

# PREPARING TO SELL YOUR BUSINESS IN 2016

## How acquisitions have changed since the recession



By Bruce McConnell

In recent years, a significant number of garage door dealerships have been bought or sold. Whether they're driven by family decisions or strategic buyers, more acquisitions are expected in years to come as the baby boomer generation of dealers steps down.

During the last few years I have spoken with many buyers and sellers in my work to facilitate satisfactory transactions for garage door businesses. It's clear that the post-recession period has brought several changes to the requirements for completing such a business transaction.

### Post-recession changes

One big change is in the banking industry. Since 2006, it has become much more difficult for any small business to borrow money. Even with low interest rates, new banking regulations and economic uncertainty continue to constrain bankers from supporting small-business deals as enthusiastically as they once did.

Because of these changes, today's buyer must have more financial strength than was required 10 years ago. Today's seller must be prepared to meet additional lending requirements and provide more information to better facilitate the buyer's and lender's decisions. Income tax returns will rarely be enough.

To help offset the bank's risk, sellers are being asked to hold a much larger part of the final selling price in the form of a note due them from the buyer. This is true even with a financially strong buyer and bank approval in place. The amount of the note will vary depending on the information available to support the buying decision.

When the opportunity to sell your company presents itself, being ready can make the initial

conversation and the transaction a much more rewarding experience. The best way to prepare is to remain focused on your company's sustainability and the planning that supports it.

### Valuation basics

The basics of supporting the value of your business to a qualified buyer have not changed much. To maximize the transaction's value to you, you must be able to 1) identify the key elements of your success and 2) demonstrate that these elements will be sustainable under the new ownership.

You also need to be able to tell your story so that the new owners can see themselves stepping in with little difficulty. The effort needed to verify sustainability will vary depending on whether the potential buyer is an employee, a family member, or an outsider. Having your ducks in a row will help them secure the financing to buy your business.

The goal is to maximize the value of the business. That value is directly related to the earnings an owner can derive from the business.

Valuation for door businesses is often based on cash flow, defined as "adjusted EBITDA" (Earnings Before Interest, Taxes, Depreciation, and Amortization). EBITDA is adjusted for certain items that are within management's discretion. Once adjusted EBITDA is established, garage door dealerships generally command a valuation of three to six times the adjusted EBITDA.

### Maximize your EBITDA

Thus, the goal of a seller of a garage door company is to maximize adjusted EBITDA and to do it in a way that the adjustments and the EBITDA are consistent, sustainable, and able to

withstand investigation by an outsider.

In some cases, this will change the way that the business has been managed in the past. Most private businesses are managed with the goal of minimizing taxes. This is accomplished by increasing the costs and expenses that the business bears for the personal expenses of the owners.

Examples include management bonuses, expenses for automobiles, travel, clubs and organizations, household repairs, home offices, etc. While accomplishing the goal of minimizing taxes, these moves also minimize EBITDA.

However, when preparing your business for sale, you can legitimately add all of these costs back into the reported EBITDA of the business to determine value. They are within management's discretion; these costs would not be borne by a buyer. By adding them back to determine adjusted EBITDA, you can determine your business's real productivity as an economic engine.

### Get your plan in place

Make sure you have an annual financial plan in place that incorporates the key elements needed to support sustainability and value. Your annual plan and budget can be an extremely valuable tool to help validate that the company's methods and processes are effective.

When a prospective buyer reviews your business, the plan will provide additional assurance that you have been operating with purpose and direction. Building confidence in this manner greatly helps buyers envision how they will assimilate themselves into a well-structured and sustainable environment. ■

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