Selling the Professional Services Firm

STONEMILL PARTNERS
Enable Your Business
Learning Objectives

1. Deciding to transition, how to, and to whom?
2. Valuing your business
3. Making the Sale
4. Life after the Sale
Deciding to Transition – Selling Your Business

- You are thinking about retirement, other business opportunities, and/or suffering burnout.

- You are tired of the responsibilities of business ownership like payroll, taxes, insurance, HR but would like do what you do best and continue in business.

- Or, you need to get out of the gap, and wish you were bigger to play in bigger markets.
Ways to Transition (sell) your Business

1. Sell to family members
2. Sell to employees
3. Sell to fellow partners if any
4. Sell to Venture Capitalist/Private Equity companies
5. Sell to larger firm in your industry, i.e., strategic acquisition
Case #1 - Sell to Larger Firm

1. Sell to family members – *none interested or qualified*

2. Sell to employees – *they didn’t have any money*

3. Sell to fellow partners if any – *had no partners*

4. Sell to Venture Capitalist – *too mercenary*

5. Larger Firm Strategic Acquisition – *the best option for owners and employees; really the only choice*
Strategic Acquisition

1. It would leave employees in a better situation

2. Owner gets the most value for the business from a firm who wanted either a) skillsets/people b) another geographic area or c) diversified product offering or d) all of the above.

3. The deal would be easier with a larger firm; Cash and Employment Agreement
Things to Think About

- How to Value your Business?
  - Multiples of adjusted cash flow
  - You probably have a number in mind
  - Remember, the business will sell for what it will sell for; not for the magic number you need to retire and live happily ever after

- Do you have partners or other owners or are you a sole owner? Do you have a “bench?”

- Biggie: tell your employees or keep it secret?
Assemble Your Team

1. CFO
2. CPA/Advisor
3. M&A Advisor
4. Attorney
Insider Tips

- Think of this as just another sale. You’ve been selling intangibles all your career.

- There are two sales to be made: 1) sale of the business and 2) selling your employees on the notion of new ownership.

- Work with the M&A advisor on the marketing package.

- Don’t forget to keep the business running!
Key Employees

- The buying firm does not want your key employees to run for the exits

- Agreements can be made with key employees with a “stay” contract where they got a bonus if they stayed through the sale.
Help to Find Your Buyer

1. Broker – Strategic Targeting Process

2. Alert to competition; those that might be interested

3. It’s OK to approach prospective buyers; remember, this is a sale.
M&A Advisor - Finding Your Buyer

1. Advisor approaches market generally

2. For those who raise their hands, an NDA that includes non-recruitment of employees is required

3. A detailed firm description – Business Opportunity Summary is sent

4. Hold a conference call with target firms

5. If all goes well, they visit you and you visit them.

6. LOI, Due Diligence, Closing.
Prospective Buyer - Process

1. When they visit you, your employees will be wondering “who’s that?” How will you explain?

2. How’s the fit, focus and culture? Do you like them and vice versa? How do you feel your employees will be treated? Is this a good deal for them, as well as you?

3. Have your number and terms in mind so if an offer results, you are prepared.
Now for the Nitty Gritty
Assessing the Buyer

- Company philosophy; culture, fit and focus
- Seek a good match
  - How will they treat your present employees?
  - Do they compete with your clients?
- Get comfortable with the new managers/owners
- Expect to have to stay on for transition
- How will they incorporate your business?
  - Keep the name & brand - not your worry
The Deal

- How will you be paid
  - Cash at closing
  - Stock
  - Cash and stock
  - Any performance contingencies?

- Expect to sign a non-compete – time, geography, focus

- Employment Terms

- Closing Date
Informing the Employees

- This is also a sales job; transition is key
- Emphasize positive benefits for employees of new ownership
  - Greater job security
  - Better fringe benefits
  - More career paths open up
  - Chance to work on bigger and different types of projects
What To Do Before Selling

- Continue or beef up business development
- Get rid of dead weight
- Get financials in order
- Get financial reporting in order
- Secure tax returns for past 3 years
- Evaluate professional services related to selling your business e.g. Stonemill Partners
What Happens Once You Agree With a Firm to Sell Your Business

- Find out their process/timing
- Supply them with requested documentation – due diligence
- Continue with business development
- Work with preliminary purchase agreement
- Follow time line
- Keep target closing date in mind
How can a business sale be financed?

