YOU HAVE AN OFFER... NOW WHAT?

How to Evaluate an Unsolicited Offer to Buy Your Business

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INTRODUCTION

You worked hard to build your business into the success it is today. Maybe you haven't considered the next step or envisioned your business running without you. It's possible you haven't given a thought to the next step for you or your business.

Then someone shows up with an offer and a check. Someone who wants to buy your business.

It happens. Are you prepared for that? Do you know what your business is worth? Do you think you could handle the sale of probably the largest asset you'll ever own, on your own?

Realistically, every business will change hands. Eventually. Either your estate will make the transition after you pass on, or you'll develop and execute a carefully managed transition, achieving liquidity and enjoying the fruits of your vision and hard work.

Don't you want a say – a carefully considered, measured say – in how your business transitions to its new owner? How your employees are treated. How your customers and suppliers are treated? How you'll reap the financial rewards and what you do with your newfound liquidity, and time?

Money is out there, and buyers are on the move. That activity is fueling competition, and private equity money is flowing downstream, stalking smaller, family-owned, businesses. As competition among buyers heats up, it's only natural the rate of unsolicited offers is rising as investors race to deploy capital, beat rivals, and avoid competitive bidding. Private equity deals are on the rise, with the sector responsible now for 30% of all transactions.[1,2]

As a business owner, you'll get one chance, maybe two if the exit is staged, to maximize the sale of your business. And selling a business is complicated, grueling, intense work. Will you fully understand the offer? Will you get the best possible valuation for you and your loved ones?

Think about it: If someone made an unsolicited offer to buy your business today, would you be ready?

THE 3 C'S

Through decades of serving business owners, the experienced team at SDR has developed a framework to guide business owners as they evaluate an offer and negotiate a sale. We call this "The 3 C's," a proven formula that encompasses both the quantitative and qualitative aspects of an offer:

Consideration, Certainty, and Closure.

Consideration is the monetary value of a deal. What are you getting paid for your life's work. Do you know what your business is worth? Certainty is simply how certain you are the offer will result in a successful transaction. Why waste your time and effort on a deal that won't close? And Closure is what happens when you accept the check, for your employees, your financial situation, and your own life after business.

There's more to selling a business than a handshake. When it comes to selling what's likely to be the biggest asset you'll ever own, you don't want to go it alone. Consider this, fewer than 7% of Americans sell their home without an agent at their side, and those who went "by owner" sold for about $60,000 less than sellers who employed a professional. Looking at it that way, selling a business to the first buyer who comes along unexpectedly, without a team behind you, looks pretty risky. You are an expert at running your business, not in valuation, transactions, deal structures, and taxation. It's not a fair negotiation when you don't know what you don't know.[3]

THE FIRST STEP: BEING PREPARED

If your business is prospering, and someone steps up with an offer to buy it, you can assume your business is a success. It probably is, considering some 20% of new businesses fail in less than two years and nearly half fail in the first five. But do you know, and can you articulate, how successful it is? The hard work of selling a business starts with accurate records, careful accounting, and hard numbers.[4]

It's one thing for a business to look and feel successful and valuable, but always be ready to dive under the hood and present documented proof of profit, growth, and sustainability. The time to focus on those figures is before someone comes knocking.

And think about your team of experts: your attorney, tax professionals, insurance provider, suppliers, and the trusted circle of advisors that help you make decisions. Don't forget your organizational chart, the people you count on to keep things running smoothly. Are you delegating authority? If you disappeared for three months, your business should continue to run, and grow, smoothly and profitably. If operations are dependent purely on the owner, it could be difficult to show a buyer the full value without the founder at the helm.

Then there's you. Your own financial and personal needs. Do you know your number, the financial resources you need to care for yourself and your family going forward when the business is no longer yours? What valuation should you be aiming for, never mind the offer? Even a fair offer may not be enough to carry you through your next chapter if you haven't calculated your number. Don't forget the invisible living expenses that may have been carried by your business, such as a company car, company club and professional association memberships, company-paid travel, subscriptions, business meals. Five years down the road isn't the time to realize you miscalculated.

CONSIDERATION: WHAT'S ON THE TABLE?

