Mergers & Acquisitions Supplement

Are You Ready?

Merger and acquisition adviser Lance R. Tullius reviews how to negotiate the sale of your business.

By Patrick Williams

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If you possess the character traits of intelligence, acumen, humility and likability, you're already at a good starting point to negotiate the sale of your business. "I think one of the keys to negotiating is being who you are, being yourself," said Lance R. Tullius, principal at Tullius Partners. "It's easier to be you than anyone else."

During PCT's Fifth Annual M&A Virtual Conference in August, Tullius, who has more than 20 years of merger and acquisition and financial advisory experience, shared proven steps for honing in on these traits and negotiating the sale of your business.

FIRST THINGS FIRST. When considering selling your business, you should keep a few things in mind, Tullius said.

Business owners have an emotional connection to their business that is often deeply ingrained, Tullius said. Adding an objective party to your team, whether it's an attorney, accountant, trusted adviser or M&A adviser, will provide a valued perspective.

With the help of your team, carefully draft a strategy, Tullius said. Familiarize yourself with prospective buyers and attempt to see the situation from their viewpoint, while displaying credibility.

You only will sell your business one time, so plan ahead to do it right, Tullius said. “We’re talking about the sale of arguably the most significant asset you own,” he said.

A BUSINESS WITH VALUE. Interested buyers are looking for companies with value and potential, Tullius said. One of the first things they look at is growth, meaning both historical revenue and profit growth, not including discretionary or non-recurring expenses, Tullius said.

Buyers also frequently express interest in management personnel and human capital, Tullius said.

Market coverage, market density and market share all influence a buyer’s decision to purchase, Tullius said. Think about the location of your business, your competition and offerings to the market — how much of it you own versus how much you share — and route density.

Prospective buyers see value in new ideas and technologies, Tullius said. “I’ve worked with a lot of smaller companies in the industry that have come up with some pretty clever ways to approach the business, whether it’s technology or just different ways of serving the customer or managing their business,” he said.

Attracting prospective buyers requires affirmation, Tullius said. Systems and protocols that validate a business' activities and financial statements will allow buyers to confirm its revenue for themselves.

THE WHO. When considering a sale, determine which buyers you want to reach out to, Tullius said.

Tullius called out a "negotiating myth" that lining up more prospective buyers will lead to a more successful transaction. "Your goal is to influence the perception of the buyer, and you don't need more buyers, in terms of quantity, to do that effectively," he said.

> **"You will help yourself, even if you're not ready to sell, by preparing and doing these things to fine-tune your business." — Lance R. Tullius**

Influence the buyer's perception by showing you have carefully considered why they are the right fit for your business, and be able to explain your reasoning to them, Tullius said. Many buyers, especially those who have acquired numerous businesses, can tell when they are just one of a large list of prospective buyers looking at the business. Despite conventional wisdom, this generally won't inspire them to get engaged about buying the business.

THE HOW. When you have a list of prospective buyers, plan how to approach each one, Tullius said.

Every business owner is concerned about confidentiality, and it is key to keep confidentiality in mind when forming a team, Tullius said. Good advisers know how to protect confidentiality and work with sensitive information, directly contacting people while minimizing the potential for information leaks.

Once you are in contact with a prospective buyer, truthfully explain your reason for considering a sale, Tullius said. "You're not going to be viewed as being desperate," he said. "But on the other hand, you don't want to overcompensate for that fear and come across as unmotivated."

Additionally, follow standard protocol, Tullius said. Manage correspondence, follow nondisclosure agreements, decide whether to request a physical meeting with the buyer or ask them to draft a proposal.

THE WHEN. If you are going back and forth about deciding to sell, keep in mind that the best time to sell isn't usually in those moments when things are rough and you want to get out, Tullius said. "Really, the best time to be a seller is when everything's going well and the future looks bright," he said.

As many business owners know, it is best to sell when the market is favorable, Tullius said. However, a strong market doesn't always line up with an individual business' successes or its owner's motivations, so you should weigh everything.

A GOOD DEAL. Once the conversation with a buyer begins, keep in mind what a good deal looks like to you, Tullius said.

Don't ask for a number that is significantly higher than what you are willing to accept, Tullius said. Also, realize a deal is more complicated than just one number, Tullius said. In the pest control market, a buyer might pay 80 to 90 percent of the purchase price upfront, and the rest might be deferred over one year or several years, Tullius said. Sellers also have to pay taxes and pay off debt.

You also should think about what type of transaction you will accept, whether it includes a seller-financed note, a holdback note, an earnout or another type of structure, Tullius said.

Give the buyer something that has value to them, but isn't particularly important to you. "When you concede, when you allow the other side to presumably win, you tend to disarm them," he said. "You take the adversarial nature that can sometimes make its way into a negotiation — you help to remove that."

Also, have perspective, Tullius said. Whether you're in due diligence or about to agree on a deal, and an issue comes up, no matter how small, don't overreact. Make sure you have people on your team to keep sight of the bigger picture.

Know your walk-away number to avoid wasting anybody's time, Tullius said. If you decide not to sell because of the offer or any other reason, be honest.

You should also take into account several factors that aren't economic in nature, Tullius said. Ensure the buyer is the right cultural fit for the company, that the company's employees are properly taken care of, that you know how the buyer is going to use your facilities, and you have read over all of the representations and warranties.

Finally, keep in mind that a transaction is a process, Tullius said. A letter of intent or an offer letter doesn't signify the end of the deal. "You've still got due diligence, you've still got a ways to go," he said. "Be prepared to be in this process and be engaged for the long haul."

It is ultimately up to you to decide if you want to sell your business, Tullius said. Either way, though, you should place yourself in the right position. "You will help yourself, even if you're not ready to sell, by preparing and doing these things to fine-tune your business," he said.

The author is a Cleveland-based freelancer.

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