

Special Edition

How to Sell Your Company in a Down Market – Part 3

It's very important when you're selling your company to know what information to release and when to release the information:

- Certain proprietary information should not be released until you receive a letter of intent.
- In a separate newsletter, I will discuss what encompasses a LOI;
- What should be encompassed in the body of that letter?

However, it's important that as you're attempting to sell your company;

- You establish a range of values for the sale of your business.
- Assuming that the Buyer and Seller agree to a range of values, and;
- Assuming that you have not been over aggressive in your pricing expectations;

You now have to start releasing information in segments.

The first thing you should release is:

1. The last 3 years of financial information including:

- a) Balance sheet, and;
- b) Income statement.

- If you're on a cash basis, convert it to an accrual basis;
- Provide accounting foot notes where necessary.

2. Provide a list of your top 10 customer revenue, but do not include the name of the customers – only the sales revenue.

- If you have dedicated freight contracts, provide the terms and conditions of the contract but not the customer name; provide the value of the contract.
- **Be prepared to provide a substantial amount of statistical information consisting of:**
 - a) Revenue per mile.
 - b) Revenue for all miles.
 - c) Fuel surcharge.
 - d) Empty mile ratio;
 - e) What percentage of your revenue is brokerage revenue?
 - f) If you have company equipment, provide an equipment schedule with corresponding values – not retail values but fair market or orderly liquidation values.

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Ahern & Associates, Ltd.

Accredited Member
National Bureau of Certified
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This should be enough information for a Buyer to be able to make a determination if he wants to go forward. Prior to releasing any information, you must have a signed GOC (Guarantee of Confidentiality) Agreement. In that agreement it should embody a non solicitation and non disclosure agreement. It should also include verbiage to the effect that all information will be forwarded back to you, and/or destroyed if the deal does not close. **Ahern & Associates has sample agreements if interested.**

Once a Buyer and Seller have agreed to a range of values, then you will be required to provide additional information. However, before you start releasing customer information, driver information and allow the Buyer to interact with any key employees, you should receive a LOI (Letter of Intent);

- Assuming that you receive the LOI;
- Assuming it meets with your approval;
- You then need to know how to address sensitive areas.

Once a LOI has been issued, it starts the “due diligence” process;

- A Buyer should not interact with any of your customers until they have completed most of the “due diligence” aspect of their process.
- If the “due diligence” process uncovers no problems, at some point in time, a Buyer must be allowed to speak with your customers; that should be the very last part of the process.
- The customers have to agree to continue to do business with the Buyer as long as they can continue to service the business, and;
- The Seller has to recognize that if any of those customers decide to bail out, then it will directly affect the final purchase price of the Goodwill.

In conjunction with the above, you must now release specific information on the drivers. It is very important that you're totally prepared;

- The driver logs need to be up to date.
- All the information and driver logs have to be documented.
- You should have somebody in your safety department review all the files prior to the Buyer inspection, and;
- Make sure that all the driver files are in complete compliance.

Many times, a deal falls apart because:

- Drivers are not in compliance.
- Driver files are not complete, and/or;
- Information is missing from the driver files – in other words, it slows down the process, and in some instances, can kill the deal.

It is very important that when you're preparing to sell your company, that;

- You have all documentation prepared.
- You have all the information necessary to move the process along, and
- It is in a format that can be readily reviewed.

In many cases, Sellers want to sell their business but they're not properly prepared to sell their business and the process bogs down because they're spending too much time attempting to gather the information, when in fact, all of the information should have been prepared before the company ever went to market.

In closing, if there are any issues on your financial statement that can present a problem, you should get them out in the open and have a plausible explanation as to why specific things happened. One of the most difficult parts of the process is gathering information from insurance agents and brokers in reference to loss experiences on your insurance program. **That's a necessary part of the selling process;**

- A Buyer wants to review the insurance loss information for all lines of coverage, including:
 - a) Workers compensation.
 - b) Automobile liability.
 - c) Cargo liability, and;
 - d) Physical damage insurance.
- They want 3 years of loss experience plus an interim loss statement, and;
- The loss information has to be updated as of the current year.

If you do not have this information readily available, it's going to stop the process. A Buyer is not going to issue a LOI until such time as he's sure that you have a safe operation. Granted he can review your safe stats, and although it's an asset sale, there is still an inherent exposure that follows the Buyer going forward and therefore it's crucial that he has all the information necessary to make an intelligent decision.

In my next issue, I will discuss how a LOI should be written and what it should provide.

QUOTE OF THE WEEK:

“You have to believe in the impossible”.