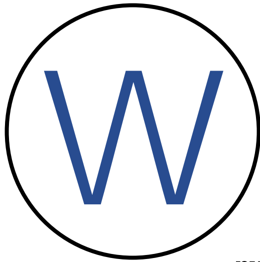

Thinking of selling your training company? Here's what you need to know first.

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When people tell me that they're interested in selling their training company, I often reply that this may not be the best time. The economy is one reason, but more often it's not the right time because people haven't prepared.

Taking three months, six months, or a year to get your company ready for sale can significantly increase your selling price. It's like selling your house: If you don't mow the lawn or paint first, you're devaluing the property.

Telling people to wait to sell their company might be controversial coming from an investment banker. But I try to put myself in the shoes of the seller and ask, What would I do if it were my company?

Questions to ask

If you're considering selling your company, the first step is to make sure you know the answers to some crucial questions. They are based on more than 50 transactions in which I represented either myself, a buyer, or a seller (usually the latter). The list isn't exhaustive—there's no end to the possibilities and opportunities—but it's a good start.

Why do you want to sell? Are you ready to retire? Can't grow the business any more on your own? Need cash? Scared of the future? Think it's an ideal time? Want to take a sabbatical? You need to understand your motivation for selling so you can map your strategy.

For example, if your business is built around you and your motivation is to stop working, selling your company right now isn't your best option. You need to examine how you can develop people and put them in leadership roles, and other ways you can make sure you're not the focus of the company, before you put it on the market.

Ask, Is my motivation clearly established and is my strategy aligned? You need to be honest with yourself and *all* other parties involved.

When did you decide you wanted to sell? If you just decided, this probably isn't the best time. First, you need to get your house in order and make decisions about what you can do over the next 12 months or so to make the company more attractive—thus, more valuable. It could be the best 12-month investment of your working life. Note: A year is a general estimate. The exact amount of time you take to prepare depends on how much in order your company already is and on market conditions.

How is the economy? Investigate how experts view the economy, short- and long-term. Ask yourself honestly how

On the Block

your company is doing in comparison to market indicators. For most people, all other factors being equal, 2001 isn't the time to sell. Multiples (factors of revenue or profit) are lower; psychology is negative. Taking your eye off the ball (your business) at this time isn't a great idea.

However, you need to consider all information and make your own decision about what you think the economy will do. If you believe the market will turn around and you have time to wait, wait. If you believe it will continue to fall and not recover for years, I'd say now is a good time to sell. If you believe business will get worse and you have a buyer who thinks it will get better, then it's a good time to sell to that buyer. What you believe the economy will do should dictate your actions.

How is your company doing? What's your growth rate? How's your booked business? Will your company be attractive to buyers right now? If you're not sure, consider waiting and trying to boost the perceived value of your business. If your company is doing fabulously and you've prepared it for sale, expect to receive lower multiples, or consider a short wait until the economy rebounds.

How is the stock market doing? Who knows what market performance will be by the time you read this, but the horrendous decline since spring 2000 has taken its toll on valuations.

How is the training industry perceived? Because of the information explosion, there are more training companies than ever. (I define a training company as any business that supplies information or knowledge to enable people to grow.) Right now, people see a lot of potential in the training industry, especially in e-learning. There's a lot of excitement, but there's also a high degree of risk. Many dot.coms have failed, and most e-learning companies haven't found a strong and replicable business model.

Will people still want to invest in training? I can't say for sure, but I feel very positive about the industry. I think new business models will be created and the industry will continue to generate excitement.

How are training stocks doing? Several, Learning Tree and Apollo for instance, have done well while much of the market fell. But Provant, the first training company developed by a professional consolidator and viewed as a model for the industry, hasn't excelled. It bought up small enterprises and made them into larger ones, creating synergies in operations, selling, and so forth, but share price has suffered. Yet, Provant is still one to watch.

A lot of e-learning companies will be losing the battle for market share. As people look for consistency and compatibility among providers, there'll be only a few big winners. They'll likely be the ones with the flexibility, resources, and staying power to weather the sort-out process.

What multiples are other training companies going for? Multiples are established through the process of due diligence. The seller tries to raise the multiple; the buyer tries to lower it.

In any acquisition, the multiples depend on deal construct and size, company history, position in the marketplace, and projections. The multiples also might depend on the currency used to buy the company: cash, stock in a public company, stock in a private company, or stock in a company about to go public. The less cash you use, the higher the multiple is. The more cash you use, the lower the multiple is. But the center of the bell curve on all cash deals has definitely dropped over the past two years.

