

Your story must start with EBITDA and be backed up by management, revenue and service mix.



Timing is everything

BY KEVIN KEHOE

Having been involved in both buying and selling a business, I can say with certainty that a seller will always get the best price in a "seller's market." We are in one now. The time is right if you are a seller. But you must have your financial house in order — and be emotionally prepared for the process and the change of life a sale brings.

In past articles, I outlined three key ratios that will drive your earnings before interest, taxes, depreciation and amortization (EBITDA) to industry benchmark levels. These ratios demonstrate your financial house is in order, and they are great bargaining chips when you negotiate your multiple.

Believe me, the multiple is very negotiable. In fact, multiples have ranged from two to 10 times EBITDA in the last 18 months.

What makes your multiple so variable and negotiable? The No. 1 answer is the number of potential buyers interested in your business. The true value of any business is what a buyer will pay for it. Multiples heat up and rise, and cool off and fall in a manner not unlike home values.

The No. 2 driver of the multiple is the management team. No. 3 is revenue size. No. 4 is a revenue mix of at least 60% maintenance to 40% construction. My point is that you need a strong and coherent story to negotiate a better multiple. That story must start with EBITDA and be backed up by

management, revenue and mix. A better story lowers the risk for the buyer. Lower risk equals higher multiple. Make no mistake: When negotiating price, the buyer is trying to push as much risk back to you by lowering the price. I would. Wouldn't you?

Fold or hold?

You should sell when the timing is right, your financial house is in order and you are emotionally ready. Get a professional to work it through with you. Do not convince yourself you can negotiate effectively on your own behalf and get the highest multiple.

A good buyer is a smart buyer. He (or she) will know more about the process than you. He has done deals many times, and you will most likely only do this once. In addition, you are much more emotionally invested than he is. This always works against you. The buyer is not going to do you any favors; he is — as he should be — looking out for his own best interest.

Negotiating a deal requires knowledge and a dispassionate approach because so many things can change throughout the process. Timing is indeed everything, but you also want a "good" buyer. A good buyer may not always give you the highest price, but he will give you the best overall deal. In the end, it is not the price that matters, but how much you walk away with.

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