



PREPARING A PRIVATE EQUITY PORTFOLIO COMPANY FOR SALE

How can you provide the best exit for your private equity sponsors?

Private equity (PE) portfolio companies have owners who are professional, are equipped with capital and resources to increase value, and have a definite end-game strategy. Whether targeting strategic or financial buyers, positioning for and completing



these types of sales requires special considerations and skills.

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 prepare a private equity portfolio company for sale.

NEXTLEVEL CASE STUDY *Private equity sponsored truck dealership sells within months, meeting owners' timing and price requirements*

A heavy truck dealership with a multistate footprint was preparing for a sale when the CFO left for another opportunity. The company had recently turned profitable after the 2008-09 recession, had been in the PE firm's portfolio for several years, and was the last investment remaining in the fund. This created a sense of urgency for a sale, and the need for an incoming CFO to get up to speed rapidly. The company was complex, with seven lines of business including new and used truck sales, parts, service, leasing, rentals, and financing.

The newly hired CFO, now a NextLevel team member, moved quickly to become knowledgeable about all key facets of the company's financial position, resources, and procedures, then toured all locations to meet with operations personnel as well as key supplier leadership. With a deeper understanding of the business, and with the annual budgeting process just two months away, the CFO worked with the company's analysts to develop an

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NEXTLEVEL INSIGHTS

Understand all the stakeholders

The legal entities, equity structures, and stakeholders in a PE portfolio company tend to be complex. There may be pass-through partnerships, joint ventures, holding companies — numerous legal entities with their own equity instruments and stock issuances. Involve your attorneys early in the process to avoid surprises. Additionally, be cognizant of obligations to key customers, suppliers, lenders, etc., that the buyer may want to keep after the sale. Inform these key players early on to avoid conflicts when you complete the sale process.

Find the value niche

Understand where you fit in the value chain to determine your targeted buyers and what they would be looking for. Would you be selling to an OEM or a first-tier supplier, for example? Understanding what synergies your company could bring to a strategic buyer can allow you to market yourself more attractively to them.

Present an attractive management team to target buyers

Make sure all seats on your leadership team are filled, and consider making a few strategic hires from the middle manager ranks of strategic buyers in your industry. These managers will know what world-class processes, products, and procedures look like and what these companies are looking for. They will speak the same language as potential buyers, making those buyers more comfortable with you as an acquisition.

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interactive budgeting/forecasting model. The PE firm accepted the proposed budget and immediately engaged investment bankers for the upcoming sale. The CFO then adapted the forecasting tool to develop a credible five-year financial projection for inclusion in a confidential information memorandum that played a key role in management presentations to prospective buyers.

After only a few months, a qualified buyer was engaged in exclusive negotiation, and the CFO led the sale process through due diligence and the quality of earnings process to a successful conclusion. Even though the company's owners had prioritized speed of sale in this case, the company was sold in the acceptable range of EBITDA multiples for this type of company.

“UNDERSTAND YOUR TARGET
AUDIENCE WHEN THINKING
ABOUT YOUR LIQUIDITY
EVENT.”

To appeal to strategic buyers, understand what they are looking for and plan to match those expectations, particularly as you approach the exit date.

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Provide transparency for a credible valuation scenario

A potential strategic buyer wants to know they are buying a quality company that complements their existing business, with a plan that will allow the company to grow in revenue and profitability. Providing granular analytic insight from multiple perspectives and credible, unvarnished financial projections can justify a higher value.

Make yourself easier to integrate

If your target buyer is a public company, taking steps toward Sarbanes-Oxley compliance will lower the potential barrier to integration. Similarly, if your target buyers comply with unique industry quality standards or other certifications, demonstrate that you are taking steps toward those. If you're a PE firm's platform company that has rolled up multiple small companies, do as much integration up front as possible by sharing services in accounts payable, credit collection, HR, and so on, as well as adopting common ERP and IT systems.

Negotiate a multiple in the range of true comparables

After you've taken every step to make your company attractive to target buyers, seek a price that reflects the synergies your company can bring, the ease with which it can be integrated, and recent sales of comparable companies. While it may not always be possible to find ideal recent comparables, use your understanding of the market to seal a win for your PE owners.

KEYS TO PREPARING A PRIVATE EQUITY PORTFOLIO COMPANY FOR SALE

- **Your stakeholders:** Do you fully understand all legal entities and equity structures?
- **Your value niche:** Do you know where you fit in the value chain and how to market yourself?
- **Your management team:** Is it complete and attractive to a potential strategic buyer?
- **Your earnings quality:** Can you provide confidence in forecasts through transparent analytics?
- **Your integration ability:** Have you taken steps to make yourself easier to integrate?
- **Your market knowledge:** Can you use it to negotiate a competitive EBITDA multiple?

More Information

To learn more about how NextLevel can help you prepare a private equity portfolio company for sale, call us at (800) 833-NEXT or email info@nlbev.com.