



PREPARING A COMPANY FOR SALE: ASSESSMENT OF READINESS

What do you need to do to best position your company for sale?

Selling a company is all about how much value you can create in the eyes of your prospective buyers. If you don't put enough preparation into it, you won't get the valuation or the offers you expect.



In this edition of *Executive Issues & Insights*, we explore key insights drawn from the extensive C-suite and Board experiences of the

NextLevel team on how to assess your company's readiness for sale. Our next edition will cover closing the assessment gaps.

NEXLEVEL CASE STUDY

Home equipment manufacturer triples revenues prior to sale of company

An outdoor home equipment manufacturer had a single owner who had acquired the company with the intention to sell it after more growth. But five years later, revenues and earnings had not grown appreciably. The company had outsourced its manufacturing to multiple factories in China, but lacked appropriate control processes. It also had not built out its supply chain and sales channels, and its strategy and financial reporting were lacking.

A new CFO and head of operations, now a NextLevel partner, was brought in to improve company performance and help sell the company within several years. He quickly discovered the most important weaknesses in company processes and went to work to replace them with new processes and personnel. After replacing almost the entire finance team, the quality of financial reporting improved to the level required by prospective buyers.

(more)

NEXLEVEL INSIGHTS

Use a balance sheet approach to prepare your assessment

Use an assets and liabilities framework to develop a list of everything that might affect the value of your business in the eyes of a potential buyer. Consider all possible nuances regarding your cash and other short-term assets, fixed assets, debt exposure, and pending litigation. Also consider non-balance-sheet items such as strength of management team and IT security compliance. Outside help can provide objectivity.

Evaluate your products' market position

Understand and evaluate your strengths and weaknesses in the marketplace. What's your share of your market niche? Do you have shortfalls against your main competitors? Do a deep assessment of your capabilities in your markets; identify where you are in the mix and be able to articulate that to a potential buyer.

Ensure your financial house is in order

How reliable are your books? Are you GAAP compliant and have you had audits? A minimum of two years of audited financials is usually expected and most potential buyers will want to look back at the EBITDA trend for the last several years. Clean up your financial controls and reports so all financial systems truly reflect the business and operation and you can support the value of your enterprise.

(more)



PREPARING A COMPANY FOR SALE: ASSESSMENT OF READINESS

(continued)

(continued)

To eliminate an unacceptable level of shrinkage in inventory, the NextLevel partner put inventory controls in place. The supply chain was also fully built out and managed. The company established a new corporate strategy for growth and articulated it throughout the company with a four-to-five-year financial plan that held managers to new standards. The new CFO also hired a banker to acquire \$50 million in working capital for growth.

Within nine months, the company demonstrated its growth potential, and a private equity group supplied the needed working capital through an acquisition of a substantial portion of the company. Within two years, the company tripled revenues and grew earnings eight-fold. The same private equity group then purchased the rest of the company and replaced the former owner, yielding him twenty times his original purchase price from seven years earlier.

**“RUN YOUR BUSINESS AS IF
YOU COULD SELL AT ANY TIME.”**

An assessment to discover weaknesses followed by actions to correct them will make you ready.

(continued)

Consider changing your time horizon

When running your company for the long term, you will likely have a timeline of what you want to accomplish in three, five, or ten years, and can strategically plan for or defer certain goals. When you want to sell, your horizon may shorten considerably, and the value in the near future becomes much more important. What do you want to implement now that maximizes perceived value when you want to sell?

Focus on ROI in evaluating capital expenditures

When evaluating what investments to make now, be honest about their value to a potential buyer. Some investments might bring a worthwhile increase in the selling price and should be prioritized. Others might not contribute enough value to justify the stress to your company. Understand potential buyers that may have opportunities for synergy, mitigating your potential weaknesses with their strengths.

Demonstrate that you are positioned for growth

Growth potential is usually the most important factor to any potential buyer. A detailed and realistic strategic outlook is critical to preparing a convincing case that you are well-positioned for growth. Interested parties will want to see where you are, how you got there, and what the business will reasonably look like in three to five years. Can you provide a realistic argument for why you will be able to hit your forecasts?

KEYS TO PREPARING YOUR COMPANY FOR SALE — ASSESSMENT FOR READINESS

- **Your assessment framework:** Are you using your balance sheet to develop a checklist?
- **Your market position:** Could you articulate your capabilities and positioning to a potential buyer?
- **Your accounting and financial reports:** Do they generate confidence in your financial position?
- **Your horizon for action:** Is it appropriate for creating perceived value at the time you may want to sell?
- **Your capital expenditures:** Are you evaluating them critically for ROI?
- **Your growth argument:** Can you make the case that your business will meet its targets?

More Information

To learn more about how NextLevel can help you assess your company's readiness for sale, call us at (800) 833-NEXT or email info@nlbev.com.

