

DIVESTITURES OF SECURITY GUARD COMPANIES

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op·por·tu·ni·ty *n.*, **1:** an appropriate or favorable time or occasion. **2:** a situation or condition favorable for attainment of a goal . . . *and owners who apply this concept when selling their company are called . . .*

OPPORTUNISTIC SELLERS

There has long been a misconception among owners of most closely held companies that selling their business may be perceived as an indication of failure. As a consequence, they avoid selling or even talking with a buyer prospect until they are forced to because of some personal emergency or they do in fact have a financial crisis.

These reluctant sellers are still very much in the majority, but the numbers of *opportunistic sellers* are increasing. There's no longer a stigma associated with owners who sell in mid-life and start new careers or another business. In fact, it has become a prudent business move. As a result, many

sellers today will be younger than in the past. Studies reported in recent business journals indicate that today's sellers are more likely to be in their 40's or 50's. Ten years ago, the average age of a seller was between 60 and 70 years old. These owners are perceptive. Their company is usually their most valuable asset. And since their primary objective is maximizing value, they'll sell when they think their company is attractive to a buyer in a seller-favorable market.

These *opportunistic sellers* are not as emotionally attached to their business; they're business people first and their business just happens to be in the security guard industry. Selling their company is viewed as just another economic transaction,

especially in a booming economy where opportunities allow these owners to make more money through alternative investments.

They also realize that there comes a time in every owner's life when it makes sense to sell or merge with a much larger company that has the resources to take the owner's company to the next level. And often this time comes long before the owner is ready to retire.

These *opportunistic sellers* prepare for the sale early in the initial stages of starting the business. Many start the business with the eventual sale in mind. Their plans call for starting the business, selling at a substantial profit, then moving on to the next

transaction.

These owners are focused and pay attention to the details that are essential for a successful sale. However, a perfect sale is a rarity. Seldom does an owner have the company completely ready to sell at the precise time when the market is the most ideal.

As pointed out below, the best time to sell may not necessarily be when the market is the most seller-favorable. It may come when there are events in the owner's personal life that indicate the time to sell - even if the preparation has not been completed.

The following are *some* ideas on what a security guard company owner can do to become an *opportunistic seller*:

OPPORTUNISTIC SELLERS RECOGNIZE WHEN THE TIME TO SELL HAS ARRIVED - AND ACT ACCORDINGLY

PERSONAL SIGNALS

Although proper timing means selling when the market is the most seller-favorable, it also means selling *before* certain events happen in an owners' life that result in a deteriorating value of the company. There are many of these events and they may happen in a depressed market, which if not promptly responded to may mean an even less successful sale.

Loss of Interest – *Opportunistic sellers* are entrepreneurs who are motivated by self-directed goals. If their efforts do not quickly show results, they lose interest.

Many do not respond well to negative influences in running a business, such as a difficult employment market for recruiting security guard personnel, cash flow problems or difficult customers. When these difficulties occur, the owners lose their enthusiasm for the business, which causes

low employee moral and ultimately results in dissatisfied customers.

Family or Health Problems – Every owner is subject to major health or family problems that make it difficult, if not impossible to stay active in running the company. The owner who has not prepared for this emergency may have no choice but to sell the company immediately and take whatever the marketplace is willing to give a desperate seller.

Astute owners, however, will have prepared for this emergency long before it happens. They will have delegated operating authority to key management personnel, who can keep the company healthy, at least for the short term. Then they will decide, while not under pressure, whether the condition is permanent enough to have a future negative impact on the business; if so, they will start an orderly sale process.

Retirement - Retirement is the easiest personal event to plan for. Most owners choose a definite date in the future, one that gives them ample time to accelerate the planning process. Prudent owners, however, do not choose a *definite time* in the future, rather a *span of time*.

The *span of time* method allows owners to take advantage of selling in the most favorable market, since attractive market conditions for selling security guard companies typically come in cycles. The *span of time* method works like this: if an owner wants to retire at age 65, he decides that if the market conditions are really good at age 63 or 64, he will consider selling then. However, if the market is not good during this time and is still not good at the magical age of 65, he may wait for the next cycle.

Choosing the *span of time* method gives the seller the opportunity of taking advantage of favorable market conditions some time during this selling period. The problem comes when the seller gets greedy. If the market becomes attractive during the targeted time-span, the seller should act quickly rather than holding out in anticipation that the market will improve. When the prices get high, they usually deteriorate quickly and often with little warning.

MARKET CONDITIONS

An owner may not be affected by any of the internal, personal events mentioned earlier; instead there may be external signals. Some are positive and allow the owner to make much more by selling the company than by continuing to run it. Others indicate a market where profits will decline through more intense competition, changes in regulations, and changes within the com-

pany, or economic conditions, which although are not welcoming signals, indicate a time to sell.

As the acquiring companies get larger, the smaller companies usually have a harder time competing, but the intense activity results in a favorable seller market - both very good reasons for an owner to consider selling early.

Roll-up or Consolidation Activity - Roll-up and consolidation activity are terms that describe the purchase of small security guard companies, usually by large security guard companies with deep pockets or investment groups. They're on a fast track for getting larger by acquiring smaller companies. Their goal is to control the markets or sell out through an initial public offering.

