

# Closing the deal

Divestiture brokers work behind the scenes to guide entrepreneurs through the emotionally challenging and complex process of selling a business

By Matt Walcott

**T**he entrepreneur's dream is to own a business they can pass on to their children. But for many of them, the dream dies when they look at their children objectively.

"Entrepreneurial talent isn't hereditary," says Rudolph Dorner, president of Corporate Division Mergers & Acquisitions Inc., a Kitchener company that specializes in buying and selling privately owned firms. "There's no reason the son or the daughter has the necessary talent to run the business or the entrepreneurial flair, or be interested for that matter."

For some company owners, the option of passing on the business to children may disappear because they are short of funds for retirement and need more money than family members are willing or able to pay for the business.

When keeping the business in the family isn't an option, owners must go through the long and intensive process of selling the company on the open market. Once business people get over the psychological hurdle of turning over their life's work to a stranger, the process can take several years and tax their time and resources. Doing it right also often requires specialized knowledge and expertise, which is why many entrepreneurs turn to the corps of low-profile professionals known as divestiture brokers to assist them.

There are several steps to the process. Step zero, before the business actually goes on sale, is always to solve any major problems the business faces. Because businesses are usually priced based on their net earnings, they must be made consistently profitable before they go on sale. "I'm in the business of selling going concerns that are in good shape," says Carson O'Neill, divestiture adviser for Rincroft Consultants Inc. in Waterloo. "We're not a liquidation service here." Even profitable businesses require a good

deal of preparatory work before they are sellable. The company's books should be "normalized" to emphasize profits and reduce future tax exposure without cooking them, O'Neill says. And if a business is exceptionally dependent on the owner's personal involvement as boss or expert, others must be trained so the company is no longer a one-person show.

"You have to become redundant before you can retire," says Dorner, who says business owners should start planning for the sale of the business about three years before they put it on the market.

The process of selling a business can last as little as four months or extend well into a second year depending on the complexity and the ease in finding a buyer. Generally, sellers begin by preparing either a very generic advertisement or a short, anonymous summary of the business that will be sent to prospective buyers. Divestiture brokers may have a list of potential purchasers from their previous experiences, trade directories and unsolicited inquiries from companies on the lookout for buying opportunities.

After the broker winnows the pool of would-be buyers to those considered serious suitors, and the prospective purchasers sign non-disclosure agreements, they are sent detailed background information on the company, including financial statements and descriptions of assets and growth opportunities. Typically, five of the 10 or so companies sent the detailed summary will stick around for the next step — meeting with the sellers, Dorner says.

"Think of it as dating and getting married," says Dorner, who has brokered 74 deals since retiring from Babcock & Wilcox Canada in Cambridge in 1986. "You start dating with a huge pool, but you probably in your lifetime ask less than five women to marry you. And this is a once in a lifetime event that you're going to undergo."



Business broker Rudolph Dorner advises entrepreneurs to start planning for the sale of their business about three years before they put it on the market.

Photography | David Bebee

The few who make the cut then take the time to shake hands, tour the company's facilities and get to know the vendor. It's at this point, where personalities come into play, that the process diverges significantly from buying a house or a car, says Robert Mitchell, owner of the Sunbelt Business Brokers franchise in Guelph. Sellers may not want to negotiate with someone who is going to be difficult to work with or who won't get along with employees or customers.

"When you buy a house, you don't care who owns it," Mitchell says. "With a business, you really have to like each other, because you're going to have an eight, maybe 16-week transition with the person, maybe longer. So it's not just, »

## COMMON MISTAKES MADE BY PEOPLE SELLING A BUSINESS

**1 Procrastination or delay.** If business owners don't sell their business when they are doing well and they are healthy, they may wind up having to sell it when in ill health or when the business is in dire straits. They won't get a very good price under those circumstances. Or worse, they might die before disposing of the business, leaving heirs to deal with it.

**2 Failure to assure transferable value.** They may not think enough

about what could be called residual value as they run their business. They fail to get patents, trademarks or formal distribution or exclusivity agreements. Without those protections, the business is not worth as much.

