As Published In:

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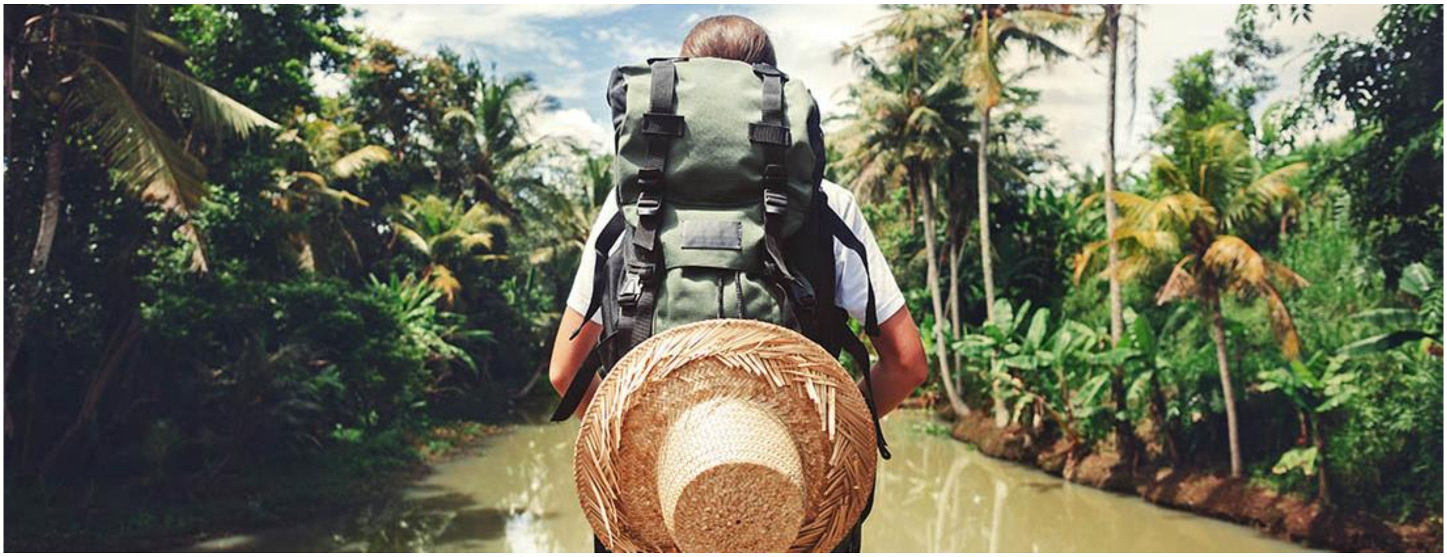

M&A Deal Teams & Terms – Navigating the Jungle When Selling Your Business

Congratulations — you have made the decision to sell your company or are seriously contemplating it. The next step is to prepare yourself, learn new terminology and understand the necessity and value of having a team of experienced and qualified advisors. Since this is likely to be one of the most important financial decisions of your life, this is no time to try to learn on the fly.

1. Assemble your 'A-Team' of advisors

First and foremost, it is crucial to assemble the right team of experienced advisors to assist you through the process. A seasoned team of professionals who have "been there, done that" hundreds of times will be your best asset in avoiding costly missteps.

The right team will have dedicated experts in accounting, tax, legal, investment banking and environmental issues. Each will play a specific role in the sale process, providing you with the insight, expertise, and guidance to make the tough decisions along the way.

Once you have selected your team of advisors, they will work together on your behalf, allowing you to stay focused on running your business. The investment banker, attorney, and accountant each have specific expertise and will pull you in and guide you on all important matters.

2. Understand the key terms and steps in the M&A process

Self-due diligence

Prospective buyers will look for specific factors when developing their valuations of your company. Your M&A

advisor will have the experience to anticipate and address these factors before significant discussions commence.

A serious buyer will perform extensive due diligence prior to consummating a transaction. Any surprises at this stage have the potential to negatively impact a deal. Trust is critical to a successful transaction, and the last thing you want to put into the mind of a buyer is doubt. ("If they didn't mention this problem, what else might we find?")

You can avoid any surprises by conducting your own due diligence process with your team of advisors prior to bringing your business to market. Be ruthless…rest assured the potential buyer's analysts will be. Identify any and every possible issue that may be perceived as a negative through rigorous self-assessment.

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. The decisions you make today will determine the returns you receive for all those years of effort.

