



***Selling a Business: Strategic and Financial Issues***

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**Todd Anders**

Guidant Capital L.L.C.  
[www.guidantcapital.com](http://www.guidantcapital.com)



# Table of Contents

<b><u>I. STATE OF THE MARKET</u></b> .....	3
<b><u>II. STRATEGIC CONSIDERATIONS</u></b> .....	4
<b><u>Is it the right time to sell?</u></b> .....	4
<i>General Economic Conditions</i> .....	5
<i>Industry Conditions</i> .....	6
<i>Business Life Cycle Considerations</i> .....	7
<i>Other Considerations</i> .....	8
<b><u>Who would be interested?</u></b> .....	9
<i>Management/Employees</i> .....	9
<i>Financial buyers</i> .....	10
<i>Strategic buyers</i> .....	10
<i>Competitors</i> .....	10
<b><u>What are the seller’s goals?</u></b> .....	11
<b><u>III. FINANCIAL CONSIDERATIONS</u></b> .....	13
<b><u>What is the business worth?</u></b> .....	13
<b><u>Does structure really matter?</u></b> .....	14
<b><u>IV. PRACTICAL RULES OF THUMB</u></b> .....	15
<b><u>Multiple bidders increase price and help the process along</u></b> .....	15
<b><u>Being “for sale” can hurt the business</u></b> .....	16
<b><u>Be realistic about price</u></b> .....	17
<b><u>Sufficient runway is needed</u></b> .....	17
<b><u>Good execution during M&amp;A process</u></b> .....	18
<b><u>Be realistic on structure</u></b> .....	18
<b><u>V. COMMON MISTAKES</u></b> .....	18

Excerpt

## I. State of the Market

While the majority of this paper deals with principals that are not dependent upon the current economic conditions, it would be imprudent to ignore the current state of the mergers and acquisitions (M&A) market. Since the burst of the Internet bubble and the general downturn in the economy, the number of transactions occurring in the M&A market has undergone significant contraction and valuations have fallen as well. (See Figure 1)

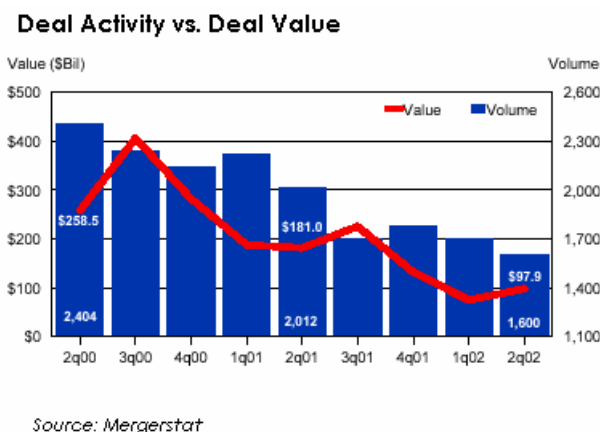
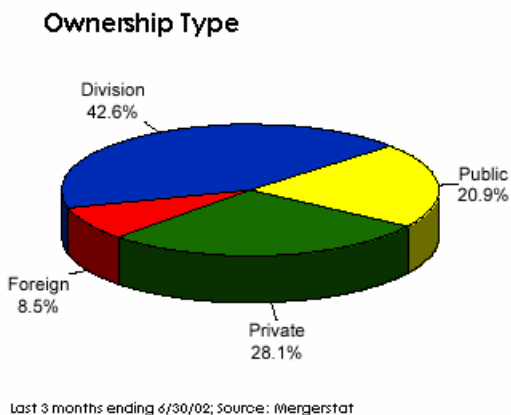


Figure 1

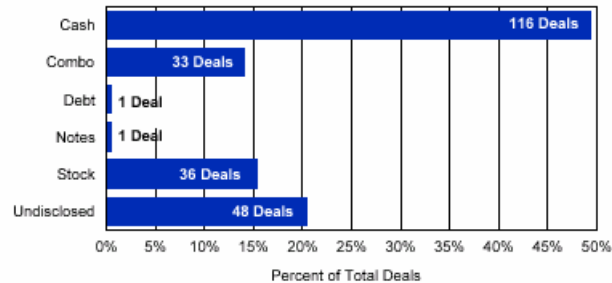
At the same time, the types of transactions that are closing has changed. More large companies have begun divesting non-core divisions and for the first time in some years, during Q2 of 2002, these divestitures accounted for over forty percent of M&A activity. (See Figure 2)



Excerpt

Deals are changing not only in number, size, and type, but also in type of consideration paid. As depicted by Figure 3, currently more deals contain a large cash component than is historically the case.

### Payment Methods



Last 3 months ending 6/30/02; source: Mergerstat

Figure 3

This is due in large measure to two concerns: tight debt markets, and the reluctance of many public companies to part with stock during a time they believe that their companies are undervalued by the market.

In light of the state of the M&A market, evaluation of the strategic and financial factors that sellers should consider in determining the right time to sell their businesses is more critical than ever.

## II. Strategic Considerations

### Is it the right time to sell?

Many business owners begin the process of trying to find a buyer without ever asking whether now is the right time to try to sell the business. They do not consider how timing affects the price they are likely to receive for the business, much less its affect on whether the business is sellable. The purpose of this section is to examine several general factors that impact a business's marketability and price. This includes both factors that the business owner can influence, and factors that they cannot. Because the way you run a business with a view toward an exit differs in several respects from the way you run a business planning to keep it indefinitely, planning for an exit should begin well in advance of the actual process of looking for a buyer. Owners should begin planning several years in advance of the exit to maximize the value of the business at sale. As a seller thinks about an exit, they should engineer financial performance to put the best light possible on the business. Some of the factors under an owner's influence that will impact the value of the business are:

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