MARKET INSIGHTS:

How Do You Prepare For A Sale of Your Company?

Q2 - 2017

Every entrepreneur must eventually transition out of their company. There are two exit paths (liquidating or selling), which can take various forms: selling off individual assets, management buying in, or a sale to a strategic buyer, to name a few. The vast majority of business owners have not planned for such transitions before.

This edition of FirePower's *Market Insights* focuses on *when and how to prepare before* hiring an investment bank (whose purpose is to guide the business through to a successful exit).

When To Prepare?

Most entrepreneurs consider the start of the transition process to be when they hire an investment bank. However, they can take a number of steps in advance, to prepare the business well for sale. Remember, investment banks are transactional in nature – they are skilled at presenting a business *as is* in a way that is appealing to buyers. Therefore, the fewer challenges a business has, the easier their job is.

For that reason, we argue that business owners should start preparing at least 24 months in advance of hiring an investment bank, such that operational improvements, tax strategies, reporting changes, etc., have the benefit of time to take hold. This is the "*Setting the stage*" phase in the below timeline.

Milestone		Hire an Investment Bank		Go to Market		Select Preferred Buyer(s)		Close Transaction	
Phase	Setting the stage		Preparing for "showtime"		Connecting and negotiating with buyers		Opening the "kimono"		Transitioning out
Duration	>24 months		3-6 months		2-4 months		2-4 months		>6 months

What To Prepare?

The objective of this stage is make the company as 'presentable' as possible to buyers, from all angles: strategically, structurally, operationally, and managerially. While some items (e.g. improve product/service mix, reduce customer concentration, etc.) are harder to change meaningfully that others (e.g. improve internal reporting, transition responsibilities, etc.), a lot can be done, all of which will increase value:

» **Transition responsibilities.** For sub-$100m businesses, owners are often also the key operators. This high level of reliance on any one individual is a significant risk for a buyer. Push more responsibilities onto key employees.

» **Simplify corporate structure.** A complex corporate/divisional structure makes a buyer's due diligence burdensome and reduces the number of possible acquisition structures. If a specific structure is necessary (for tax purposes, for example, see next point), then develop the ability to quickly and accurately report views of each unit separately and as a whole.

» **Review tax position.** Engage a tax accountant to find the optimal structure to maximize the after-tax sale proceeds. Utilize available tax tools and vehicles such as the *Lifetime Capital Gains Exemption* or family trusts.

» **Upgrade financial statements.** Buyers gain a lot of comfort in high-quality financial statements prepared by a reputable accounting firm. At least two years' worth of *review engagements* (one level of accounting "quality" below audited statements) are the acceptable minimum.

» **Improve internal reporting.** Buyers expect reliable internal systems that can rapidly produce reports on all aspects of the business. If enterprise resource planning software (or similar) is not already in place, begin using one, and ensure it is adopted company-wide.

» **Resolve legal matters.** To the extent possible, work out legal issues. While not uncommon and not deal-breakers, they are inevitably red flags for buyers, and will cause them to seek warranties, create escrows, and take other protective measures in the definitive agreements.

» **Normalize working capital.** In anticipation of an often contentious issue, minimize working capital fluctuations as much as possible. Manage inventory to industry best practices, standardize your payment terms, work through collection issues and pay suppliers on time. Understand each accrued liability and be ready to justify why they are "normal course" items needed to operate on a day-to-day basis.

» **Carry out a operational profitability improvement exercise.** There is no shortage of operational / management consultants. The few good ones can make a major positive difference in operational profitability and the quality of internal reporting.

» **Document everything.** Buyers will want to see documentation on all aspects of the business – employee contracts, suppliers agreements, customer communication, mortgage / lease terms, etc. Track these meticulously.

» **Optimize product/service mix, geographic exposure, reduce customer concentration.** To the extent possible, reduce reliance on any single factor. Buyers will be cautious if, for example, one customer represents a disproportionate amount of sales or the business relies too heavily on a single product.

