NEW JERSEY BUSINESS
August 2021
A Publication of the New Jersey Business & Industry Association

THIS WAY FORWARD

SMALL BUSINESS SOLUTIONS

Acquiring, Merging or Selling a Business?

>>> Discover the steps to take to establish and ensure the maximum value for all your hard work.

By Alan Scharfstein

As a successful business owner, you have probably devoted many years and countless hours to building your enterprise. Now you may find yourself contemplating the idea of making an acquisition, merging with another company, or exiting your business altogether.

There are many tangible benefits from an acquisition or merger, including gaining new customers, products and markets while expanding your talent pool and resources. On the flip side, if you are considering the sale of your business, there are more options now than ever before: You can sell your company entirely or do a partial sale and still be actively involved. Whichever direction you ultimately choose, there are certain steps you should take now to establish and ensure the maximum value for all your hard work.

1 Create a Vision of the Future

Successful transactions always commence with an eye on the future.

If you are considering a merger or acquisition, discuss multiple strategic considerations such as the pros and cons of a vertical versus horizontal path for growth. Vertical growth refers to acquisition/merging of suppliers or distribution channels. Horizontal growth is typically easier to integrate, such as an acquisition/merger with a competitor or complementary business. After you establish your basic strategy, drill down to identify the profile of the ideal candidate, considering such factors as product or service lines, customer base, revenue size, earnings, profitability, geography and culture.

For those considering the sale of your business, it is important to know that buyers are interested in potential – they buy the future, not the past. You must be able to paint a compelling picture of your company's path forward and the opportunities that will propel its growth.

2 Develop Clearly Articulated Financials

When making an acquisition or merging, the target company's historical financial and forecast data should be incorporated with yours to gain an understanding of what the combined companies would encompass. Develop different scenarios and perform analyses based on variables.

When selling your business, potential buyers must have confidence in the accuracy of your financial picture. While it is common to present "recasting" adjustments that may accurately reflect the operations of the business, make sure projections are aggressive, but also realistic. The presence of strong financial controls and systematic procedures will instill greater confidence in a prospective buyer that your information is reliable.

Given the amount of information that needs to be gathered and presented, you may benefit by supplementing your internal team with outside advisors, such as accountants, lawyers and investment bankers. Expert knowledge of transaction structures, tax implications, risk assessment and negotiation can ensure an optimal deal. NJB

About the Author: *Alan Scharfstein is president of The DAK Group (www.dakgroup.com), an M&A advisory firm he founded in 1984. For more information, contact Scharfstein at: ascharfstein@dakgroup.com*