### Preparing for Your Divestiture Checklist

**Building Value Series**

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Whether your company is worth $20 million or $200 million, chances are you have been called by people interested in buying your company. Perhaps you are talking with one or two buyer prospects right now.

The purpose of this article is to provide a checklist of steps and actions to help you prepare for your divestiture.

#### Strategic Business Plan

Your company’s business plans are just as important at the time of a divestiture as they were during the decades when the business was being built up. A buyer looks closely to confirm all the fundamentals are in place, including leadership development, an excellent process for business, market & product/service development and strategic and other technical advantages that give your company a competitive edge for the future.

#### Leadership Succession

A buyer prospect for your company will be looking at the full management team, including the second tier of leaders. They know very well how difficult it is to successfully make the transition to new leaders.

If your planned divestiture is three or more years away, you may wish to consider an employee share ownership plan (ESOP) to improve the performance and retention of your new leaders and key personnel.

#### The Status of Your Industry

Every industry has its own set of factors that impact on whether it is a good time to sell, or not.

Keep an eye on your own industry’s global leaders and other market conditions. What are the trends? Working with your divestiture advisor, look for windows of opportunity to sell at a good price and with good terms.

#### Tax & Legal Considerations

There are a host of factors to consider in this area, including:
Is the ownership of your company structured to minimize taxes on a sale and capitalize on opportunities, such as establishing a family trust and considering the Lifetime Capital Gains Exemption?

If you own the land and buildings on any of your operating locations, you will want to seek tax advice, likely advising you to have these assets owned by a separate legal entity outside of the operating company.

If there are any legal disputes, you will likely want to clear these up prior to initiating a divestiture.

There may also be a number of estate planning opportunities to consider.

Financial Status & Prospects for the Future

There are numerous aspects to consider in the financial area, including the following:

- Buyers will want to look at several years of either 'audited' financial statements, or at lease financial statements that have had 'review engagements' done by an outside, reputable firm.

- You will not want to leave idle cash in the company, or any other items that contribute to excess working capital. A buyer will assume these are required for ongoing operations and will want to include them in the deal.

- Ensure your accounts receivable and credit policies are actively implemented to ensure there is a high turnover. This will have a direct benefit at the time the purchase price is negotiated.

- Ensure your company's inventory records are well documented.

- Minimize or eliminate the confusion or misunderstandings that can arise from inter-company accounts.

- Is your revenue recognition policy consistent with your industry's standard?

- A buyer will want to ensure the outlook for the next year is promising. This is important to keep in mind.

Valuation Expectations

Working together with your divestiture advisor, you will come up with a range in value for your company. Obviously there are a great many factors to consider.

However, you will not know for sure how high this price will be until you begin meeting with the buyer prospects to see what they are thinking regarding this topic.
Also keep in mind that your backlog of business at the time of sale, which will generate the revenues for the year(s) following the sale, are of crucial importance in negotiating the price.

**Deal Terms Expectations**

Be prepared to be asked by the buyer prospects to continue working for as long as possible. In most cases a minimum of two or three years is expected from the CEO and other key members of the management team. Plus they will be looking to you to show them the leader who will be there for the longer term.

It is common for the purchase price to be paid over a period of years. In some cases an earn-out is requested by the buyer, particularly if there is a valuation gap between the buyer and the seller.

It is also common for the buyer to expect to receive all the assets and working capital in the company that is required to sustain the current operations and the business growth expectations.

**Pitfalls to Avoid**

Don't get trapped by 'personal goodwill', where there is no successor to you. The value of your company will be enhanced if a solid successor is put in place a number of years in advance of a planned sale.

Also keep in mind it is a common pitfall to think that the retiring, long term CEO can be replaced by a single successor. Analyzing the leadership team mix may uncover certain key skills of the departing CEO - such as marketing savvy or leadership charisma - that need to be recruited to complete the full complement of management talents.

Another pitfall to avoid is the risk of getting caught in one-on-one negotiations with a single buyer prospect. This can back you into a corner and quite likely result in a lower price and weaker deal terms. A divestiture advisor can help avoid this pitfall by keeping multiple buyers involved - all from the 'right group of strategic buyer prospects'.

Lastly, early on in discussions with buyer prospects, assess the culture fit between their company leaders and your own. Take the necessary time to fully analyze this. Use your divestiture advisor to help provide another point of view.

**Choosing your Divestiture Advisor**

The divestiture time and process is intense, and a distraction from the week to week priorities of building your business and maintaining quality and profits.

Consider engaging a divestiture advisor early on to plan your sale and gain the following benefits:

- Preserve confidentiality.
A good M&A advisor will discreetly approach the 'right group of buyer prospects', which could lead to adding millions more to the purchase price.

You can get the deal done smoothly and with better terms. The M&A advisor will be focused on keeping the process moving and negotiating deal terms you desire.

Generally the buyer prospects for your company will be more open with an M&A advisor than they will be with direct discussions with you.

We trust you have found this checklist to be a good reminder for you. At Corplan we would be pleased to discuss this topic with you at any time, either in person or by way of a telephone conference call.