materially impact the value of your company.

### Ask Yourself These Essential Questions

To determine if the time is right for you to sell, ask yourself these questions:

- Is it the right time in terms of the U.S. and global economy? The answer to this question is, currently, yes.
- Is my business performing at a high level?
- Has senior management team managed well through the pandemic?
- Is it the right time from a personal perspective?

If the answer to any of the three questions is no, you might want to wait — but still take proactive steps now to ensure that you are building value into the company so you can earn the maximum value for it when the time is right to sell. Whatever your answer to these questions, run your business like you want to sell it tomorrow.

## Be Ready to Sell at All Times

If you wait until you're ready to sell to optimize efficiencies, your greatest opportunity to build value may be lost. Look for ways to increase earnings and maximize profitability now so you will have an established track record by the time you go to market. Being focused on operational efficiency now will build value for later.

This process includes making sure you are viewed as replaceable. It is vital that potential buyers see a strong management team that is not dependent upon you, the owner, to manage business operations.

## Understand Your Business Value and Communicate a Vision of the Future

While factors like multiples of revenue or earnings before interest, taxes, depreciation, and amortization (EBITDA) can be helpful in establishing some benchmarks, they are far from conclusive when it comes to defining market valuations.

You must understand and think of your business from the perspective of a buyer. Often, the motivation behind a given suitor's interest in your business is not obvious. Their view of its value may be completely different than yours. For example, you may believe your reputation for excellent service is the greatest value of your business, when, in fact, the buyer may be more interested in your technical infrastructure. Buyers are often willing to pay higher prices based on their economics, synergies, or specific goals. It is important to understand all of your company's value drivers to avoid leaving money on the table.

Keep in mind that buyers are interested in potential — they buy the future, not the past. It is your responsibility to paint a compelling and defensible picture of your company's path forward and the opportunities that will propel its growth in the years ahead.

## Conduct Self-Due Diligence and Address Risk Factors

All serious buyers will perform extensive due diligence prior to consummating a transaction. Any surprises at this stage will have the serious potential to negatively impact a deal, trust is critical to a successful transaction.

The last thing you want to put into the mind of a buyer is doubt. Trust that your investment banking team anticipates critical items and has you prepared for the difficult questions.

You can avoid any surprises by conducting your own due diligence process with your team of advisors prior to bringing your business to market. By conducting this process well in advance, you will gain the ability to identify potential problems and either eliminate them or mitigate their effects over time long before you begin the divestiture process.

There are several risk factors that can affect business continuity in the minds of potential buyers, including customer and/or supplier concentration. If your business is highly dependent on just a few customers or suppliers, it could have a profoundly negative effect on your valuation.

Contracts or consents with key customers and suppliers will instill a greater level of confidence in industries where customer and supplier concentration is unavoidable. Whenever and wherever possible, strive to expand and diversify both your customer base and supplier pool.

Another area of risk for potential buyers lies in your company's dependency upon a few key employees. If your operation is overly dependent on one or a few key players, would-be buyers may be reluctant to move forward at all unless you've taken steps to mitigate that risk.

Most buyers do not look to save money by terminating key employees; rather, they focus on retaining a company's leadership. Whenever possible, lock in key employees by obtaining non-compete or non-solicitation agreements well in advance of a transaction.

## Prepare Supportable Financials

Potential buyers must have absolute confidence in the accuracy and veracity of the financial picture you present. The quality of your financials will play a key role in solidifying the transaction.

Your financial statements must be reliable, accurate, and available in a timely and organized fashion. While it's common to present "recasting" adjustments that may more accurately reflect the operations of the business, make sure these adjustments and projections are supportable and realistic.

Additionally, the presence of strong financial controls and systematic procedures will instill greater confidence in a prospective buyer that your information is reliable.

## Assemble Your A-Team of Advisors

Since selling your business is likely to be one of the most important financial decisions of your life, you will want to you assemble the right team of experienced advisors to assist you through the process. A seasoned team of experts in accounting, tax, legal, and investment banking will each play a specific role in the sale process, providing you with the insight, expertise, and guidance to make the tough decisions along the way.

Your advisors will manage the process and keep it moving forward without overly distracting you from your primary mission to run the business and keep doing what makes it successful. This strategy will ensure that it retains it’s value up to and through the transaction closing.

*About the authors…*


### About
**Alan Scharfstein**

*Alan Scharfstein is president and founder of The DAK Group. Mr. Scharfstein founded the firm in 1984 to cater exclusively to the M&A needs of middle market business owners and has negotiated more than 700 transactions in a wide range of industries. He can be reached at ascharfstein@dakgroup.com.*



### About
**Len LaPorta**

*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 llaporta@dakgroup.com.*