If you've kept your eye on profit and growth, and you've got solid, accurate records, you'll be better prepared to evaluate a offer, including an unsolicited offer that caught you by surprise. And if it's an unsolicited offer, even if it seems fair, it's probably worth your while to shop around. If a stranger knocked on your door with an offer to buy your home on the spot, would you sell? Or would you consult a professional who has sold other houses in your area?

But there's more to an offer than a number. First, remember an offer isn't necessarily the number you'll see at closing. Things change during the process. But for starters, it's important to understand today's often complex deal structures. We're watching a growing trend toward deals that are more complicated than accepting a check. A deal may hinge on a "seller note," where the seller lends the buyer a portion of the money in the form of an interest-bearing note. Then there's rolling equity (or seller reinvestment) where the seller retains partial equity. There could also be an "earn out" where a portion of the proceeds is contingent on performance metrics over a specified time period, often requiring the seller staying on and running the business. As with many complex situations, the devil can lie in the details, and landmines abound for the unprepared or unaware.

CERTAINTY: SPENDERS AND PRETENDERS

Anyone can make an offer, but the fact is, even if you believe you've done everything right, deals fall apart. And selling a business is hard, time-consuming work. If you were thinking of going it alone, consider the amount of time you'll spend away from your business trying to push the deal across the line. When the potential buyer makes an offer, that may not be the final offer when it's time to close. Even if a buyer signs a non-binding letter of intent specifying a price, that doesn't mean that's the price they'll offer at the end. As we say, "Nothing good happens to the seller after the LOI."

Right from the start, you have to show them yours – your books, proof of growth – but did the buyer show you theirs? Proof of funding, proof of more than passing interest, proof of commitment? Is the buyer a rookie, or an experienced player? Often, we find the rigor of getting to a closing without assistance draws an owner's focus off the business, causing it to suffer and decline in value. After months of negotiations and meetings and lawyers, if the business has lost steam, a buyer may lose interest.

Those do-it-yourself, DIY, home renovation shows are popular, but most viewers know they aren't going to buy a beat-up house with "good bones" and come out with a beautiful home by themselves. It's not realistic.

Same can hold true when selling a business. DIY can be trap. You probably know the pitfalls of selling a home without a professional: lowball offers, unexpected demands for repairs, closing delays, buyers with cold feet. Now amplify these pitfalls. Your business is worth a lot more than your house. We admire successful business owners for their expertise in their field. But smart owners know they aren't experts and have little to no experience in M&A. Everyone gets the idea that paying fees to an outsider to transition you away from your life's work feels strange. But most of us pay real estate professionals to help us sell our home to make sure it's done right, the contracts are solid, the taxes are paid, the inspections are thorough and true. Some common myths around the work Investment Banks do to help sellers include:

Myth: With DIY, I'll Save Money

As we've seen, there's more to a deal than a check and a dotted line. And at these levels, naïve missteps cost money. Real money. Maybe you heard someone in your field sold their business. A buyer walked in, produced a check and the deal was done. But that's usually a fairy tale. What you heard didn't include the months of negotiations, the due diligence, the financial audits and reviews, contracts, mutual protections and a full, legal review of every term and condition. Throughout the life of your business, you've hired the right people for the job: the electrician, excavator, attorney, accountant, and your employees. Facing your biggest financial challenge, doesn't it make sense to bring in professional help?

DIY can save money: the buyer's money. Having an experienced M&A team on your side creates better offers, both financially and by vetting potential buyers and getting deals to closing. Having pros on your side protects valuation and delivers hidden economics through negotiating leverage. A buyer with financial resources knows all the tricks. Accept a lone, unsolicited offer and there's no bidding environment to drive up the price or even hold the buyer to the original offer.

At SDR, our goal is, at a minimum, to create substantial additional net economic value through a competitive process, financial cleaning (collecting and assimilating data), and the leverage of putting the seller on even footing with savvy professional buyers.

