

## Key Considerations When Prepping for Company Sale

There are many important considerations that face a company's management team in preparing for a transaction: enterprise valuation, industry multiples, managing key client relationships, management team focus and delivering the news to employees are just a few. However, there are several items that we consistently see receiving little focus, or are focused on too late, that can have a material impact on deal proceeds and the closing process.

### Having GAAP Financials

Financial statements prepared according to GAAP or IFRS are critical, especially if a sophisticated or larger buyer is involved. Any differences in accrual methods of the seller and the buyer or GAAP will work against seller. Vacation and PTO accrual are a good example, as differences in accrual methods will either come out of the seller's pocket or will negatively impact employees, thus straining the relationship between buyer and seller.

### Establishing Target Working Capital

Pay attention to this early, preferably before going to market. If seller is not prepared to understand how it will function, they will be unable to defend themselves in final negotiations – and it will cost them cash at closing. The structure of the working capital calculation and the company's working capital cycle should be taken into consideration when deciding when to take the company to market. Depending on structure and timing, the seller may find himself inadvertently financing a significant portion of the sale of the company.

### Establishing Timeline Expectations

Setting sellers' expectations at one year for the sale of a business is hard enough, and becomes even harder if buyers submit a bid with an unrealistically short period of exclusivity. Buyers should be asked to resubmit a bid with a more realistic timeframe, or the bid value itself should be discounted in the auction.

### Maintaining a Competitive Environment

Having more than one bid is not enough. Sellers should not put themselves in a position of needing the transaction to close for financial reasons, or they will risk turning over complete control of the process to the buyer. Therefore, messaging about the reasons for sale are extremely important in the early stages as well as in the final stages of the process, and alternative bidders should be kept "on deck" so the seller has options if the deal falls apart. Simply put, if the seller is going to walk away, or threaten to walk away, they need a place to walk to. It's also important to manage the seller's interaction with buyer representatives when discussing deal points – if the seller falls in love with the deal, a valuable bargaining tool is lost.

Paying early and close attention to these four items will help sellers maximize their cash at closing, and also allow them to arrive at the finish line in a more predictable and less stressful manner.

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