

# Commercial INTEGRATOR



## 6 Easy Steps to Sell a Company

An exit plan is a very personal choice. For integrators who want to sell, here's how to protect yourself.

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It's hard to ignore the [merger and acquisition activity](#) in the commercial electronics industry, and we're not just talking about [AVI and SPL](#). Recently, \$28 million integrator [Signet Electronic Systems](#) scooped up a smaller integrator, capping a fury of mergers and acquisitions that are consolidating the market.



A lot of owners or principals of integration companies are undoubtedly reading about the price tags and wondering if it's time for them to sell. Don't shoot the messenger - CI isn't advocating anything here. But if many readers are interested in how the process of selling a company works, we're happy to provide some resources.

Bob Robbins, a financial consultant with [Morgan Stanley Smith Barney](#), offers the following advice for prospective sellers.

If you own an integration company (or work for an integration company), you have an exit plan (or be aware that your boss has an exit plan). The question is whether it's a plan you've made - or a plan that will eventually be forced on you.

Along with thousands of other business owners, someday you will be exiting your business. Some business owners will die, others will get too sick to run the business and others may transition to family. You, however, want to make certain that you exit according to your terms and schedule. Advanced planning and professional help are keys toward that end.

### First Steps Toward Exit Plan

Even when you're thinking of exiting, don't stop running the business. Rather, start by interviewing the best exit planning professionals you can find to help you take the next step. But where do you start? The choices are staggering - exit planning advisors, merger and acquisition attorneys, evaluation accountants, business advisors, investment bankers, business brokers.

One professional business owners often forget about is the wealth manager specializing in small business owners. This is a good first place to start, because it can lead to all the others.

### Meet the Wealth Manager

Using a wealth manager specializing in business owners in the integration industry starts you off on the most important issues to you, which are you, your family and your financial well being, before and after the exit.

By using a well-defined discovery process, this type of advisor will learn about your values, goals, interests, relationships, present advisors and all your assets. Because most wealth managers build

long-term relationships and are compensated in proportion to the financial assets under management, their goals can be in sync with yours. As a business owner, you understand that your business is intertwined with your life. It is likely your passion, your preoccupation and your largest asset.

The discovery process leads with the all-important first step - determining the financial needs of the business owner and the owner's family. The second step is to determine the after-tax value after transferring the business. [The American Family Business Survey](#) (pdf) taken in 2007 shows that 30 percent of owners plan to sell to a third-party buyer, 30 percent plan to sell to a member of the family and 18 percent plan to transfer the business to the employees or to the management, for example. The wealth manager can develop a comprehensive plan for your post-exit lives and understands the mentality and the emotions involved.

With a focus on business owners transitioning their businesses, this type of wealth manager is in regular contact with other competent advisors who can collaborate to generate and implement your exit plan.

Without a firm idea of the family's financial needs, values and goals, it may be difficult to move forward. That is why we strongly promote finding and working with a wealth advisor who focuses on exit planning.

The wealth advisor can help connect you to other advisors, as noted below, and help coordinate all their activities.

## **M&A Valuation Specialist**

Once you know what you are going to need from the sale of the business, the next step is to get a valuation of the business. Business owners don't typically know how to find potential buyers, what buyers are willing to pay or how to increase the value of the business. They may not know what drives valuations in their business and how to take steps to increase value.

Unfortunately, most or maybe all of your operational advisors - controller, outside accountant, business attorney or banker - don't understand valuation or the subtle differences of value as a standalone business versus its value to a strategic buyer.

The evaluation should start with the business as a standalone business unless there are some unique and valuable intellectual properties or other intangible values. "Fair market value" is defined by the IRS as "the price at which the property would change hands between a willing buyer and a willing seller ... [where] both parties having reasonable knowledge of the relevant facts."

The M&A valuation specialist can also look at the value of the business to a strategic buyer. The strategic buyer may have other synergistic reasons for the purchase: intellectual property, market niche, access to certain key customers and markets or geographical presence.

If the standalone or strategic value is in line with your wealth plan, going forward is simple. If not, work has to be done.

## **Due Diligence Advisors**

Every buyer will have to do what is called "due diligence." To prepare, the seller should have three years of audited financial statements. The earlier the seller can get started on this process, the better. In addition to an auditor, the seller should also retain an M&A attorney to ensure that there are no outstanding or hidden legal issues that can possibly come up. We all work hard and believe we are doing the right thing legally, but it takes an expert familiar with the professional buyer's processes to clean up all legal details.

## **M&A Advisors**

The sale process may take years. The next step is to prepare a business plan leading to an offering memorandum. The business should be analyzed with the buyer in mind. Most businesses need a thorough strategic and tactical review.

The M&A advisor will identify strengths, weaknesses, opportunities and threats, and then develop a plan. Often the wealth manager or the valuation specialist can lead you to the most effective business coaches in your area.

In parallel, you need an advisor to help prepare the offering memorandum containing the company description (major product lines, manufacturing capabilities and capacity, technology, sales and marketing, management, financial statements and ownership structure), market analysis and pro-forma and anticipated deal structure.

## **Business Broker or Investment Banker**

Once the offering memorandum is complete, it is time to interview the investment bankers. At this point, the wealth advisor and the M&A attorney can bring in up to three investment bankers to interview. Even if the business is sold to the management team, to family members, or to an Employee Stock Ownership Plan, the investment banker can be invaluable in locating and defining the sources of capital for the buyers. As investment bankers can offer guidance and review strategic opportunities, it would be a mistake to overlook their input as too costly.

Before an exit, most privately held company owners have most of their wealth concentrated in a single private company - their own. For many owners, building their company is the main focus of their lives. The new life and the "business" of running and managing the new assets is a whole new career.

At this stage, the wealth manager changes hats and becomes the wealth advisor helping to manage and coordinate the new relationships of advisors to preserve and protect the new wealth as well as coordinate the wealth transfer and charitable giving, if so inclined.

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