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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

7 ESSENTIALS TO A SUCCESSFUL SALE

Almost everyone has heard at least one story about some security guard company owner who, not looking to sell the company, was contacted by a generous buyer with an offer the owner couldn't refuse, and after a short period of negotiating sold the company for some amazing price.

In the real world of selling security guard companies this rarely (if ever) happens, especially in today's marketplace. While there are some very good opportunities available to sellers today, the good deals don't just "happen". Sellers today have to be more proactive by managing their expectations: a process of getting emotionally ready to sell, preparing the company for the sale, choosing a qualified advisory team, and keeping one's perspective.

Proactive owners managing their expectations will follow these seven steps:

We Represent Owners of Privately Held Security Guard Companies in Various Stages of the Sale Process

- ***Owners who are not ready to sell now, but want to make sure they receive a premium price when they eventually sell***
- ***Owners who want to sell now***
- ***Owners who are already in negotiations to sell their company***

1 *Before starting the sale process, successful sellers will plan for life after the sale.*

A large number of the sellers we've represented over the past 25 years were not at retirement age. They were in their 40's and 50's and had taken their company as far as they could before it started to decline and lose value. They had identified a second career, which they had a passion for, and the sale of their security guard company was going to be their means of financing this new venture. They had a plan and they were motivated to sell.

We have also found that the overwhelming reason owners do not reach a successful sale is because they do not have a plan for what they will do after the sale. These owners were usually encouraged by some outsiders (overly zealous business brokers, friends or relatives) to entertain selling. They agree to talk with some buyer prospects. The more they talk about it, the better the possibility of selling sounds. They're presented with a very enticing offer – a premium multiple by industry standards. Then realism (or anxiety) sets in and they start to think about what they'll do when a buyer takes over. They don't want to work for the buyer because of the constraints imposed by the large corporate culture. They would not make a "good employee".

Many would-be sellers unfortunately do not start this "what-am-I-going-to-do-after-the-sale" thinking until after the seller and buyer have spent a considerable amount of money and time in negotiations and contract preparation. The buyer has also completed due diligence, in which case the owner has revealed a lot of sensitive information to a likely competitor.

The deal they have on the table may be very good, the best they're going to see for many years - in fact, better than what they'll probably see when they're actually ready to sell. But if sellers don't plan for life after the sale, they'll start thinking of excuses to back out of negotiations.

Buyers seldom know that the real reason owners do not go through with the sale is because they did not plan for life after the sale. This change of heart is often disguised as some disagreement over the terms of the transaction. An unfortunate outcome of backing away is a strained relationship between the parties; and the word gets out that a seller is unreasonable. Both of these consequences undermine the owner's credibility in a future sale.

2 *Successful sellers will know the probable outcome before starting the selling process.*

Owners not being forced to sell have a minimum selling price in mind. However, this minimum price is often determined by subjective factors,

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.

such as an amount needed to assure a comfortable retirement, finance a new business venture, or match a price a friend or competitor got when they sold their security guard company. They may also use pricing multiples they learned from other sale transactions.

Whatever the owner determines the value of the company to be using these arbitrary methods, it's usually more than what the generous buyers in the market place are willing to pay. And if the price the owner has in mind is a true bottom line, then the company does not get sold. The other problem in using these methods is that an owner may have an unrealistically low opinion of the worth of the company. By way of illustration, we've seen companies sell for as low as 20% to as high as 50% of annual revenue in today's market. An owner of a premium company will likely undervalue the company if these "street multiples" are used without considering the unique characteristics of the company, or the availability of aggressive buyers for companies in the seller's geographic area.

The prudent owner will seek advice from an expert in managing sale transactions in the security guard industry. This expert will offer a picture of the current market conditions, and what an owner may reasonably expect regarding price and terms. Then the owner can decide if the market conditions warrant offering the company for sale.

3 *Successful sellers will prepare for the eventual due diligence long before they decide to sell.*

Prudent owners today are starting to prepare for the due diligence several years before the anticipated sale. This preparation gives them time to ensure that the due diligence information is complete and accurate. The successful seller will start accumulating material that is not date-sensitive, and put it in a convenient place to have available for the eventual due diligence.

When buyers have to wait for the seller to gather the information, the buyer's due diligence team has to divert their attention to other matters. This distraction interrupts the momentum of the transaction and threatens the interest the buyer has in the seller's company. Also, information gathered hastily has a likelihood of being incomplete or inaccurate.

4 *Successful sellers will not place unreasonable conditions on a buyer prospect receiving the evaluation material, or on the negotiation process.*

Many would-be sellers are too unrealistic when it comes to revealing information about the company to a competitor. Under a proper set of negotiating conditions and monitoring procedures, the owner should not

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.

be unduly concerned about showing information to a competitor. After all, the buyer has to know enough about the owner's company in order to establish a level of interest.