Myth: Well, With DIY, I'll Save Time

If only this were true. It's a long way between an offer and a sale. Selling a business is harder than selling a used Toyota. A lot harder. Business owners are successful because they are experts in their field. M&A pros are successful because they are experienced at negotiating and executing transactions. Selling a business is a grueling, full-time job. Studies show deals are more likely to unravel, sometimes late in the process after a lot of energy has been expended, without a professional quarterbacking the process, checking the boxes, and moving the parties along. Studies have found at least 70% of acquisition offers fall through. After all this work, that's a lot of wasted time. A competitive process, a second buyer in the wings, and a commitment to protect the buyer, helps ensure a successful sale. And it's not just lost time at stake, if the owner loses focus on the business, that could mean both lost revenue and valuation.[5]

Myth: I'll Have More Control Doing It Myself

This is a little bit of mental misdirection. Sure, you're used to being in charge. But selling a business isn't about control, it's about influence, tipping the scale in the seller's favor without driving off the buyer. A deal has to work for both sides, but it has to work a little better for the seller. No one can force someone to buy a business or even to complete a deal. Influence and leverage are key. The right M&A team creates leverage through a competitive process, ensuring financial reporting, demonstrating the seller's value, and professionally managing the due diligence process. A divide and conquer method allows the M&A team to professionally leverage the details while the owner continues to focus on the business, building value a buyer can't resist. Remember, private equity buyers don't walk into the arena alone. Behind any offer is a team of seasoned professionals, and there's nothing that says they have to play fair. Even for small deals, institutional buyers will spend millions during due diligence. It's a negotiation. Are you more experienced than the team across the table? Having the help you need helps you negotiate a deal that works in your favor, not someone else's. When your business and your family's future are at stake, it's critical that you make the best deal possible.

CLOSURE: WHEN THE DUST SETTLES

Signing on the dotted line isn't the end of the process. Some say it's only halfway. Really, it's a new beginning. You'll need to be prepared legally, financially, and emotionally. In any sale there may be warranties and deferred compensation issues. Then there are financial considerations such as tax implications and strategies for the proceeds, charitable giving, and the shift from illiquid to liquid investments. If you're under 65, don't forget about health and dental insurance for you and your family. You'll need a plan for that, and it's not cheap.

Even that's not the end. You're not just a business founder and owner, you're a person. There are emotional concerns as well. How sure are you the buyer will be a good steward? Will you worry about the wellbeing of your employees, your customers, your suppliers, and your brand? If you have an equity stake in the business, that's of course a concern as well. Your business is your legacy. In your heart you'll want to see it live on and thrive.

Finally, there's your newfound free time and identity. Without going to the office each day, what will you do? Stimulating, rewarding opportunities don't just happen, they are planned. Sure, you can travel, visit relatives, golf and enjoy all the rewards you've earned. But for how long? Younger friends and family probably still have jobs. Work friends, the people you've seen every day, eight hours a day for years, are back at work. There's no substitute for meaningful human interactions. What's your plan?

AFTER YOUR WORK, PUTTING YOUR MONEY TO WORK

Just because you stop working doesn't mean your money should. As you transition from illiquid to liquid assets, you'll want to create a smart, efficient financial plan with your wealth advisor. There are short- and long-term investment decisions to make, tax strategies, risk management, and estate planning decisions to make. Financial, tax, and insurance professionals can help manage what will likely be the largest financial return on investment in your life. It makes sense to have help.

WHAT OUR CLIENTS HAVE TO SAY...

KENNY BURTS – KENNY'S GREAT PIES

Kenny's Great Pies ("Kenny's") exemplifies the value of a successful, carefully crafted, transfer and closure negotiated to meet the owner's specific needs and the continuation of a legacy. Kenny's is a leading maker of branded and private label premium pies in Smyrna, Georgia. Founder Kenny Burts started making pies part-time in his kitchen in 1989. With his father's financial acumen and the help of loyal advisors and employees, he built the company to a national level. By 2019 the company operated from a 33,000 square foot factory. And Burts knew it was time to transition.

In his early 60s, after 30 years of hands-on management, Burts was ready. "The thing about entrepreneurs is, we're driven," he says. "But when you get to that point you are all-in as an owner, the one that has everything on your shoulders, with the obligation I felt to the company, I was just too stretched. After 30 years I had to ask myself how much more can I take?"