**3 Fear of disclosure.** Some business owners don't want others in the industry to know their business is for sale. But many of the best-paying buyers come from within the industry.

**4 Unrealistic price expectations.** Sellers may keep putting off a sale until they get higher offers, but in the meantime, they could fall sick, or the business could fall on hard times.

**5 Absence of alternative plans.** Vendors should start the process soon enough that they can afford to hold on to it if they don't get offers right away. If they absolutely have to sell it within a year, they might wind up not getting the best price.

Source: Rincroft Consultants Inc.

» ‘Do I like the product? Do I like the numbers?’ It’s ‘Do I like this person enough that I can work with them.’”

If buyer and seller hit it off and reach mutually acceptable terms, they enter into the long and tedious stage of due diligence. The buyer prepares a file cabinet’s worth of documents on every aspect of the company’s finances and operations. Vendors are often surprised at the amount of work required in this period. “It takes a phenomenal amount of time and effort,” says Kitchener entrepreneur Rod Fuller, who has been through the process twice. “Even though you turned the task over (to a broker), it is still incumbent upon you to actually read every line of every document, because, ultimately, you are the guy who has to live with the consequences of your signature on the page.”

Fuller knows this from personal experience. When he sold Trylon Manufacturing in 1995, he noticed the share purchase agreement would have guaranteed there was nothing wrong with the water table underneath the Elmira’s company’s building. This in a community where the groundwater had long been contaminated by waste from the former Uniroyal chemical plant. Because he read the agreement carefully, Fuller was able to demand changes and avoid a potentially costly legal liability in the future.

The relationship between buyer and seller doesn’t end with the signing of the share purchase agreement. There are guarantees in areas such as the environment and health and safety, as well as vendor take-backs that keep the seller financially tied to the business for a few years. The former owner may remain with the company on a semi-retired basis to help with the transition. Such a long and winding road necessarily has many pitfalls where sellers can trip up and leave themselves undercompensated or at legal risk. One of the worst things business owners can do is to begin the process without firmly convincing themselves they really want to sell the business, says O’Neill, who worked in marketing, brand management and executive positions with several consumer products companies before he started Rincroft in 1998.

“They engage me and pay me, and then they go, ‘What are we doing?’” says O’Neill, who does about five deals a year, each worth between \$2 million and \$30 million. “We’re having a midlife crisis or whatever, we didn’t really want to sell the business. Tell them to go away, and we



Carson O’Neill has been advising companies and entrepreneurs that are selling a business since 1998. He stresses that it is a long, involved process with many pitfalls that can trip up a seller.

Photography | Peter Lee

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*Carson O’Neill*

apologize.’ That is a very, very unwise thing to do, because if I’ve already screened the best buyers, and they’re there, it’s hard to call them back and say, ‘We were only kidding.’”

In one case, the owner of a health-care products business backed out of the sale process, then later found himself in serious health trouble. When he put the business back on the market, he was seen as vulnerable and frail, O’Neill says. Knowing he was selling because he had to, buyers reduced their offers.

In other cases, owners delay the process so long, their business outlives them. When this happened recently to a local manufacturer, the company wound up in the hands of heirs unqualified to run it, and the legalities of selling it became far

more complicated because of the involvement of an estate, O’Neill says.

Dorner says he is not speaking out of self-interest when he says the biggest mistake owners of medium-sized businesses make is to try to sell the company without a broker. He compares such a decision to trying to ski for the first time without an instructor. “It really is a mistake to do it yourself, because you’re doing this once in a lifetime, and you just don’t have the experience, nor do you have the contacts from the people who you need to support you during the process,” he says. “And certainly, you’re not going to get the best price.”

The business brokers say they remain busy despite the slowdown in the economy. Demand from prospective buyers is even higher than normal because companies are looking for the cost-saving synergies that result from combining one or more businesses.

Mitchell, a former Proctor & Gamble executive who has put together about 30 deals, says that while there fewer “good businesses” for sale than there were before the downturn, there are still the same number of buyers. “If it’s a good business for a fair price, it’s very sellable,” he says. 