

# Links Capital's Perspectives

## Preparing Your Business To Sell

Visit us at [www.linksap.com](http://www.linksap.com)

ACQUISITIONS  
DIVESTITURES  
FINANCINGS

### RON CHICOYNE, CFA, CF, ICD.D

MANAGING DIRECTOR, LINKS CAPITAL PARTNERS LTD.

When shareholders decide to sell their company, they must have a strong understanding of the transaction process and how their company should be positioned. This is a process that occurs over time working with experienced advisors. As a company evolves, it is important to understand how changes impact operations and more importantly what effect these changes will have on the valuation of the business. At Links, we address key areas shareholders should consider when evaluating and positioning a company for a monetization event while being cognizant that purchasers want to see the company continue to generate and grow earnings. Addressed in this newsletter are some select areas that shareholders should focus on.

#### Financial and Operational Diagnostic

Each business and industry encompass a different set of drivers. Owners must understand where their company fits compared to others in their industry. When companies are evaluated by interested third parties, one of the first things reviewed is the financial and operational performance of the company. Purchasers need to understand what improvements can be made for the business to gain or sustain top quartile financial performance. Metrics such as return on equity, revenue growth, working capital turnover, gross margin analysis, inventory turnover, and EBITDA percentage of revenue are areas where comparisons to others in the industry should be made. Companies with top quartile performance, or with the ability to achieve this performance, often realize premium multiple valuations which can be 1.0 to 1.5 turns higher than the average company. This financial analysis should be done well in advance of the transaction to understand how any improvements could be made to maximize the selling price in the future.

#### Normalization of EBITDA & Forecasts

When valuations are completed on businesses it is typically EBITDA as a cash flow metric that is multiplied by a valuation multiple to attain a total enterprise or entity value. The EBITDA is a proxy for the cash flow of the business and will be measured as a percentage of revenue when compared to similar businesses. EBITDA should be normalized/adjusted historically, taking into consideration certain one-time and redundant costs to arrive at the normalized EBITDA. Normalized EBITDA should be calculated each month and compared to results of previous months, quarters, and years to see if any trends are developing.

Companies should have detailed forecasts in place that will be tracked against actual results as the company moves towards close. Purchasers will look at historical forecasting to see how accurate and realistic management has been in the past. The seller should be able to meet their forecasted expectations, as these forecasts help form the value of the business. The purchaser will monitor monthly forecasts leading up to the close of a transaction, any negative forecasted variances will be cause for concern for the purchaser which may result in negative adjustments to the purchase price.

Links Capital specializes in the divesting and financing of businesses in the Canadian middle market

Links Capital's philosophy is to preserve value throughout the entire transaction process. Senior partners handle all aspects of the transaction from inception to close and beyond, maximizing proceeds.

Being experts in private equity markets and corporate finance enhances value to our clients through extensive buy and sell-side experience.

**CANFER**  
ROLLING MILLS LTD.

A full-service manufacturer of pre-engineered steel buildings, steel building components and modular steel buildings for the industrial, commercial agricultural and residential markets

has been acquired by

**TARPON**  
ENERGY SERVICES LTD.

Links Capital acted as financial advisor to Canfer Rolling Mills Ltd. in the structuring and negotiating of the divestiture



Links Capital



**Links Capital**

Divestitures • Acquisitions • Financings

# Preparing Your Business To Sell

**Links Capital are specialists working with private equity firms, institutional investors and strategic purchasers in raising capital and divesting of businesses**



It is not unusual for purchasers to engage a third-party accounting firm to perform a quality of earnings report, where exhaustive financial analysis is completed on all aspects of the business. Having the right systems and reporting in place well in advance of any financial due diligence, will help mitigate potential issues as the financials of the company are analyzed by the purchaser.

## **Working Capital Analysis**

More emphasis has always been placed on the income statement but there are many items on the balance sheet that are just as important but don't always garner the same attention. Shareholders should complete an in-depth analysis of the working capital of the company to address how improvements can be made and how these changes will affect the company's profitability. Working capital as a closing adjustment may result in a positive or negative impact on the proceeds at close and is a very important aspect when negotiating the conditions of a transaction. Consideration should be given to any seasonal aspects that may have an impact on working capital when planning a time to close a transaction. Having an effective plan to deal with improving inventory turns/costs, collection of receivables (long-term receivables), and considering discounts on quick-pay payables can relate to improvements in the working capital, which may realize higher net proceeds at close.

## **Implementing Operational Changes**

When companies decide to implement operational changes that affect efficiencies and possible earnings, the company must demonstrate these earned gains through a period of time before looking to divest. Gains may be seasonal in nature, and be earned over a period of time, or be attained by generating certain volumes. The longer the period of time incorporating these gains, the more justified the prospective purchaser will be in compensating the business owner for them. Plans must be implemented, as a plan alone seldom results in any substantial lift in the purchase price.

## **Transaction Continuity**

One of the more important items when it comes to selling a business is the continuity of the business both during and after the transaction. During the transaction, many owners get emotionally involved in the selling process placing additional strains on the business. In an ideal world, the advisor insulates the business owner from getting too involved in the process. From the outset, advisors need to develop a plan with the company such that the owner understands their role in the transaction. With the shareholders focused on the business producing more consistent performance, the advisor can then channel all of their efforts on maximizing the proceeds for the shareholder.

## **Tax Planning**

To structure a transaction in the most efficient manner shareholders must get early advice on tax planning. Tax planning is always shareholder specific, which may require time to put into place. Tax specialists should work with the shareholders to understand their risk tolerances with respect to the planning and will likely provide several options. The transaction may be a share, asset, or hybrid sale, and dependent on the structure may require further negotiation on finer details to maximize realized proceeds for the shareholders.

For shareholders to maximize proceeds at close, they must surround themselves with specialists in each area of the transaction. Whether it be a corporate finance advisor to position and sell the business, a tax accountant/lawyer to deal with the tax consequences of the transaction, or a transaction lawyer to paper the deal, you are encouraged to find the right specialist that fits your needs.

Links Capital Partners is focused exclusively on Selling Businesses, Raising Capital and assisting our clients Acquire Businesses. Links Capital are specialists in maximizing proceeds for their clients while working with private equity firms, institutional investors and strategic purchasers.



**Ron Chicoyne, CFA, CF, ICD.D, Managing Director**  
**Phone 403.809.7985 Email [rchicoyne@linkscap.com](mailto:rchicoyne@linkscap.com)**  
**Suite 240, 30 Springborough Blvd, SW, Calgary, Alberta T3H 0N9**  
**[www.linkscap.com](http://www.linkscap.com)**