Conduct a sell-side QOE

A Quality of Earnings (QOE) Report is an essential aspect of the due diligence process when selling and buying a business. This report identifies the impact of elements that differ from the actual or normalized performance and cash flow or are not repeatable or sustainable over time. For example, these might result from accounting choices, management and operational decisions or the business climate and other factors.

While the income statement is a major focus, the QOE report also delves into other financial statements, such as the condition and worth of various assets on the balance sheet. In addition, the report examines the company's systems of control and business operations by client, industry, product line and other metrics.

The prospective buyer's goal is to obtain a highly detailed picture of how well the business is actually doing and whether it is worth the enterprise value under consideration. If the QOE report identifies issues, the buyer may look to re-trade and the offer price will go down. To avoid a re-trade situation, you should complete your own sell-side QOE to parallel the banking team's creation of the financial model that is utilized to market your firm.

Conduct a sell-side Environmental Phase 1

For most business owners, the operating company does not own the property and facility, but rather a separate entity controlled by the business owner is the landlord. The basic upkeep of the facility is born by the operating company.

Many M&A transactions are delayed due to the Environmental Phase I site assessment not being current as federal, state, and local regulations have tightened in the last 20 years. Both M&A buyers and renters of the facility now need to see a current Phase 1 in order to have a full picture of their potential liability.

The M&A advisor can help you select an appropriate service provider to complete a Phase I prior to marketing your firm. The goal is to avoid delays in the closing transaction and also to understand if any current remediation budget is required to be added to the financial model. It is always better to be proactive with prospective bidders than find out there is an issue when you are already well down the road to closing the transaction.

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Conduct a sell-side insurance audit

The purpose of this audit is to establish an independent, professional opinion of the insurable value of the property and equipment appraised and to provide proof of loss documentation should the need arise. For example, does your commercial insurance policy correctly match with the Orderly Liquidation Value? Do your books and records properly match your Fixed Asset List?

In one instance, the M&A advisor had spotted an area of concern and the independent insurance appraisal verified the item. Prior to marketing the firm, the business owner, CPA and commercial insurance carrier corrected the discrepancy. The client avoided an issue that would have led to a significant price re-trade.

3. Prepare to navigate the jungle

Explore phantom equity interests

Running your business has been a labor of love for decades. You may decide not to leave the business completely and instead negotiate for phantom shares in the new company. This strategy would allow you to remain a minority owner of the business and see a second return in a few years. Your M&A advisor and attorney will be able to provide guidance in negotiating the deal terms, should you choose this approach.

Understand salary continuation agreements

During the process to market and sell your business, the M&A advisor will ensure your senior management team has plenty of opportunities to meet with the prospective bidder. Remember that with you exiting the business, the buyer needs to have your senior team on board.

Buyers will be concerned about key employee retention post-closing and will need reassurance that the seller has not been providing inflated salaries prior to selling the firm. Salary continuation agreements identify a salary range and ask for the senior management employee to understand basic benefits packages so that there are no surprises post-closing. Your M&A advisor and attorney have the experience to negotiate these agreements.

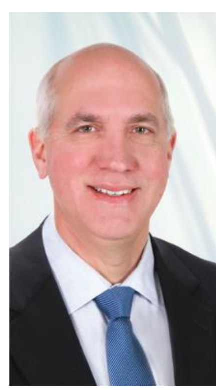
Lean on the M&A advisor to clarify deal terms

The better portion of the transaction process is spent on finding the potential right buyer for your firm, which could take 6-plus months. During this timeframe, your M&A advisor has created a competitive process among the potential bidders leading to an outlier bid for your company. In the later stages of the deal process, you should continue to lean on the M&A advisor to help your legacy advisory team prepare for a closing transaction.

Meanwhile, during this lengthy process you need to keep running your business and doing the things you've been doing to make your business successful. Your team of advisors should manage the process and keep it moving forward without overly distracting you from your primary mission.

The last thing you want to happen is for your company's performance to falter at this critical juncture. Often a business owner will become distracted by the sale process itself, neglecting his or her role in what made the company successful in the first place. Staying focused on running your business will ensure that it retains its value up to and through the transaction closing.

This is the fourth part in a series of articles on best practices for mergers and acquisitions in textile fiber-related industries. The next edition of this series will focus on year-end tax planning. To view all of the articles in this series, fiberjournal.com/author/lenlaporta.



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 llaporta@dakgroup.com.