Just how much a buyer needs to know depends on the stage of negotiations. In the initial stages, when there may be several buyer prospects interested in the seller's company, the information may be quite limited even though the prospects have signed confidentiality agreements. However, as the negotiations progress and the seller allows one buyer exclusive negotiation privileges, the flow of information provided to a buyer becomes more open. It is also at this stage that the buyer not only scrutinizes the facts and figures, but evaluates the seller's forthrightness in providing the information. The buyer may ask to see information the seller thinks is not pertinent to the buyer's due diligence. However, unless the seller has a very good reason for withholding the information, the buyer's request should be accommodated. If the seller refuses, even if the information was in fact not needed by the buyer, the seller is sending the buyer a message that there may be something the seller is trying to hide about the company. Even though that particular item may seem insignificant, or not needed, the buyer starts to wonder if the seller is concealing something more important.

The buyer usually wants to meet with key employees before the closing, which is sometimes a contentious issue. Some sellers bring the key employees in on the negotiations early in the process, especially the ones needed in accumulating the due diligence material. They know the importance of the employees hearing about the pending sale from the owners rather than through the rumor mill on the street. Other sellers are reluctant to let any of the employees know about the pending sale, which creates problems in gathering the needed due diligence information. However, there usually comes a time when the buyer needs to talk to some of the key employees who will be important to the buyer in the post-sale transition, and probably will continue working for the buyer. The circumstances under which the buyer meets the key employees is a judgment call based on whether they are needed for the gathering of the due diligence material, are being hired by the buyer, their depth of knowledge on how the seller's company is run, etc. The prudent seller will recognize the importance of getting these employees involved at the appropriate time in the selling process.

5 *Successful sellers will make sure all the information given to the buyer prospect in the initial stages and throughout the negotiations is accurate.*

In order for a buyer to make its decision to buy a company, it must have the necessary information. When selling a security guard company, the initial information given to a buyer will be items such as overall average bill and pay rates, types of accounts, average site size, account retention history, organizational structure, financial statements, etc.

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 over 20 years of experience in managing the sale of more than 130 security guard companies, which uniquely qualifies us to advise on challenges for security guard company sale transactions.

This is the information the buyer will use to develop its level of interest and subsequent offer. Should the buyer find in due diligence that the information is incorrect, the buyer may require an adjustment in the offering price, or even decide to walk away. It's important that this does not happen. The seller should make sure all the information is accurate. If the figures are "rounded" or "estimated", they should be marked as such so the buyer will be more forgiving if the verification proves the figures inaccurate.

6 *Successful sellers will retain experienced advisors.*

Most owners have trusted friends and advisors they call on when it comes to important decisions affecting the company. The prudent owner will also confide in these friends and advisors in thinking through the decision to sell. Once the decision to sell is made, the successful seller will chose advisors experienced in sale transactions as guides through the mazes and pitfalls surrounding the sale process. These advisors will be experts in their respective fields that relate to the sale of security guard companies.

The attorney - The most competent legal advisors for a sale may not necessarily be the ones used for general corporate matters. The legal ramifications of a sale can be very complex and require a special expertise in this area. The successful seller will make sure that its legal counsel will have this special expertise and will be a deal maker, not a deal breaker.

The tax advisor - Although the gross purchase price is important in the transaction, the amount the seller has left after paying all the expenses and taxes associated with the sale is the real measure of the deal's ultimate success or failure. Successful sellers retain tax advisors that are well-versed in the tax ramifications of selling companies, especially the unique challenges that go along with security guard company sale transactions. In fact, they will start the tax planning process long before the anticipated sale since some of the tax benefits are date-sensitive and cannot be realized without a long waiting period that would undermine the sale process, such as converting from a C corporation to an S corporation.

The transaction manager (intermediary) - The transaction manager starts the transaction in the right direction and keeps the process on track. The successful seller will have consulted with an expert transaction manager long before the sale process begins. The manager will advise the seller on matters relating to getting the company ready to sell- such as customer contract language, presentation of financials, how much information to disclose to buyer prospects, getting ready for due diligence, etc. The transaction manager does the initial work in selling the company so the owner is free to run the company and keep it healthy for the sale. If the transaction manager has a special expertise in the security guard industry by having managed several security guard company transactions (REPRESENTING SELLERS, NOT BUYERS), his services will add substantially more value to the transaction for the seller than the fee he charges.

The transaction manager will first consult with the seller on the realistic price he can expect before a buyer prospect is contacted. He will contact only the most qualified prospects. These prospects will be the most generous ones currently in the marketplace, and have a track record of protecting the confidentiality of a sale. This list will be very short and changes frequently. The intermediary will then manage the transaction by working closely with the attorneys and tax advisors, and coaching the seller in keeping his perspective during the process.

7 *Successful sellers will spend one-on-one time with the buyer prospects.*

Choosing competent advisors are absolutely necessary to a successful transaction, but there comes a time when the seller and buyer need to meet without their advisors. They need to speak off the record about their goals and concerns about the transaction. There are many things unique to the company being sold that cannot be presented in a selling memorandum or evident in due diligence, that should be revealed to the buyer. If the seller always hides behind its advisors or uses them to do all the talking, the buyer may start to wonder if there may be something the seller is hiding. Also, this one-on-one time is very important in developing the proper relationship necessary for the seller and buyer working together during the transition period.

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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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