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NOTEBOOK OF IDEAS FOR

DIVESTITURES *of* SECURITY GUARD COMPANIES

A periodic informational letter published by Robert H. Perry & Associates, Incorporated

Dedicated to Buyers and Sellers of Security Guard Companies

PREPARING FOR THE DUE DILIGENCE: ADDING VALUE TO THE SALE

There's been a lot of discussion lately about the changes in the marketplace for buying and selling security guard companies. Some owners selling today are receiving unprecedented premiums. However, there are more and more owners anxious to sell, but finding that their company is either not saleable, or if so at a very disappointing price.

This change in the marketplace is the result of the buyers becoming much more selective in their acquisition candidates. Even the aggressive buyers no longer have the attitude that they'll buy now and fix later. They are still paying premium prices, but only for companies with their desired quality already in place, and operating in areas they have targeted for growth.

This change also reflects buyers becoming more critical in the due diligence process. Buyers are now less willing to assume liability risks. They are scrutinizing the records more closely in proving the financial models upon which they base their offering price. We do not see the aggressive buyers relaxing these more stringent standards anytime in the foreseeable future. If anything, they will become more critical in evaluating their acquisition candidates.

For these reasons, owners who want to make sure they get top dollar when they eventually sell should start now preparing the company to meet the buyer's new criteria and pass the buyer's scrutiny during the due diligence process.

Services We Offer Owners of Privately Held Security Guard Companies

Owners who want to sell now

We prepare a valuation of the company so the owner will know what to expect in the sale. We then prepare a detailed **confidential** selling memorandum that describes the company, without revealing sensitive competitive information. We initiate negotiations with pre-qualified buyer prospects, approved in advance by the owner, and then manage the negotiations to a successful completed transaction.

There is a lot of information to be gathered for the due diligence. The information must be accurate and consistent with what is presented to the buyer in the initial selling memorandum. If not, the seller could face a serious downward adjustment in the offering price.

Accumulating the due diligence information on a timely basis, and at the same time making sure it's accurate, becomes a challenge to the seller and its staff. A buyer's due diligence request list can include over 100 items. Some require no more time than it takes to pull a sheet of paper out of a filing cabinet. But many require going to third parties for information, which can take some time, and if not handled very carefully, can create suspicion that the company is for sale.

Planning well in advance of the actual due diligence gives the seller time to organize the information and emphasize the positive aspects of the company, and enables the buyer to expediently examine the documents. This reduces the possibility of an adjustment to the offering price.

☐ What's involved in getting the company ready for the due diligence?

1. ***Accumulate the items that are not date-sensitive***. Many items the buyer will be examining are date-sensitive – in other words, the buyer may want to look at current customer invoices, current payroll registers, insurance loss runs, etc. Obviously, these items cannot be accumulated until the time of the due diligence. However, there are other items that have little or no changes over time that can be accumulated in anticipation of the eventual due diligence, such as articles of incorporation, stock books, employee manuals, affirmative action policies, etc.

   The more items that can be accumulated now and in the months (or years) preceding the actual due diligence, the more organized and accurate the seller can be in gathering the last-minute most important date-sensitive items.

2. ***Get corporate records up-to-date.*** Many closely held companies do not stay current on their corporate housekeeping obligations. In preparing for the eventual due diligence, the owner should start paying closer attention to these items. Rather than make a mad rush to the attorney's office at

Services We Offer Owners of Privately Held Security Guard Companies

Owners who are not ready to sell now, but want to make sure they receive a premium price when they eventually sell

We offer a strategic planning engagement to owners who want to start preparing for the sale several months or years in advance of the actual sale. We analyze the company as it is today, then advise on the changes that need to be made in order to make the company more attractive for a future sale based on the new more stringent criteria of the buyer prospects. We also advise and monitor the progress on getting the company ready for the eventual due diligence.

due diligence time, the owner should have an organized timetable of meetings with the attorney to update the stock records, record minutes of shareholder meetings, election of officers, etc.

3. ***Get the financial records current and consistent.*** Many companies have financial records sufficient for the owners to run the company on a day-to-day basis, but the records may not give the right kind of information, which does not lend credibility to the due diligence process. Today, the records of most small companies and many medium-sized security guard companies ($50 million of revenue or more) fail this due diligence credibility test. As a result, what would be a very attractive price gets diminished because the seller just cannot prove the figures in the time it takes to get through the due diligence process. They have a lot of reports, which the owner uses to manage the company, but the reports are not integrated into a common system. This produces inconsistent financial information, and undermines the credibility of the due diligence.

4. ***Make sure the company has the characteristics the buyers are looking for.*** Before a buyer makes an offer that starts the due diligence, the seller must attract a buyer prospect. What's obvious to the owner may not necessarily be consistent with the buyer's requirements, that include among other things: types of accounts, customer written contract language, benefits to employees, account retention history, risk management policies, organizational structure, etc.

   During the due diligence, the buyer will be assessing these items and the "trial run" due diligence will guide the owner in building the company around these desired characteristics.

☐ When should the owner start the "trial run" due diligence process?

The owner should start having a trial run due diligence as soon as it realizes that it wants to sell in the near term, or in the next few years (every company will eventually be sold, or an undesirable option, liquidated). As mentioned above, there's a lot of information to accumulate in order to get the company ready for the due diligence. The sooner the

Services We Offer Owners of Privately Held Security Guard Companies

Owners who are already in negotiations to sell their company

We provide fairness opinions for the offer already presented by the buyer prospect. We have in excess of 20 years experience in managing the sale of over 130 security guard companies, which uniquely qualifies us to advise on challenges for security guard company sale transactions.

owner gets started, the better.

The owner may want periodic updates to the "trial run" due diligence as conditions within the company changes materially.

☐ Who should manage the "trial run" due diligence?

The best person to manage the process is one who is familiar with the buyer's more stringent criteria. The most logical is one who has managed several security guard company sale transactions. This person will know the items on a typical buyer's due diligence list and the best way to accumulate and present the information. Most importantly, this expert will advise on the changes that need to be made to the present system in order to add value to the eventual transaction. RHPA

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This periodic informational letter is published by:

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We initiate and manage transactions for sellers of security guard companies. Established in 1977, we have successfully represented over 130 sellers located in the United States, Canada, Western Europe, South America, and the Caribbean.

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