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APRIL 2017	MARCH 2017	JANUARY 2017	JANUARY 2017
Confidential	**Confidential**	**Confidential**	**Confidential**
Private Equity Fund	Working Capital Loan	Management Buy-Out	kolmar
Acquired			Acquired
Cabinetry Manufacturer	eucan	tfi food equipment	CSR
The undersigned acted as the lender to the borrower	The undersigned acted as the lender to the borrower	The undersigned acted as the exclusive advisor to management	The undersigned acted as the exclusive advisor to the seller
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ABOUT FIREPOWER CAPITAL

FirePower invests in and advises Canada's entrepreneurs, by financing their growth directly, and by helping them complete mission-critical transactions. Our objective is to become the first resource entrepreneurs think of when faced with the most challenging of strategic issues.

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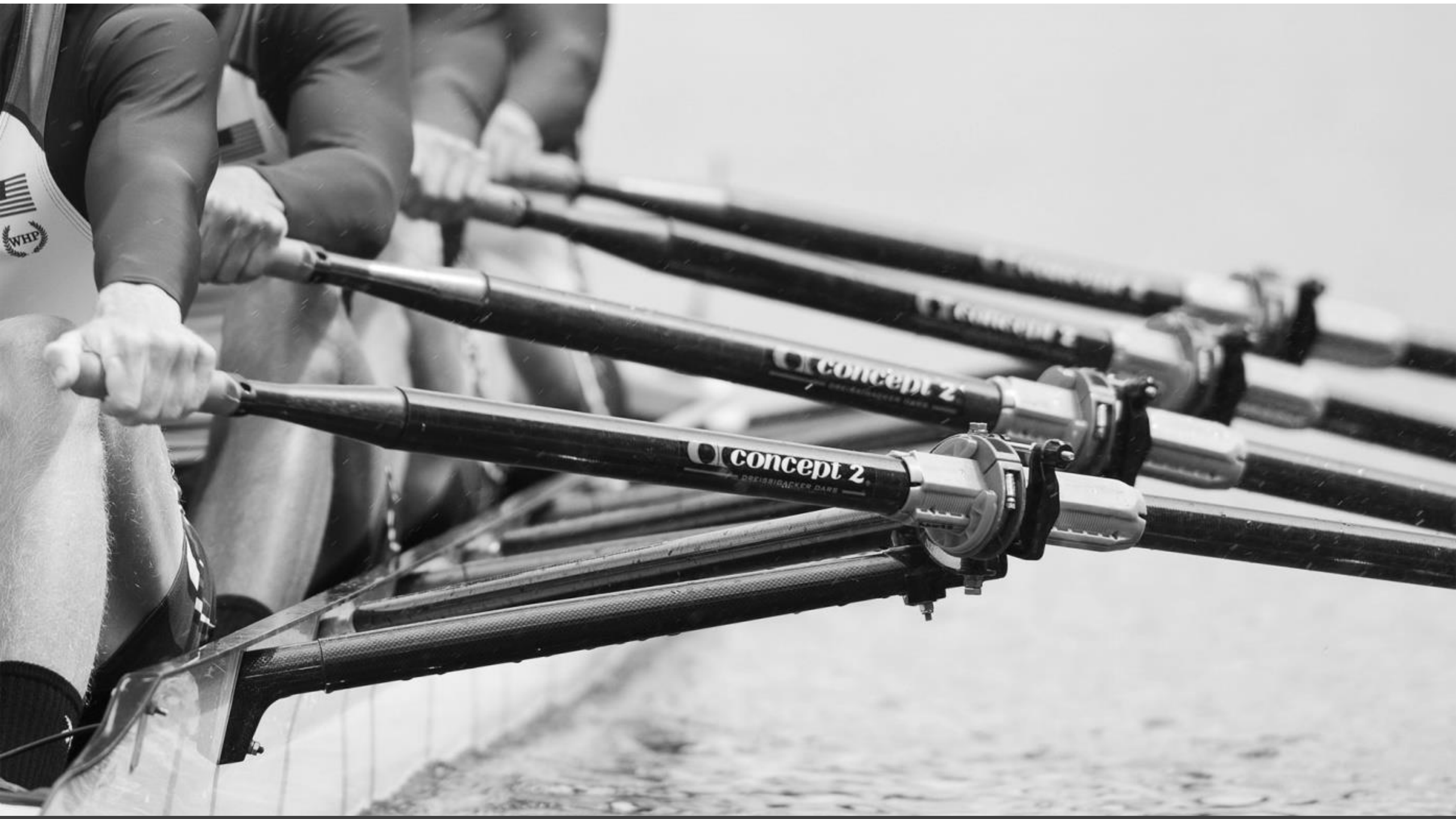

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