Burts is an expert at making pies, marketing, and networking. But not at selling a business. He was approached by several organizations eager to handle the transfer. But with no full concept of valuation, EBITDA, and a clear goal of legacy continuation, respect for employees, a continuing role, and maintaining a footprint in his beloved community, Burts knew he needed smart, experienced guidance from someone who would listen. "You can't do it all yourself, and you better bring in a team that can. The local brokers were just business brokers. It's different when you're dealing with investment bankers, these guys are at a different level. The whole idea is to get you the best deal, it's not just about the money, it's the best deal. It was a complicated process. That's what SDR does, they understand your wishes, they ask what you want, and they lay it out. It's not only that they're guiding you, they're teaching you. It's complicated, but that's what they do. I was able to craft a deal I couldn't be more happy with, and SDR's involvement was paramount."

After a careful search and months of negotiations, Kenny's Great Pies sold to Kaho Partners, a group committed to sustainably managing family-owned businesses. Burts retained ownership of the factory and a role as senior advisor. His staff enjoyed profit sharing and stayed on, including his brother-in-law, Gary Muter, as CEO. Kenny's corporate philanthropy and community engagement is intact. Burts developed a plan for retirement and stays busy spending time with his family and community, running his 120-acre farm, and helping his sons grow their own business.

A SOUTHERN CELEBRATION

After the successful closings of Kenny's Great Pies and Project Crosswalk, SDR Team Members Andy Limes and Scott Mitchell traveled to Atlanta, Georgia for a joint celebration with leadership from both transactions. Project Crosswalk was a multi-entity transaction in the traffic services industry and featured Georgia-based Wilburn Engineering and Carlson Construction Services along with Denver-based WL Contractors.

Pictured from left to right: Gary Muter (Kenny's Great Pies), Andy Limes (SDR Ventures), Kenny Burts (Kenny's Great Pies), David Swales (Carlson Construction Services), Jason Leatherman (Wilburn Engineering), Scott Mitchell (SDR Ventures)

JEROMY METZ – DONE PLUMBING AND HEATING

Done Plumbing and Heating is a family-owned, people-focused plumbing company based in the Denver area. Done Plumbing and Heating engaged with SDR after receiving an unsolicited offer from a large acquirer in the space. SDR represented the 20-year-old company on the sell side, walking the owners through the arduous process and ensuring maximum seller valuation while seeking a committed, capable buyer who would continue the company culture of service and uphold the promise of customer service and value. Ultimately, SDR was able to create a highly-competitive bidding environment which resulted in 118% increase from the initial offer, all within a time frame of less than six months. After the sale, company president Jeromy Metz said, "From start to finish, SDR exceeded our expectations of what an advisor could bring to the table. Their M&A process seamlessly navigated us through the high-intensity market landscape in record time."

DR. NORI WARREN – FOUR PAWS ANIMAL CLINIC

South Carolina-based Four Paws Animal Clinic is a good example of how M&A professionals evaluate an offer and leverage multiple buyers that deliver both maximum value and cultural fit. When the Four Paws founders received an unsolicited offer, they contacted SDR to review the terms. SDR led a targeted search, and in less than seven months leveraged multiple offers, driving up valuation by 85% over the original offer while allowing the founders to select a buyer with a shared vision. Co-Founder Dr. Nori Warren said, "Not only did SDR increase the terms of our transaction by several multiples, they did so knowing our strategic buyer would need to preserve the culture of our clinic for our employees, patients, and clients. The process was extremely professional and defined from initial engagement through closing."

SDR, AT YOUR SIDE, ON YOUR SIDE

Selling your business is one of the most important decisions in your life. It's not something to take on without careful consideration and a deep understanding of every aspect, from evaluating the offer – especially an unsolicited, lone offer – through negotiations to a final deal, and ultimately understanding what comes next. Every business owner is unique, with different goals, company cultures, and financial and personal needs.

There's a lot of "dry powder" out there and private equity buyers are eager to spend. But selling a business is not a simple process, and evaluating an offer is not as clear as it might appear. It's a process that should be discussed with family, trusted advisors, and experienced M&A professionals who can help you maximize the return on your hard work and protect your legacy through a framework of the "3 C's," Consideration, Certainty, and Closure.