Commandments for Successful Transactions

Luntz, Suleiman, and Associates offers clients the following guidelines to help them prepare for the most important transaction of their lives.

- Thou shalt not refer to the other side as "those guys" or "you guys."
- Thou shalt not display anger or accuse others.
- Thou shalt not exaggerate, posture, or conceal—be it dollars, facts, or thoughts.
- Thou shalt honor all confidentiality agreements and not allow third parties to determine or influence common-sense business judgment.
- Thou shalt not stand falsely on principle or pride.
- Thou shalt not surprise the other side or draw lines in the sand.
- Thou shalt get to know the other side personally and try to understand their position and accommodate it when possible.
- Thou shalt seek and provide clarity and be patient.
- Thou shalt be responsive to all requests and represent all matters fairly.
- Thou shalt use humor when under pressure and be creative when encountering roadblocks.
- Thou shalt believe, respond, or act at all times on the assumption that the other side is acting in goodwill.
- Thou shalt, above all else, behave ethically and professionally.

Are you ready for due diligence? Due diligence is the research a buyer will do to be sure that the company is in the condition and performing the way you say it is. It's an intensive, invasive, and time-consuming process, often very painful to owners. No stone is left unturned. No statement, number, or relationship will go unexamined. It's best to prepare yourself, your people, and your documentation early.

Are you prepared to devote substantial time to the sale? No one knows your business better than you do. Investment bankers can present and position your company, but only you know the intimate details. No one else can answer the nitty-gritty and far-reaching questions.

The average length of time for a sale is six to nine months. You need to be prepared to meet with buyers, do a lot of research and preparation, go through due diligence, and then complete the transition.

Do your employees know about your plans to sell? If they do, fine. Involve them, but don't take too much of their time away from running the business. If they don't know, think about how and when you will tell them. There are different philosophies and styles for different people and situations. Think it through. If it's not handled properly, you could blow a deal or lose key staff members. Count on an inevitable leak early in the process.

What does your family think about your plan to sell? Whether they're in the business or not, your family members will be affected because the sale will affect you. Communicate with them sensitively and openly. They will likely offer worthwhile input.

Are you planning to stay with the company after the sale? Are you sure? Why? What will the buyer think? Different buyers have different views about this point. How flexible are you? Talk to your advisors.

What are you planning to do after you sell? Start a new business? Sail around the world? Many owners have a plan before they sell and then change their minds afterwards. The smartest thing you can do is to take a sabbatical. Use that time to digest, reflect, consider options, and then make a decision.

Have you reviewed legal and financial issues with your accountant and lawyer? So, you're still a C corporation? What does that mean to your ultimate valuation? Do you report revenues on a cash basis? What would your financial picture look like if you did it on an accrual basis? What impact does this have on your valuation? Oh, you have a long-term contract with a major client, and it's unprofitable? Do you have a partner with a right of first refusal? Speaking of partners, how does he or she feel? Not just about selling, but about each of those questions?

What will happen to your business when your plans to sell are known to everyone? I'm not talking about just employees but also suppliers, trainers, contractors, and customers. Your plans will become common knowledge at some point. When are you going to tell what to whom?

A certain level of delicacy and art is involved here—specific to the situation and the people. You should determine what the breach of confidentiality that's bound to occur will do to all parties.

What are the implications of a transaction that takes three months? Six months? A year? Longer? Acquisitions can take weeks, months, or years. Sellers often don't know how the deal is going to go. Can you move swiftly if need be? Can you wait? Prepare yourself, psychologically and tactically.

If your transaction drags on more than a year, it's probably because you didn't prepare adequately at the beginning or your expectations were unrealistic. You may have to reevaluate. Are you asking for too much money? Have conditions changed? Is your company saleable? You might have to change what you were willing to do, give up, or invest.

What business and personal relationships have you established with potential buyers? What should you do about them? You don't want to surprise a friend or a personal contact who may be a potential buyer. He or she may call you and say, "I understand that your company is for sale. Why didn't you tell me?" Don't put yourself in that position. Inform your contacts ahead of time.

A friend or contact may want to make a preemptive bid, offering a large price for you to take the company off the market. That's fairly common. But you must ultimately make a business decision about what's right for you and your company.

Does your company have any long-term agreements? Leases? Employment? Customers? A buyer will look at every agreement and every relationship. Some will be plusses in his or her eyes, some will be minuses. Can you change, cancel, or extend any troubling agreements?

Think like a buyer. Ask if you were buying the company whether you would want this relationship or that client or this lease. Consider the buyer when faced with such questions as, Should I renew the lease or rent month to month? What about this relationship with Mary who gets 23 percent of the profits every year? Should I renew her contract as is? Look at every long-term obligation and ask, Will the buyer want this? Can I change it or trade it off?

