

# Entrepreneur®

## Looking to Sell Your Business? Think Like a Buyer.

### CONTRIBUTORS



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If you're the owner of a small- to medium-sized business, it's always a good practice to have an eye on the market for mergers and acquisitions --

Buyers are reemerging after a bit of a lull last year. Recent data shows an 11 percent gain year-over-year in the number of middle market acquisitions and a 36 percent jump in the total amount spent on those transactions.

This isn't all that surprising, based on where mid-market companies are in the economic cycle.

Finding from our report *Mid-market Perspectives: 2014 Report America's Economic Engine* also indicate that a majority of executives said the economy was improving, giving them the confidence needed to hire workers and make major investments. The findings tell us that the middle market is back in growth mode, and business leaders are looking to deals to expand operations and diversify their customer base.

As positive as all of these indicators are, the reality is that, all too often, companies that may be ripe for acquisition miss out because of a failure to align their expectations with those of potential buyers. This skewed perspective can lead to significant gaps in the company's perceived value and ultimately scuttle a deal.

Avoiding these disconnects is simple: Think like a buyer.

In our experience, buyers' sights are typically focused on five key areas:

### 1. Management team

Any buyer will want to assess the quality of the management team and how involved they want to be after a deal is consummated. In some cases, a company's owner/ management may feel so invested that they want to maintain a leadership role; in others, they may feel that their ambitions have been realized and they are ready to retire. It's important to communicate these intentions to a prospective buyer early in the process so they can set expectations for management roles going forward.

### 2. Competitive threats

Every business faces competition -- from established industry players or new entrants. Buyers will want to understand the

competitive landscape for the company's products or services, whether it is intensifying or weakening, and where competition may emerge in the future.

### 3. Customer and supplier base

Mid-market companies tell us they are focused on preserving and growing their customer base through a variety of levers. This is good news if you are looking to sell.

Companies with a solid, diverse base of long-time customers are attractive to potential buyers because that provides them with added confidence that sales are steady and projectable. Similarly, strong relations with vendors reduce the chances of supply disruptions or disagreements.

### 4. Visibility of financial performance

The vast majority of mid-sized companies we track annually -- some 94 percent -- expect sales to climb in the year ahead. Potential buyers will want to know the basis for such optimism, whether that information comes from historical data, order backlogs or other predictable, forward-looking business metrics. Proving you have a robust product or sales pipeline may help you win an offer that is more in line with your expectations.

### 5. Valuation

Arriving at an acquisition offer is part science and part art. It is easy to focus on hard financials -- everything from public company trading multiples, comparable M&A transactions and discounted cash flow -- as the foundation for an acceptable price. Ultimately, though, the valuation is going to be driven by what someone is willing to pay for your company, and that also will be influenced by intangibles such as potential growth opportunities, the quality of the management team and the presence of other bidders.

You may not be interested in selling and that's fine -- there are plenty of other ways to obtain the capital you need to grow your business. Indeed, in an improving capital and M&A market such as we are experiencing today, an owner's objectives around achieving liquidity and growth capital needs can often be achieved while retaining a controlling stake in the business.

However, it's never a bad idea to assess your company's worth to an outside party. Seeing your business through their eyes may not lead to a transaction, but it can help identify areas requiring attention, so you can position your company for a successful transaction down the road or continued success of your own making.

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