If you've received an unsolicited offer, or you're considering the sale of your business, don't go it alone. Give us a call. Our highly skilled, experienced team of M&A professionals blends intellectual capital with persistence and grit. With a foundation built on partnership and trust, SDR is committed to delivering the exceptional, rewarding experience business owners deserve.

RECENT TRANSACTIONS

PROTEX PAWZ
Has been acquired by
MONOLITH
SDRVentures SELL-SIDE TRANSACTION

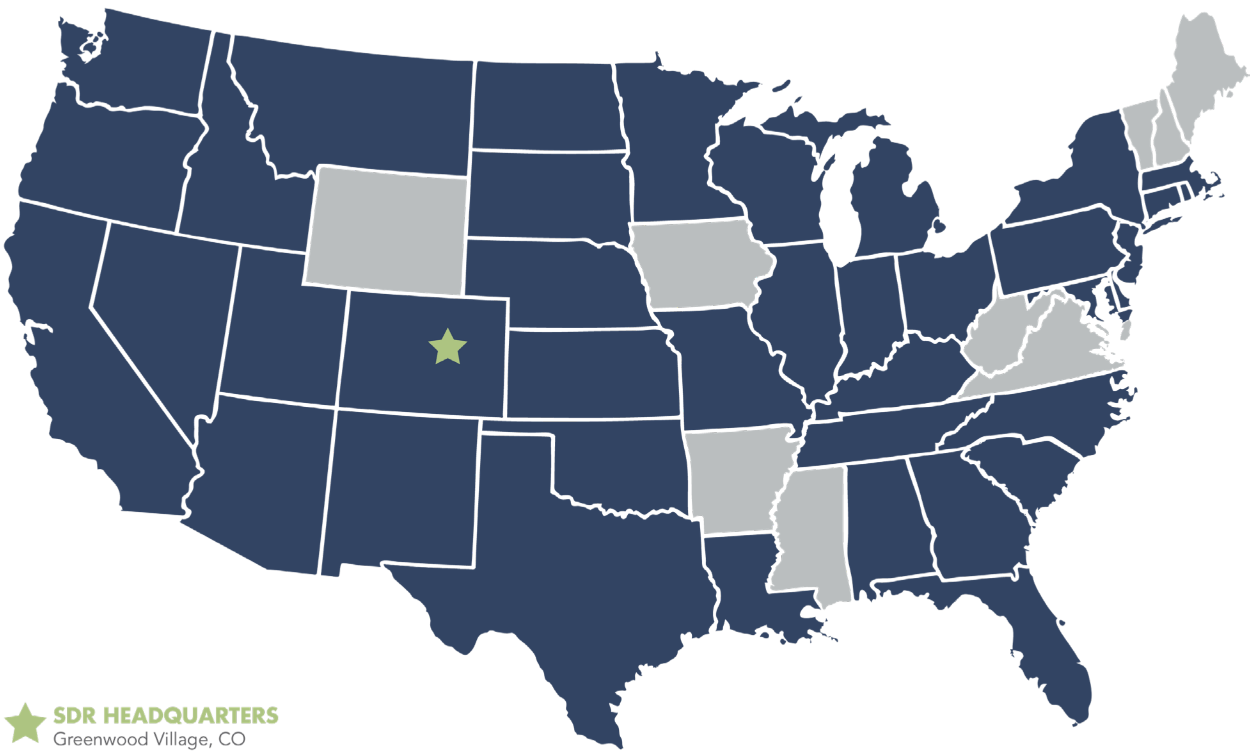
COMPLIANCE RESOURCE PARTNERS
Has been acquired by
ACA
SDRVentures SELL-SIDE TRANSACTION

athome veterinary
Has been acquired by
AMERIVET VETERINARY PARTNERS
A portfolio company of
AEA
SDRVentures SELL-SIDE TRANSACTION

L&D ELECTRIC
Has been acquired by
SERIES 1 ACQUISITIONS, LLC
SDRVentures SELL-SIDE TRANSACTION

OUR REACH

SDR has Successfully Helped Business Owners Across 41/50 States (So Far)



OUR RESULTS

20+ YEARS
Serving Business Owners Nationally

88%
Transaction Close Rate

19%
Higher Than Average Closing Price

135+
Completed Within the Firm

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ADDITIONAL SOURCES

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