

Tidewater Group, Inc.

Mergers & Acquisitions
Corporate Valuations
Strategic Planning

THINKING OF RETIRING --- STRATEGIES FOR SELLING

(Point of View – 38)

1. **BABY BOOMERS** – Many are thinking of retiring and selling their business. 8 out of 12 will do so in the next five years.
2. **PREPARING TO SELL** – Selling a business is more complex than selling your house. There are issues of value, marketing to the entire country, financing and other issues. Before getting a valuation, get your company in order.
3. **GET YOUR COMPANY IN ORDER:** Produce monthly or at least quarterly financial statements, don't use the company for personal expenses, discontinue unprofitable or low selling SKU's, make sure all production facilities are clean. Review your team -- is your team a strength or a weakness? Should / can the gross margin be improved? Can some expenses be eliminated? Focus on sales and gross profit growth.
4. **BANK DEBT:** Bank debt usually must be paid in full when the transaction closes. If bank debt is more than the cash payment at closing, the seller must make up the difference. This doesn't happen often, because most buyers back off because of this issue before approaching closing.
5. **SALES MANAGEMENT:**
 - Slow growth** is better than fluctuating sales – manage sales growth.
 - Margins are important:** Aim for a 50% gross profit margin (less if substantial sales are through a distributor. If current gross profit is less than 50%, examine components of cost of sales, and evaluate a price increase. Increase prices by the rate of inflation (3-5%).
6. **INCOME STATEMENT MANAGEMENT:**
 - Control expenses**
 - Owners Perks:** Best to eliminate or at minimum create an “audit trail”
 - Focus on EBITDA** -- Target 10% or more!
 - Call us** for our recommended income statement format --POV-1.

(Over)

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(Point of View – 38)

(Page 2)

7. BALANCE SHEET MANAGEMENT:

- Receivables and Payables:** Are linked. If A/R takes 45 days to collect, then A/P need to be 45 days.
- Calculate and Manage:** Days sales outstanding and days payables outstanding.

8. **VALUATION** – A professional M & A expert can provide you with a written valuation, based on current market conditions in the food industry. This takes emotion out of the equation, and brings the seller to the realities of today's market

9. **TERMS** – Become familiar with the terminology that will be used.

- EBITDA**—Earnings before interest, taxes, depreciation and amortization –known as cash flow.
- RECASTING** – Adding back into profits, one-time expenses, personal expenses (cars, vacations, restaurant tabs), and owner's compensation that is more than would be paid to a manager.

10. **METHODS OF VALUATION** – A professional will present you with a variety of methodologies, the valuations they produce and finally an expected range of values your company should bring on today's market. The most commonly used methods are:

- SALES:** Smaller companies sell for a percent of sales, larger companies sell for multiple of sales
- NET ASSETS:** This would be the financial assets included in the transaction, less accounts payable and sometimes accrued expenses. Various multiples are then applied to this amount.
- EBITDA:** See above. Various multiples are applied to this amount.
- PRESENT VALUE OF FUTURE CASH FLOWS:** Frequently used by larger companies because it is believe to produce the most accurate value for the company, while allowing the acquirer to achieve their return objective.
- SIMILAR TRANSACTIONS:** Other transactions in the same industry are included (not names, but described) to show actual market transaction amounts.

7. TIME REQUIRED TO COMPLETE A TRANSACTION

-6 months to 1 year (some more---some less)

For more information, give us a call!

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