Robert H. Perry & Associates, Incorporated

Notebook of Ideas for
Divestitures
of Security Guard Companies

Vol. 16, No. 1

Finding the "Best" Buyer Without Putting a "For Sale" Sign on the Company

Owners looking to sell their Security Guard company will not have a difficult time finding a buyer in today's seller-favorable market. There are many pro-active buyers that are aggressively contacting owners of well established companies to determine their interest in selling; and they're promising premium multiples. But these pro-active buyers may, or may not, be the "best buyer" - one that will give the best price and terms; and have the experience in getting transactions consummated. Finding the best buyer without putting a "For Sale" sign on the company can be a daunting task, especially for inexperienced sellers not having help from advisors who are experts in managing the sale of security guard companies..

Consider these two scenarios of actual methods used by many sellers in finding a buyer; both producing very disappointing results:

Scenario #1 - The sellers' concern over confidentiality limits their ability to find the best buyer.

The owners do not want their employees, customers and especially their competitors to find out about their desire to sell the company, so they wait for a buyer prospect to make the first contact - and they don't have to wait long in this seller favorable market. They receive a call from one of the aggressive (but not necessarily the most generous) buyers, or from the buyer's broker, promising a great deal. The owners agree to talk and they get into negotiations. At some point, the buyer is going to make an offer to buy the company and the owners are going to have to make a decision to sell or not sell. The decision is usually made on the basis of whether or not the owners think they're getting a fair price. Unless the owners know what the company is realistically worth, the owners are depending on this one buyer to set the value. The owners can look to the "street formulas" to value the company, but the formulas vary greatly depending on the characteristics of the company being sold. The formulas are also based on averages - and most sellers don't want just an average price for their company. If these sellers do not have some way of measuring the offer in hand against the realistic value of the company, they could very well be selling the company for a lot less than it's worth.

A case in point: We recently accepted an engagement to manage the sale of a well established medium sized security guard company. As part of our engagement, we were to evaluate the unsolicited offers the owners were receiving from the "so called" aggressive buyers in the industry. The owners were not thinking about selling at the time, but got a heightened interest as the callers got more aggressive, so they agreed to look at offers just to see what the buyers had in mind. We gave the owners a Fairness Opinion on the offers they received against what they could receive if they put the company up for sale. We also disclosed to our client the short list of qualified prospects we knew would be interested in the company and would probably be more generous in their offer. It was interesting that the lowest offers came from the so called generous buyers that had been the most aggressive in contacting our client directly. If our client had accepted any of these offers, they would have sold the company for a lot less than the offers submitted by the buyers we introduced into the process after we were retained to manage the sale.

Scenario #2 - The sellers find the best buyer by putting up a very large For Sale sign, and then fail to sell the company.

The owners of a medium sized security guard company have definitely decided to sell. They hire an investment banker (or "general" business broker, if it were a small company) with no experience in valuing or selling security guard companies; and they use this intermediary's advice on the marketing process. The intermediary sends out 400 one-page profiles on the company to prospects they have identified from some directory of security guard companies. The profile does not identify the selling company's name, and hopefully doesn't reveal enough information for the prospects to guess the seller's identity. Most of the prospects are long shots that are not qualified to buy the company, but the intermediary, not being an expert in selling security guard companies, doesn't know this. The buyer prospects start indicating an interest in the intermediary's client and the intermediary gets the prospects to sign a non disclosure agreement; then sends the prospects a book that describes the business.

Since the intermediary contacted 400 prospects, chances are good that somewhere on the list were a few of the qualified buyers who will go through the usual process of signing a confidentiality agreement and reviewing the book the intermediary has prepared on the company; then make an offer. However, the sellers aren't sure the offers are the best they will eventually receive, so they leave the process open looking and hoping for a better price. The qualified, serious buyers are turned off by the auction, so they withdraw their offer or just lose interest.

After months of talking with prospects, the sellers get very disappointed in the offers they have left; so they decide not to sell. The tragedy in this process is that not only did the sellers miss out on getting a premium price for their company; but the company is now labeled with a large For Sale sign. The prospects honor the confidentiality agreement they signed for a while, then start talking. Also, the sellers have tainted the value of the company for a future sale.

There are ways to maximize the selling price without putting a For Sale sign on the company. It's a process that starts with making sure the probable selling price is acceptable; then contacting ONLY the best buyers and putting a process in place that expedites getting the transaction consummated.

Make sure the probable selling price will be acceptable

Owners should not talk to even the first generous buyer if they're not prepared to accept what the buyer is probably going to offer. To do so, not only exposes sensitive confidential information on the company to an outsider, but also taints the value of the company for a future sale - when the seller may actually have a need to sell.

The best buyers today may be paying a higher than normal premium, but they're not over paying for the company. They're not paying so much that they go outside their criteria for returns on their investment. This criteria varies from buyer-to-buyer, which is why finding the best buyer is important as the seller is getting to the short list of prospects.

In order to find out what this probable price will be, the owner should consult with an expert in managing the sale of security guard companies. This expert will be able to tell the owner what to expect in a sale, as well as advise on the probable structure of the sale - amount to expect at closing, the terms and conditions on receiving the balance and who the likely buyers will be (so the owners can decide if they want to reveal sensitive information on their company to prospects that may in fact be their competitors). The expert can also advise on the likely method for purchasing the company - i.e.; stock or asset purchase. Buyers typically want to structure the transaction as an asset purchase if the seller is a small or medium sized company, which can be tax disadvantageous to sellers operating the business through traditional "C" corporations. This expert will work with the seller's tax advisors in coming up with the optimal structure.

