

# Tidewater Group, Inc.

## Getting the most for your Company

**An Exit Strategy:** When an owner decides to retire there is more involved than just a retirement party. When you own the company and want to take life easier, a buyer must be found. You want a fair price that you are guaranteed will be paid. Wise entrepreneurs start to plan for the sale of their company three years in advance. Of course, sometimes owners do not have this luxury, because of sudden changes in health, marital relationships, or for other reasons. However, if possible, positioning the company for sale over a three-year period works best. Here are some issues to consider:

1. **Achieving the desired result:** Takes a change in philosophy. Manage to improve the company with an eye to developing a consistent record of growth, profit improvement and cash generation. Some areas to focus upon:
  - ◆ **Income Statement Management:** On a yearly basis, strive for consistent sales increases of 10% and if possible, improve gross profits by 1% - 2%. Manage expenses to try to achieve an Operating Profit of 10% to 12% of sales.
  - ◆ **Balance Sheet Management:** Collect A/R in a timely manner (25-35 days) and link A/P to when A/R are collected. Improve inventory turns by one turn each year. Each of these improvements should help you reduce bank debt by generating more cash.
  - ◆ **Personnel:** Make sure that your managers are good and will make a favorable impression on future prospects.
2. **The right advisor:** We have all heard that lawyers who represent themselves have a fool for a client. Just so, many company owners do not have the experience to represent themselves in the sale of their company. Not only does an owner need an advisor---they need the right advisor. Not many companies specialize in an industry and many are ill informed. Chose an advisor with transactions of your size, in your industry, and ask for references.
  - A. **Business Brokers:** Handle small, uncomplicated transactions---the local deli, dry cleaning stores etc. Business Brokers generally know the local market, and can foreword bids. Typically they do not do any analysis, valuations, or assemble corporate information into a Confidential Business Review that presents the company in the best light possible.
  - B. **Independent M & A Specialists:** Handle middle-market transactions (generally companies with \$1M-\$75M in sales). The independent M & A consultant will provide: A valuation of the company; A Confidentiality Agreement for prospective buyers to sign; and assemble a professional Business Review with the company history, current status and projections of future results. In addition, the M & A consultant should have a national database by industry segment and specialize in one or two industries so they can bring in-depth knowledge of the market. In addition, this type of organization will qualify prospective buyers, assist the owner during the due diligence process, right through the closing of the transaction. This is the value that good M & A Specialists provide.

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- C. Major Investment Banks:** Generally specialize in companies with sales of \$100 million or more. Their knowledge of this market is significant and their clients generally want to be made aware of transactions in this larger category. Surprisingly many large corporations have minimum size criteria (around \$100 million) and they will not consider smaller companies.
- 3. Preparing the Company for Sale:** If an owner works to position a company for sale prior to putting it on the market, the amount paid for the company increases significantly. This is different than managing for long-term growth. It requires incentives for key employees and others in order to meet the short-term objectives. What needs to be done? An M & A specialist with knowledge of your industry should guide you. The place to start is with a current valuation of your company.
  - 4. Corporate Valuation:** A corporate review by a capable advisor will provide the owner with a valuation of the company using various methods to determine value. In some cases the valuation meets the owners expectations in other instances it is below expectations, indicating that the owner needs to work to improve certain areas of operations or financial results (See paragraph #1).
  - 5. Confidential Business Review:** A professionally developed book that contains a history of the company, its personnel, a description of the products, markets served, types of customers, three years of financial history and projections of future results—usually five years.
  - 6. Marketing the Company:** Independent M & A Specialists have national databases with thousands of companies broken down by their market segment and containing such information as the company president, their criteria for acquisition, areas of special interest and other information. Usually a marketing letter is mailed to selected prospects, followed by a phone call. Questions are answered, visits arranged and every effort is made to assist the prospect in making a firm offer.
  - 7. Due Diligence and the Closing:** After the offer is accepted, the buyer will want to verify all that he has been told and shown. This occurs during the due diligence period. Your advisor should assist you in providing the issues and areas that the buyer wants to review.
  - 8. Future Relationship:** Many owners don't want to completely sever their relationship with the business, but prefer to remain in a consulting or other capacity. This can usually be worked out, provided the chemistry is right between the buyer and the seller. Establishing the job description and the overall relationship can be accomplished by a good M & A firm.

**The Tidewater Group** specializes in the food industry. Even within the industry we focus on small to medium sized food processors (sales up to \$75 million) in the U. S. and Canadian markets. 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 to help them achieve their objectives. This is just one way we assist our clients. Let us help you!

**For more information, give us a call!**

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