What's It Worth?
Business Valuations, Mergers, Acquisitions, and Consulting
NEWSLETTER ARTICLE ARCHIVE

Keeping the Deal Alive

Many sellers think that finding a buyer is the most difficult job of a Merger and Acquisition Advisor and they want to tie the commission to that one and only point. However, from 24 years of experience, the most difficult job is keeping the deal alive until the closing is complete!

Here is a list of a few items that can make a deal crater and what you can do to prevent it.

- Sales or profits start to slip – The best time to sell your business is when it is growing. If you have your buyer and sales or profits start going south, you need to stop the downhill slide as quick as possible. If the issue is due to planned seasonality, then you just need to be able to explain this up front. If for instance, your business is connected to the construction industry, and things have been slowing down due to the fact that this is the 2nd rainiest year in Georgia's history, make sure you can show you contract pipeline and the success you have been having winning quotes. When a buyer sees this they can see where you should have ended up revenue and profit wise and the buyer can also see where you are headed—which is up. At the end of the day, depending upon the timing you are under to close, you may have to consider taking on some terms instead of having all cash at closing

- Additional financials requested - When buyers sign on to purchasing a business, they will start their due diligence and this means a review of the books and records. It is imperative that you do not wait until you have an offer to begin to pay your CPA or accountant to start providing more current (monthly) financials. Many times, this can kill or greatly delay a deal. During due diligence, questions concerning profit per job/order, seasonality, and subsequent future payroll compared to past payroll all can require you to quickly return financials that can support that you are making a profit on each job/order. The buyer needs to be able to understand what your business' seasonality is so that the working capital needs may be determined on a monthly basis. Seasonality also affects payroll which needs to be predictable and similar to the past with a reasonable increase for growth.

- Transferring Employees and Customer Contracts to the Buyer – During due diligence, it may be determined that all employees are grandfathered in under labor laws at the time of employment even though they might not be able to make it through e-verify with the current applied standards. Concerning customer contracts that cannot be assigned easily, it may be best to have a stock purchase instead of an asset purchase. Many buyers may not be in favor of this due to the loss of the step up in depreciation of the current assets which is a great tax savings for them. However, check with your legal and accounting teams concerning the choice to go with the IRS election that allows you to have a stock sale that is treated like an asset sale concerning taxation – “Section 338(h)(10) Election”.

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