

Tidewater Group, Inc.

Preparing your company for eventual sale

If you desire to sell your company at some time in the future, it is best to begin preparing for an eventual sale today. How do you accomplish this? Obviously your current focus is on growing the company, improving profits and enhancing the company's position in the marketplace. Preparing for an eventual sale will actually help you in managing your company today.

- ◆ **Managing the products & product lines:** What surprises most sellers is that buyers prefer to acquire a company with fewer products (with good sales levels) rather than a company with many products. Why is this? Fewer products mean lower inventory costs and a stronger cash flow. It also means that the sales/broker force (and you) can concentrate on those products in greater demand. Products that produce less than 1% (and in many cases 3% of sales) should have a compelling reason to continue to be carried. The introduction of new products or the printing of a new catalog is the ideal time to trim the line of the slowest selling items.
- ◆ **Financial Statements:** Should be produced on a timely basis – quarterly or preferably monthly. Year-end statements should be ready within four months. Once the statements are prepared, study them closely. How can gross profit and operating profit margins be improved? Do cost of sales include only costs that should be included (raw material, packaging, plant labor, overhead & freight in)? If commissions, freight out, office payroll or some marketing costs are included you cannot accurately compare your company's results with other food companies.
- ◆ **Managing the business:** Prospective acquirers look closely at a company's performance over the last three years. They look for sales and profit growth, improving margins and expanding distribution – and these sometimes require trade-offs. Expanding distribution frequently decreases margins (slotting fees, introductory offers, etc). This is understood, but sales should be increasing proportionally. Aim for a 50% gross profit margin (35% if sales are through distributors). On the Balance Sheet, Accounts Receivables and Accounts Payable should be linked. If receivables average of 45 days to be collected – then shouldn't payables be paid in 45 days? This linkage will improve cash flow and will focus attention on the collection of receivables.
- ◆ **The Tidewater Group** specializes in the food industry. As a result, we understand what prospective buyers look for in companies. We consult with and assist clients before they put their company on the market – sometimes three years before. Thus when the company is for sale, our clients tend to receive the best value possible in the market at the time. This is just one way we assist our clients. Let us help you!

For more information, give us a call!

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