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Change in Regulations - In recent years there has been much publicity about upgrading the standards of security guard companies. There are several steps companies are taking to accomplish this goal - such as more pre-assignment (non-billable) training, more extensive background checks, etc. Although the overall effects of these changes are quite positive for the industry as a whole, the smaller security guard companies will find it more difficult to absorb the extra costs. Passing the costs on to the customers in the form of a higher billing rate is usually not an option.

OPPORTUNISTIC SELLERS WILL PREPARE THE COMPANY FOR SALE

Owners, in preparation for the sale, really do nothing different from what they would do to make and keep the company healthy in the normal course of ownership. But in the life of most companies, there are times when unsound principles inadvertently become a normal way of doing business. And these are the factors that need to be addressed when preparing the company for an eventual sale. The owner should examine several areas of the company, *some* of which are:

- **Accounts** – The account characteristics are one of the most important aspects to the valuation process. Buyers set higher values for low liability accounts, as well as ones with good retention histories, attractive margins, large site sizes and written contracts that limit the guard company's liability.
- **Personnel** – Astute buyers will apply their own hiring standards in looking at prospective acquisition targets. Owners preparing the company for an eventual sale should pay attention to the process as well, which would include factors such as drug testing all new hires, expanded background screening, adequate training, etc.
- **Operations** – Often, it's the owners who have a close relationship with many of the accounts. They're selling because he does not want to or cannot stay in the business any longer; therefore, they will not working for the buyer. The buyer needs to know that someone with customer contacts will stay and keep the relationships. Just as it's important to delegate duties for the sake of good business prac-

tices, it's equally important to delegate the customer contacts in preparing for a sale.

Some other operational factors an owner should consider are decreasing the number of armed accounts, signing short term or month to month lease agreements for office space, etc.

Financial – Most owners come up short in measuring their financial preparedness for a sale. There are two aspects of financial preparedness: one is being prepared so the sale results in the most favorable after tax dollars to the owner and the other is having the reporting systems that render buyer confidence in the business. Preparing for the most after tax dollars is described under "Choosing The Tax Advisor" later in this article.

The owner can improve the reporting systems by:

- **Upgrading the financials** - The opportunistic seller will prepare for the eventual sale by having the financials in good order. They will support the confidence level the buyer needs in the accounting system and will be issued under a "reviewed" or "audited" external accountants' report ("reviewed" and "audited" are terms used to describe the degree of assurance the accountants place on the statements). There will be supplemental reports that separate the operating expenses to allow the buyer to easily compute overall key operating ratios crucial to evaluating the performance of security guard

companies. Discretionary owners' expenses will be in designated accounts or easily identified, so the buyer can reconstruct the operating income.

- **Developing a job profitability report** - This report is produced on a consistent basis, usually to coincide with a billing or payroll period. It shows for each account the billing hours, billing amount and gross labor. It may also be expanded to show the non-billable overtime statistics, special equipment billings, etc. This report is very helpful in developing buyer confidence in

the underlying records, and useful in running the company regardless of the anticipated sale. There are many off-the-shelf software programs on the market today that will accommodate this reporting requirement. However, the seller should be cautioned about giving this report to a buyer. It contains sensitive account information that could be used as a competitive advantage by some unscrupulous buyer prospect. The seller's experienced deal manager (intermediary) will know how to format this information when the time comes to reveal it to a buyer.

OPPORTUNISTIC SELLERS CHOOSE A COMPETENT NEGOTIATING TEAM . . . VERY CAREFULLY

Attorneys and Tax Advisors - The most competent legal and tax advisors for a sale may not necessarily be the ones used for general corporate matters. The legal and tax ramifications of a sale can be very complex and require a special expertise in this area. If the seller's regular attorney and tax advisors do not have this technical knowledge, but they are members of a large firm, the seller can call on the experts within the firm who are capable of advising on sale matters. If these regular advisors do not have this expertise, the seller should seek counsel from outside the firm.

There is some planning that can be done in the normal operations and formation of a company that prepares for the legal and tax ramifications of a sale. The structure of the corporation dramatically affects the tax consequences. For instance, operating as an

"S" corporation, as opposed to a "C" corporation, usually results in significantly less tax consequences on a sale. *Opportunistic sellers* make sure the corporation is properly tax-positioned long before the sale takes place.

The Transaction Manager (The Intermediary) - The intermediaries are the professionals who ultimately make the sale successful. They have managed the sale of many security guard companies and thereby add credibility to the sale. Because they know the market conditions, they're the ones the seller will look to in choosing the proper time to sell, which is accomplished by the seller establishing a relationship with the intermediary long before the opportune time arrives.

The value these intermediaries add to the

transaction far exceeds their fee. Their confidence in their skills is evidenced by their willingness to make a large part of their fee contingent upon a successful closing. Since they have contacts in the security guard industry, their buyer prospect list is narrowed down to only those few that are financially qualified and will protect the confidentiality of the sale. They will manage the transaction

through the closing by working closely with the attorneys, tax advisors and accountants.

In summary, *opportunistic sellers* are proactive rather than reactionary. They plan the process toward a successful transaction - even if it means a sale at a time when the owners have no plans for their life after the sale.

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Established in 1977, we are the recognized specialists in the sale and valuation methods for security guard companies. We have successfully represented over 100 sellers of security guard companies located in the United States, Canada, Western Europe, the Caribbean and South America.

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