How is your business distributed (revenue and profits) among customers? More customers and repeat (or booked) business make a company appear safer and surer. What can you do to improve that picture before selling?

Terms Defined

Multiple. The price to earnings (P/E) ratio, calculated as the price of a stock divided by its earnings per share. The higher the P/E, the more money the investors are paying for their shares, and thus the higher the expectations for earnings growth.

Valuation. The process of appraising an asset or a business to determine its worth. Valuation analysis is generally the basis for price negotiations in mergers and acquisitions.

C corporation. A corporation whose profits are taxed separately from owners' income.

Cash basis (of reporting revenue). As you receive monies.

Accrual basis (of reporting revenue). When the transaction occurred or money is due.

Earn out. Payments made to an acquired business in addition to the acquisition costs, based on the acquired business's future earnings beyond a specific level. Earn outs are typically used as incentives to keep key management on-board for an extended period of time after the transaction.

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Painting the house

If you're still interested in selling once you've thought through each question, you can begin getting your company ready for sale.

Finances. The first thing you should do is to make sure your financial information is up-to-date, accurate, and compliant with industry standards.

Tax and legal documents. Make sure that you've filed the necessary taxes legally and accurately. The training field has a lot of interesting tax situations. Review all of your documents with your lawyer or accountant so that you're ready for due diligence.

Staff. Begin working out the plans for your employees with some flexibility for later changes.

- Who is going to stay?
- Who's going to go?
- Are current financial arrangements consistent

with industry practices?
- Will any employees want different financial arrangements?
- Are employees prepared to be interviewed during the due diligence process?

In addition, make sure that employees update their CVs so you can present them to new management.

Business plan. Assess where you see your business going in the next one to three years. Where were you planning to invest money and allocate resources? Spell out your plans. The buyer won't necessarily follow them, but he or she will want to know what direction your company was heading. It's like acquiring a ship that's in motion. A buyer may want to send it a little bit off the original course, but probably won't want to have to turn it completely around.

Customers. Potential buyers may want to talk to your major customers to ensure that their business is real and not based on personal relationships that won't exist after the sale. They also will want to make sure that customers are satisfied and will continue to do business with the company. Depending on the nature and size of your business, buyers may want to talk to three, four, or 50 customers.

Company history. Update your history. Buyers will want to examine how the company has performed in different product lines over different periods.

Facilities. Make sure the physical appearance of your office and facilities will be attractive to a buyer who wants to stay at that location. Check that everything is organized, neat, and clean.

Family members and yourself. It's important to prepare emotionally for a change in lifestyle. Whether your life becomes more restrictive or freer depends on whether you stay with the company, leave it, or change roles.

Ready for due diligence?

Potential buyers will want to conduct due diligence on your company to ensure that it's performing the way you say it is. They'll want to know that the income and expenses you reported are accurate and not due to unusual circumstances, for example a large percentage of earnings being generated by a major one-time contract.

Buyers will also want to be sure there are no surprise liabilities, such as an instructor suing for copyright infringement, a client withholding payment, or a sexual harassment suit looming.

Potential buyers will conduct these specific types of due diligence:

Accounting due diligence. An accountant or accounting firm will examine your books.

Legal due diligence. A buyer's lawyer or outside firm will check all contractual obligations. They'll want to be sure that all records and forms are filed and that there are no hidden liabilities.

Business due diligence. The buyer will talk to customers and employees to make sure they'll be around after a sale. The buyer may also examine the products to ensure their quality.

As a seller, you may also want to conduct due diligence. For instance, you may want to check that the acquiring company has enough money or stock to pay you. If the deal is an earn out, in which you'll get money based on future performance, then you'll want to know the new company's track record. What were the results of past earn outs? Can you talk to other sellers the CEO has worked with? If they're not happy, you may not be happy.

The longer the term of the pay out and the more contingent the deal is on future factors, the more due diligence you'll want to do on the buyer's financial condition and history. Have your lawyer look over documents with a fine-tooth comb.

Final steps

After due diligence, and sometimes during, the buyer and seller prepare a definitive agreement and closing documents. Hundreds of pages are involved. Your lawyer will be the lead person for coordinating this, but you must be involved in the key decisions. And if due diligence doesn't go well, you may be in for another round of negotiations. Stay cool and use the time to your advantage. The buyer wants to make the deal as much as you do.

If all goes well, you'll close and then begin the transition, in which you hand the reins over to the buyer. Do it with grace, full cooperation, and a desire to see your people and your life's work continue to grow and prosper. **TD**

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