The expert can also let the owners know what to expect relative to the normal time it takes to get through a transaction, the information that will have to be provided the buyer for the due diligence process and the details of the normal representations and warranties the buyer will expect in the purchase contract. All of these are important to the seller in deciding whether or not to go forward in talking with third parties about buying the company.

Contact the best buyers and ONLY the best buyers.

The more buyer prospects knowing about the owner's intentions to sell, the greater the possibilities are that the word will leak to the streets, even if the prospects have signed a confidentiality agreement. This is why it's very important to work from a short list of the most qualified buyers - the best buyers. The best buyer prospects are the ones that not only will pay the best price, but can get the transaction consummated by paying the highest price, with the most seller favorable terms.

Obviously, identifying best buyers is a challenge to any owner looking to sell. Unfortunately, the aggressive buyers, the ones calling the companies asking if they want to sell, don't come clearly labeled as the best buyer. There's a lot of due diligence, time, and financial commitment in coming up with this short list.

This is why the prudent seller will again look to the experts in managing the sale of security guard companies. The experts will more than likely have done a transaction, or several transactions, with the best buyers and will know what to expect from each of them in a transaction.

We are frequently contacted by companies wanting to be put on our buyer contact list. In fact, over the years, over 500 companies, individuals and investment groups have contacted us asking to be put in our system, but only a few met the requirements to be put on our best buyers list. Most are not willing to pay premiums, do not have the financial strength or outside borrowing capacity, and do not know how to move expeditiously through the negotiating process. We don't think many transaction managing firms go to the extent we do in checking out and performing due diligence on the buyer prospects, because of the expense and time commitment. However, this process of coming up with only the best buyer is very important to us in keeping the For Sale sign off our seller/client.

We perform this buyer due diligence by visiting the executives of the buying company, even if headquartered in a foreign country, as is the case of many of the most aggressive buyers in today's market. We establish a working relationship with the decision makers and find out about their policies and criteria for their acquisition targets, all in an effort to make sure the buyers' criteria matches the characteristics of our seller/client. We also have a detailed discussion on their procedure for examining a purchase target - especially the personnel involved in the decision making process. A red flag goes up if we learn that field level personnel may be part of this process, since that limits our ability to keep the negotiations confidential.

Another important aspect of the due diligence on the buyer is finding out their track record in previous acquisitions - how well did they transition the accounts and employees? If we do not know this from previous experience with the buyer prospect, we'll make due inquiry since this is very important to our seller/client realizing its full purchase price.

Have a Process that Expedites the Negotiations

There have been many transactions that fell apart because the buyer or seller (or both) did not expedite the processes in getting the transaction consummated. And even if the transaction does not fall apart completely; rest assured that the longer a deal drags on, the more likely it becomes that the word will leak out that the company is for sale.

There are some things the seller can do to expedite the process:
Have the evaluation information ready, and in good order before talking with the first buyer:

- Prepare a book on the company that gives the information the buyer will be looking for in evaluating the purchase opportunity. The book will tell a lot about the seller - history, description and key strengths of the managers, description of the operating territories, kinds of accounts, account concentration, etc. It will tell enough for the buyer to perform an adequate first analysis, but will not give sensitive information relating to specific accounts or give account names. There will probably be more than one prospect looking at the information, so the sensitive, confidential, information needs to be preserved for the buyer that ends up buying the company.

- Start working on the due diligence list. This is the information the buyer that makes the best offer will be examining. The list is extensive and will take time to accumulate, so the sooner the seller starts on the list, the faster the process will go. Each buyer has its unique list, but there are similarities in the information all buyers want to examine. The transaction manager with expertise in managing the sale of security guard companies can provide a generic list that covers most of these items that can be accumulated in advance, even before the best buyer is selected.

When the Buyer Discussions Begin:

- Bring the tax advisors, accountants and attorneys in the process as soon as the major parts of the negotiations start, or even before, if these advisors will be playing a major role in the negotiations.

- Ask the buyer to provide a "standard" asset or stock purchase agreement. Most buyers that have done a series of deals don't mind giving a generic purchase agreement; with the understanding that many of the provisions will change as they get through the detailed due diligence on the seller. However, there are some buyers that refuse to give this standard agreement since it has the probability of dramatic change depending on what may be discovered during due diligence. If the seller can get the buyer's standard agreement early in the private negotiations, it can expedite the process in the attorneys working together on the final document.
- Bring in the key personnel with the "need to know"; the fewer, the better. Bringing the right people in at the right time is crucial to expediting the process - thus keeping the negotiations confidential. The usual people with a "need to know" are the people that may be helping the buyers answer the accounting questions from the information on the due diligence list. The buyers may want to interview some of the key managers, but this is usually done later in the process - after the financial part of the due diligence is completed. Many times it's not done until the actual purchase agreement has been signed or ready to be signed.

After the Transaction Closes

The concern over putting a large For Sale sign on the company doesn't end with the closing of the transaction. The benefits of the transaction need to be immediately announced to the customers, employees and the general public.

The announcement is first communicated by letters to the employees and customers, which usually goes out under the signature of the buyer's and seller's CEO. The letters should be jointly agreed upon and have ready to distribute immediately upon closing of the transaction. The buyer and seller should also agree on the wording for a press release. This is where the buyer and seller will jointly tell the general public about the sale. It's very important that the buyer and seller make this public announcement. If not, the competitors will certainly have their own press release version (albeit; verbal to the seller's customers) and the buyer and seller will not like what the competitors will be saying.

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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 150 sellers located in the United States, Canada, Western Europe, South America, the Caribbean, and the Middle East.

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