

No surprises, please

How preparation, advice can help smooth buying or selling processes

INTERVIEWED BY DENNIS SEEDS

Investors interested in buying a well-performing company or owners choosing to sell their business should be ready to do some preparation work well in advance — with the help of experienced advisers — if they want to avoid surprises.

“Having an experienced team to work with will help avoid surprises, and make the whole process run smoother,” says Kenneth M. Haffey, CPA, CVA, CGMA, MBA, partner, Skoda Minotti.

From the sellers’ side as well, prior planning is a plus.

“A year or two of advance planning will help the seller de-risk the business and could enhance its value by mitigating some risk factors that buyers would potentially see,” says Michael Trabert, CPA, CVA, CMAP, CEPA, CM&AA, partner, Skoda Minotti.

Smart Business spoke with Haffey and Trabert about tips to help prepare for the sale or purchase of a business in order to avoid some common pitfalls.

What are some of the first concerns a buyer should have about a potential business purchase?

A buyer should have established the criteria as far as acquisition candidates. Those criteria should include industry, revenue range, earnings before interest, taxes, depreciation and amortization (EBITDA) range and geography. It’s also important to determine the normalized earnings of a company through their EBITDA.

There are also funding sources to investigate. Banks or lenders have to be lined up and an amount needs to be determined for how much cash will be offered at the time of purchase.

Also, a very important element is the structure of the transaction, whether it is a

stock or an asset transaction. A seller would generally like to sell the entire business, including the stock and liabilities. Buyers, however, are usually interested in buying the assets to receive some future tax benefits and avoid unforeseen liabilities.

What are the first steps sellers should take?

The sellers have to determine if they are ready to let go of the business. Are they financially prepared, and personally and emotionally ready to let go of the business? Once the answer is yes, they should consider to prepare seller due diligence. This type of inspection will help determine the true value of the business and find any warts or hot spots that a buyer coming in with his or her due diligence would want to discuss.

A company should have its house in order to avoid scrambling for information when potential buyers visit. Buyers will perform financial, legal and operational due diligence.

With financial due diligence, what matters could raise a red flag?

If a company is privately owned, there may be a tendency to write-off certain expenses as business expenses when they may not be — country club memberships, vehicles, cellphones, trips to Maui, etc. Due diligence will get down to what will be in the business that will survive for the



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next person owning it.

Some other cautionary items may be that the accounting records are not accurate and financials are not prepared in a timely manner. In addition, customer concentration may be a red flag for a buyer, as is a lack of a strong management team behind the owners. If, for example, one customer accounts for 40 or 50 percent of sales or there are a lot of sales to an up-and-down industry, buyers will be cautious.

A strong management team is in the eye of the buyers. If the buyers perceive the management team as weak, even though the seller thinks it is a strong management team, the seller probably does not have the perspective that buyers do because the seller has operated and owned the company for many years. Buyers may have a better focus on what a strong management team is and what it isn’t since they likely have reviewed other companies for sale.

What should a buyer or seller consider in finding an adviser?

It’s an arduous and painful process if a buyer or seller engages advisers who are just cutting their teeth, such as a relative recently out of law school. Organizations should make sure they have experienced people advising them — men and women who have the necessary knowledge and familiarity. ●