- SBA backed bank financing
- Small down payment
- Seller financing – usually will always be some
- Traditional bank financing
- Cash % at closing
- Incentives/ Earn-outs
How does Valuation work

- Valuation models
- Components of different models
- What banks look at
- Is there a value added component?
- Is it different than what banks do in their process?
- What impacts it positively or negatively?
- What is estimated and what must be substantiated?
- Are comps considered?
How is the listing price arrived at

- How does it relate to valuation
- How will the market respond
- Can it be changed later
- How do banks view it
- How much above valuation can a business be listed for
- What happens later if the price is to be reduced?
What Initial Steps Happen When a Prospective Buyer Expresses Interest

- Introductory call / visit - what is discussed
- What can be obtained before an introductory phone call and what is available at due diligence
- What questions are asked during the introductory phone call typically
- What are next steps after an introductory call
- Are there templates for an LOI that can be supplied to the prospective buyer
What to Expect from an LOI

- Is it binding?
- What if I don’t like the price/terms or other components - can it be countered or negotiated?
- How are employment agreements treated in an LOI?
- Do terms/pricing or other components change between LOI and closing?
- Are dates specified for due diligence periods, bank financing time periods and closing dates?
What Happens During Due Diligence Period

- What items are typically requested?
- Is the time period strict?
- Is there anything that can be worked on ahead of time to supply to the buyer?
- Will customer contracts be reviewed?
- Will employees be contacted?
- Should a purchase agreement be developed during this time?
What All Goes in a Purchase Agreement

- Does it reflect the LOI?
- What if something came out of due diligence that suggests something different than the LOI?
- What exhibits are typical?
- What is the timing for development, review, finalization and signing?
What are the last few things that need to happen before closing

- Any insurance consideration (tail insurance)?
- What happens to work in progress and accounts receivable accounting?
- What does the bank need to do to disburse funds?
- Who handles the closing?
- How is money disbursed?
What is to be expected from the buyer’s bank if bank financing is involved

- Third party valuation
- Bank valuation vs. Stonemill valuation
- What is the timing?
- Is there a proposal letter in addition to the commitment letter?
- When is financing for sure?
- Are they involved in closing?
Employment Agreements – Staying On With New Company

- Are there premiums for being a past owner
- Will the seller be paid the same even though there are less ownership duties
- Will the seller become billable
- What is the length of time – specified or ongoing
Employment Agreements – Staying On With New Company

- How are benefits like insurance handled?
- Is this part of the purchase agreement?
- Are there any considerations for employment agreements as it relates to SBA financing?
What are the options if there is an impasse between seller and prospective buyer?

- Do I consider going back to market?
- If I go back to market what is the success rate?
- If I go back to market what is the new timing?
What are the options if there is an impasse between seller and prospective buyer

- Can a previous prospective buyer come back in to play if I go back to market?
- Will the listing price change up or down?
- How do I evaluate going back to market with market or business trends?
Other

- Once due diligence is done then what
- What Communication Happens Along the Way with Key Employees
- When are Current Employees told of an impending sale
Information Resources

- We are pleased to offer you articles in our **When to Sell Your Business Series** to help you with the management of your business and the planning and decision making of your growth or transition strategies. We also offer information for when you want to plan an acquisition ([email us for the article(s) of choice](mailto:)).

- Increasing Firm Value - Getting Your Financial House in Order
- Free Marketing Report: 50 Marketing Tactics for Engineers and Architects
- **When to Sell Your Business:**
  - Beefing Up Business Development Before Selling - Business is On an Upward Trend
  - Is Your Firm in the Gap?
  - 7-Step "Leg Up" Plan
  - No Interest Anymore in Ownership Duties
  - Entrepreneurial Burnout
  - Retirement Age - Factors to Consider
After the Sale: Live Long and Prosper

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